

**AUDIT OF KEY FINANCIAL PROCESSES
AT THE HOT SPRINGS ENTERPRISE UNIT**

FINAL REPORT

**Prepared By:
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Report tabled and approved by the A&E Committee

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Report tabled and approved at the A&E Committee meeting on March 31, 2008

SUMMARY

BACKGROUND

The Parks Canada Agency (PCA) is currently conducting a series of cyclical audits of the key financial, administrative and management practices in the field units, service centres and the national office. The audits are based on compliance with the policies and practices of the Treasury Board Secretariat (TBS) and the PCA. PCA owns 3 hot springs located in 3 different national parks in Alberta and British Columbia. Since 1994, the 3 hot springs are managed under the PCA entity Hot Springs Enterprise Unit (HSEU). In 2002, TBS ended the revolving fund created in 1994 and the debt owed to Treasury Board was replaced with an equal obligation to Parks Canada Agency, to be repaid by 2011. After the revolving fund dissolution, PCA decided to maintain the 3 hot springs under the HSEU, as their operations are unique. A management team composed of a chief operating officer (COO), a finance and administration officer, a marketing coordinator and 3 site managers manage the HSEU operations. The COO reports to the Executive Director Mountain Parks. The audit of HSEU was conducted as part of the cyclical audits.

OBJECTIVES AND SCOPE

The objectives of this audit were to ensure that due diligence is being exercised in the key administrative processes at the HSEU and that the control processes in place are satisfactory and comply with TBS and PCA policies and practices.

The exercise included a review of the management control framework (MCF) for financial management and the following main financial areas: revenue, contracting, the use of acquisition cards, payments to suppliers, and travel expenses.

The audit covered the period from April 1, 2006 to August 27, 2007.

METHODOLOGY

The audit methodology consisted of a review of relevant documentation, interviews with HSEU staff members and transaction controls in the main financial areas. On-site visits to Banff and Radium were made during the week of September 10, 2007.

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

Progress was noted during the course of the two-year period that was audited. New processes have been implemented reinforcing controls that already existed and due diligence in carrying out key financial and administrative processes was reinforced. However, improvements are still required as some processes need to be tightened, monitoring activities increased and new controls implemented to better reduce the risk of non compliance with TBS and PCA policies.

Summary of Audit Report Evaluation

Reference	Management process	Coding	Description
2.1	Management control framework	BLUE	Minor improvements needed
2.2	Payments to suppliers	YELLOW	Moderate improvements needed
2.3	Acquisition cards	YELLOW	Moderate improvements needed
2.4	Travel expenses	YELLOW	Moderate improvements needed
2.5	Contracting	ORANGE	Significant improvements needed
2.6	Revenue	BLUE	Minor improvements needed

RECOMMENDATIONS

Management Control Framework

- 1) The COO should ensure that the key activities of each position in the management team are described.
- 2) The COO should ensure that all acting assignments are properly documented in the signing authority file.

Payments to Suppliers

- 3) The COO should ensure that all invoices are signed by an individual having signing authority under section 34.
- 4) The COO should ensure that individuals do not sign, under section 34, for their own purchases.

Use of Acquisition Cards

- 5) The COO should ensure that a signed Acknowledgment of Responsibilities and Obligations form is included in the file and that cardholders are regularly informed about the best practices for acquisition card use.
- 6) The COO should strengthen the card use management framework by ensuring that the card coordinator's role and responsibilities are effectively documented and communicated.
- 7) The COO should ensure that the monitoring of cardholders started by financial staff in the last few months is supported by all managers.
- 8) The COO should ensure that all inactive cards in the system are cancelled as soon as possible.

Travel Expenses

- 9) The COO should ensure that travel expenditures are verified and challenged prior to payment authorization.
- 10) The COO should ensure that all travel is authorized prior to departure.
- 11) The COO should ensure the implementation of a log system per vehicle to keep track of mileage in order to corroborate that the gasoline expense applies to the travel claim.
- 12) The COO should ensure that the outstanding travel advance is cleared.
- 13) The COO should ensure that the employee reimburse the amount claimed in error.
- 14) The COO should implement monitoring activities to minimize the risk of ineligible travel expenditures.
- 15) The COO should ensure that the entry for replenishing the cash funds in Miette is made in the proper account.
- 16) The COO should ensure that copies of DBA cheques, kept in files, include both signatures on it.
- 17) The COO should examine the possibility of using the American Express Travel Card for all employees traveling on a regular basis.

Contracting

- 18) The COO should ensure that contract amendments are properly documented, authorized and signed using the appropriate contract amendment forms.
- 19) The COO should ensure that concessionaires comply with the clauses of the agreement and look into the possibility of requiring audited financial statements.
- 20) The COO should ensure that PWGSC contract files are maintained the same way as any other type of contract (i.e. all required information for good monitoring of the project is kept on file).

Revenue

- 21) The COO should discuss with wholesalers the possibility of improving the practice of hand-written manipulations on vouchers.
- 22) The COO should study the possibility of having standardized vouchers to facilitate the reconciliation work in order to avoid delays.
- 23) The COO should ensure that a monitoring process is implemented over accounts receivables.
- 24) The COO should increase controls over wristband utilisation by implementing monitoring.
- 25) The COO should study the possibility of having automated deactivation of expired annual/seasonal passes.
- 26) The COO should increase controls over the usage of annual passes by the holders.

1. OVERVIEW

CONTEXT

The Parks Canada Agency (PCA) is conducting a series of cyclical audits of key financial, administrative and management practices for all field units (FU), service centres and the national office. PCA has 32 field units and 4 service centres. Field units are groupings of national parks, national historic sites and national marine conservation areas that are usually in proximity to one another. The audit of the Hot Springs Enterprise Unit (HSEU) was conducted as part of the cyclical audits.

The HSEU is comprised of the 3 hot springs under PCA responsibility and located in different field units: Banff Upper Hot Springs (Banff FU), Radium Hot Springs (Kootenay, Yoho, Lake Louise FU) and Miette Hot Springs (Jasper FU). The HSEU's management team is composed of 3 site managers, a marketing coordinator, a finance and administration manager and a chief operating officer (COO). Including the management team, the HSEU counts 40.66 full-time-equivalent (FTE) employees and most of these FTE are temporary staff operating the hot springs. Miette is running operations from May to October due to their remote location and due to the fact that the staff facilities are not winterized, while Banff and Radium sites run their operations all year around. The HSEU COO reports directly to the Executive Director Mountain Parks and is responsible to ensure that TBS and PCA relevant policies and guidelines are followed.

In the early 90's PCA undertook an operational review that led to regroup the hot springs under one entity based on the similarity of their operations. In 1994, TBS approved the creation of a revolving fund and HSEU was created. In 2002, TBS terminated the revolving fund created in 1994 and the debt owed to Treasury Board was replaced with an equal obligation to Parks Canada Agency, to be repaid by 2011. However, PCA decided to keep the 3 hot springs under the same entity for operating purposes as they have specific operations that are not found in other PCA activities. HSEU is operated in a business-like manner with reinvestments made in the facilities and it has a marketing unit that promotes awareness of the hot springs.

In 2006-07, the HSEU's expenses totalled \$5.8 million, including \$1 million borrowed for Miette's capital project. All expenses for the unit are covered by its revenue each year. The HSEU expects to spend around \$ 4.024 million on operational expenses and has a revenue objective of \$ 5.0 million for fiscal year 2007-08.

OBJECTIVES AND SCOPE

The audit objectives were to ensure that due diligence is being carried out in the key administrative processes of the HSEU and that the processes and controls in place are

satisfactory and consistent with TBS and PCA policies and practices. The audit work included a review of the management control framework (MCF) and of the following key financial areas:

- ◆ Payments to suppliers
- ◆ Use of acquisition cards
- ◆ Travel expenses
- ◆ Contracting
- ◆ Revenue

The transactions audited covered the period from April 1, 2006 to August 27, 2007. A team from the Parks Canada Office of Internal Audit and Evaluation (OIAE) conducted the audit work.

METHODOLOGY

Following are the procedures that were used prior to and during the visit:

- ◆ Review of relevant documents: the 2007-08 to 2011-12 HSEU business plan, the 2004 Business Plan, the organization chart, the list of delegated PCA signing authorities, TB submissions and decisions, TBS and PCA policies on the key financial areas mentioned above and the financial reports prepared by the HSEU finance and administration manager.
- ◆ On-site visit from September 10-14, 2007. All financial information concerning the 3 sites is kept in the Finance and Administration (F&A) office in Radium.
- ◆ Interviews with management team members.
- ◆ Review and analysis of the processes and procedures used for financial management of activities related to the financial areas covered by the audit.
- ◆ Review of transactions in each financial area. Non-statistical sample transactions were selected from each financial area audited.

Once the audit work was completed, a meeting was held to discuss any deficiencies observed and the recommendations to expect in the report. The management team and the accounting assistant attended this meeting.

OIAE observations and recommendations were made based on the audit report evaluation system shown 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 have an 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.

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

Progress was noted during the course of the two-year period that was audited. New processes have been implemented reinforcing controls that already existed and due diligence in carrying out key financial and administrative processes was reinforced. However, improvements are still required as some processes need to be tightened, monitoring activities increased and new controls implemented to better reduce the risk of non compliance with TBS and PCA policies.

Observations and recommendations addressing issues related to each of the audited areas are covered in the following section.

2. OBSERVATIONS AND RECOMMENDATIONS

2.1 MANAGEMENT CONTROL FRAMEWORK

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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Every organisation should have a management control framework in place in order to support its operations and allow its employees to perform their duties in an efficient and effective manner. Key elements of an effective management control framework would include: clear governance and accountability (i.e. communication tools to transfer the operation information, the expertise and the good practices across the entity and planning and budgeting the human and financial resources for normal and unexpected operations), role and responsibilities well defined (i.e. current job descriptions listing key activities) and regular monitoring to ensure that initiatives implemented are working as intended.

The management team holds on-average 6 formal organized meetings per year with a frequency of one per month during the high season (May to September) to discuss operational and financial issues. Due to the distance between the hot springs and the necessity for site managers to be on-site, it is sometimes more efficient to have conference calls. Agenda and meeting notes are sent by e-mail to the management team and a copy is kept at the F&A office. The COO is available to help any of the site managers when needed. Site managers hold operational management meeting and notes from these meetings are posted on the board in the guard office. There are also weekly guard meetings and stand-up meetings at each shift change. These meetings ensure that all employees are aware of the latest operational matters. Before resuming the operations in Miette, a special meeting is held to discuss changes that occurred during the low season. During the months of May and June, new and seasonal employees are given training on the operations of the hot springs while year-around employees take refresher training. Each site has a checklist to track who received training.

The latest business plan prepared under the PCA format reflects the objectives and results that the HSEU management team is working toward.

The HSEU is a self-sufficient entity that must pay for all expenditures as well as capital projects from its revenue. However, HSEU is a government entity and as such receives money at the beginning of the fiscal year through an A-based budget that must be reimbursed to PCA. This A-based budget represents the amount available for spending and allows payment of expenditures until revenues are collected. For fiscal year 2007-08, the HSEU has an A-based (expected operational expenses) of \$4.024 million and expected revenues of \$5.0 million. In 2006-07, the HSEU's total expenses were \$5.8 million, including \$1 million borrowed for Miette's capital project, and total revenue of \$4.8 million.

A cashiers handbook exists to help the staff become familiarized with their duties. In case of an emergency replacement, it can easily be used to operate the cash register. The cashier's handbook is a useful and practical tool and it is continually updated. An operation guideline was created some years ago and it provides all information needed to comply with most PCA financial policies and directives. This guideline has not been updated since its creation. The guideline would be a useful tool if it was updated when TBS and PCA policies and directives change.

The generic job descriptions created under the revolving fund are still in use for all staff under the HSEU. There is cooperation between management team members to ensure that all required duties have been accomplished, however management team members' key activities have changed and have not been documented since 1994. Without documented key activities, there is a risk that no one will be able to perform the duties of the job if the employee was unable to perform his/her tasks, which could result in lost revenue. The HSEU should work on preparing a managerial guide, which clearly establishes and defines roles and responsibilities.

At the time of the audit all staff having signing authority under section 34 had successfully passed F&A 101. The HSEU has a signing authority file containing all specimen signature cards for section 34. While testing for signing authority, the audit team was not able to validate the authority of individual in an acting position, as no documentation was available on file to confirm their acting status.

RECOMMENDATIONS

- 1) The COO should ensure that the key activities of each position in the management team are described.

Management response

Agree. The key activities of each position in the management team will be described by March 31, 2008. Currently, the Key activities of the management team are laid out in the HSEU Finance Manual. This manual is upgraded by section as new directives are received such as the latest Hospitality Directive. Perhaps this should have been more appropriately named Key Management Activities.

- 2) The COO should ensure that all acting assignments are properly documented in the signing authority file.

Management response

Agree. Currently and for the audit period, documentation on acting assignments would have been available in the HR files in the Field Units where each facility is located and/or in Pay & Benefits files. However, Managers have now been instructed to provide HSEU Finance with a copy of the acting assignment form at the same time as they are forwarded to HR and Pay and Benefits.

2.2 PAYMENTS TO SUPPLIERS

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could have an impact on the achievement or not of program/operational objectives.
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Thirty-six transactions were tested to assure compliance with the requirements of signing under section 32, 33, and 34 of the Financial Administration Act. Payment must be done only when the following information is on file:

- ◆ The local purchase order or the contract, if applicable,
- ◆ The packing/delivery slip of the services or goods,
- ◆ Invoice date-stamped with its arrival date,
- ◆ Section 34 signed to confirm the receipt of the good or service and that the price is in accordance with the agreement.

The audit team ensured that proper segregation of duties exist between the purchaser of the good or service (S32), the authorizer of the expense (S34) and the payer (S33). Lack of segregation of duties increase the risk of paying for a good or service never received. The audit team observed a good practice in Banff; management working from Banff offices ensure that a third party verifies the delivery of goods or services and signs the packing/delivery slip to acknowledge the completeness of the delivery. This action helps reduce the risk of paying for a good not received when there is only one person authorized to sign section 34.

The population used to create a sample was all transactions completed in STAR (PCA financial system) between April 1, 2007 and August 27, 2007 and belonging to the HSEU. From the population, all transactions related to contract, travel, or from acquisition cards were excluded as they were tested during another portion of this audit. With the remaining transactions the OIAE built a judgmental sample of 36 transactions valued at \$89,514, which is 28% of the remaining transaction value. This sample was aimed at having diversified expenses, values and suppliers from the three sites.

The following was observed:

- ◆ All transactions selected that were for the payment of utility services were signed under section 34 with the mention “blanket”. After questioning HSEU, the OIAE discovered that it was current practice not to sign section 34 on utility services. Therefore it is impossible to validate who signed and who verified the accuracy of the expense.

Invoices are signed under section 34 by the beneficiary of the service charged or the requester of reimbursement for a product bought. This practice increases the risk of having inappropriate purchases and personal benefits.

- ◆ All transactions verified were coded to the right general ledger account.
- ◆ An authorized person under section 33, payment authority, made the payment for all invoices in the sample.

RECOMMENDATIONS

- 3) The COO should ensure that all invoices are signed by an individual having signing authority under section 34.

Management response

Agree. Since the Audit, purchases of ongoing utilities, formerly cleared under a Blanket Authority, are now reviewed and authorized for payment by the COO. This practice will continue. Previous payments by the COO, which were paid by blanket authority, will be signed for by his manager.

All managers with section 34 for a cost centre are now signing appropriately. The Finance Assistant verifies before entry into STAR and Finance Manager verifies prior to clearing payment runs.

- 4) The COO should ensure that individuals do not sign (under section 34) for their own purchases.

Management response

Agree. The COO now signs section 34 on all Invoices where the Manager has initiated the purchase. COO purchases to be authorized by his manager prior to payment.

Managers with section 34 and staff with Acquisition Cards should utilize their credit card for purchases where appropriate. A Credit Card Log is and has been provided to and signed off by the COO and his manager on a monthly basis.

The Finance Manager reviews and ensures that all purchases in the HSEU are reviewed for appropriate documentation and signatures prior to clearing for payment.

2.3 USE OF ACQUISITION CARDS

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could have an impact on the achievement or not of program/operational objectives.
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PCA encourages using acquisition cards for departmental procurement and payment of goods and services within the levels of delegated procurement authority when it is efficient, economical and operationally feasible to do so. Acquisition cards are intended to reduce administration costs and make it easier to monitor daily transactions; however, adequate controls are still necessary to ensure that the cards are used appropriately.

The acquisition card coordinator for HSEU was appointed in January 2007. The coordinator's role and responsibilities must be defined and documented in order to clarify the monitoring activities required to improve control of card usage. Clearly defined roles and responsibilities are an essential component of the effective management framework for card usage. Another key element of this management framework is the inclusion of an acknowledgement of responsibilities and obligations form in each cardholder's file. Making each acquisition cardholder accountable minimizes the risk of inappropriate card use.

A total of 10 MasterCard acquisition cards were issued. Credit limits range from \$5,000 to \$15,000. Any requests for credit limit reviews are jointly approved by the Coordinator and the COO. The maximum amount authorized for each transaction is \$5,000.

The list of cardholders and the transaction statements are available through a secure login to the Bank of Montreal Web site. Every month the financial officer forwards a copy of the MasterCard account statements to each cardholder in order to expedite the reconciliation process by avoiding postal delays. The cardholder must fill in a log with the purchase amount, a description of the item, the supplier, the cost centre and the account to be billed. The cardholder must provide all the supporting documentation required for acknowledgment of compliance under s. 34 and forward the final expense claim to the F&A office.

All the acquisition card files for 2007-08 and a selected set for 2006-07 were reviewed to verify that the following elements were present:

- ◆ Valid purchases within the authorized limits,
- ◆ Supporting documentation for acquisitions,
- ◆ Reconciliation with account statements and
- ◆ Verification of valid authorization according to s. 34.

The audit of these files revealed that a staff shortage in the F&A office in 2006-07 caused delays in the management verification and monitoring of acquisition cards. In addition, the inadequate controls in place resulted in incomplete files, missing supporting documentation, insufficient information to validate purchases, inappropriate usage (car maintenance), inappropriate signatures, purchases exceeding the authorized limit and interest fees accrued from delayed payments. Several of these issues were traced to one single cardholder. This cardholder's card was taken away at the beginning of the 2007-08 fiscal year. However, this card had still not been cancelled at the time of the audit. All inactive cards should be cancelled in order to minimize the risk of misuse of acquisition cards.

There has been a marked improvement in the monitoring and usage of acquisition cards since the beginning of the 2007-08 fiscal year. The documents are now verified, purchases are questioned, and the files are completed according to the relevant directives. The monitoring system established must nevertheless be strengthened and supported by all managers in order to improve controls and reduce the risk of misuse of acquisition cards.

As a result of the changes made to the monitoring system, only the irregularities noted for 2007-08 were outlined as follows:

- ◆ Six supporting documents were missing, including three containing a follow-up memo from the financial officer. The monitoring process proved to be inadequate since the file is still incomplete. Three other documents did not contain enough information to validate the purchase. Cardholders must ensure they observe the guidelines for use of acquisition cards by providing supporting documentation with all the information required to validate purchases. Any receipts that are lost or destroyed must be replaced with the appropriate personal declaration form.

Lack of response by management compromised F&A efforts.

Two documents did not have valid authorization, including one signed by a manager probably in an acting position. However, there was no document in the file confirming the acting period (see section on management control framework). Managers authorized under s. 34 must validate acquisition card purchases before signing for authorization to spend.

RECOMMENDATIONS

- 5) The COO should ensure that a signed Acknowledgment of Responsibilities and Obligations form is included in the file and that cardholders are regularly informed about the best practices for acquisition card use.

Management response

Agree. Acknowledgement of Responsibilities and Obligations forms are in fact in place within the Field Units who originally issued the cards to the Hot Springs Enterprise Unit cardholders.

A current file with descriptives is being constructed at the Finance office in Radium with completion for Banff and Radium by end of January and at Miette by mid-May shortly after the facility opens for 2008. Cardholders are kept abreast of changes.

- 6) The COO should strengthen the card use management framework by ensuring that the card coordinator's role and responsibilities are effectively documented and communicated.

Management response

Agree. Coordinators responsibilities will be effectively documented and communicated to all cardholders by March 31, 2008.

- 7) The COO should ensure that the monitoring of cardholders started by financial staff in the last few months is supported by all managers.

Management response

Agree. Ongoing monitoring will continue. Managers are to assist the Co-Ordinator as requested.

- 8) The COO should ensure that all inactive cards in the system are cancelled as soon as possible.

Management response

Agree. Cancellation of Cards not in use has taken place and will continue.

2.4 TRAVEL EXPENSES

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
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The HSEU uses blanket travel authorities for staff that travel regularly within the Provinces of Alberta and British Columbia and some who travel across Canada. This practice lightens the administrative burden by not requiring that a signature be obtained prior to each trip within the limits pre-established. The form is prepared each year by April 1st and signed by the COO of the HSEU. Only a few travel advances are completed and are limited to certain employees. Most of the employees travel by car using an available vehicle from the fleet on site. Payments for travel expenses are usually made by Departmental Bank Account (DBA) cheque. Only two managers have an American Express Travel Card. The use of travel cards facilitate the tracking of travel costs, and enable employees to take full advantage of the additional cost saving benefits of using the government issued travel card.

The audit team reviewed 31 travel expense claims on file for 2007-2008 and selected a sample of 29 travel expense claims for 2006-2007.

The audit team reviewed the travel expenses to ensure that:

- ◆ The amounts claimed were accurate,
- ◆ All the supporting documents were there,
- ◆ The right rates were used,
- ◆ If any advances were received, they have been treated adequately throughout the process and
- ◆ Those having signing authority had signed.

The following issues have been identified:

- ◆ Five claims didn't have all the supporting documents or had a receipt that didn't give the nature of the expense. These documents allow the validation of the expenses.
- ◆ One travel expense was paid by petty cash without a proper validation form for travel. Government approved travel forms should be used when submitting travel expense claims for reimbursement to mitigate the risks that payments are made for ineligible expenditures.

- ◆ Seventeen of the 60 travel claims examined used the wrong amount and were underpaid for meal allowances and kilometric rates. Travel rates are updated on a regular basis. The employer should advise staff of all changes, but it is the employee's responsibility to ensure he/she uses the right rate.
- ◆ One claim was made for both mileage and gasoline expenses without justification. The employee was notified and will reimburse the amount claimed in error.
- ◆ One travel advance was outstanding even though the trip was to have happened 2 months prior to the audit. No paperwork was available to confirm if the trip had taken place or not. The traveller should complete and submit a travel expense claim with all necessary supporting documentation as soon as possible.
- ◆ Four travel claims were made without the proper authorization to travel. Two trips were made outside the area covered by the individual's blanket authority and 2 trips were made without prior authorization. Unauthorized travel may result in disputes over the eligibility of insurance coverage for the traveller.
- ◆ Four claims were paid without an authorization under section 34. Management should verify and approve travel expense claims before reimbursement to mitigate the risk of unauthorized travel and the risk that payments are made for ineligible expenditures.
- ◆ Most of the copies of DBA cheques on file didn't have signatures on the carbon copy. Signatures are necessary in order to validate that the persons signing the cheque had the necessary signing authority. The financial manager was informed of the situation and agreed on making changes in this practice so that all copies are made after both signatures appeared in the DBA chequebook. All chequebooks should be kept in a locked cabinet or safe to minimize the risk of improper use.
- ◆ While reviewing the travel expenses file, we found an entry made in 2007-2008, using the audit services account to replenish cash funds. The cash floats in Miette were deposited at the end of 2005-2006 as revenue in error. Financial staff realized the mistake in the spring of 2006-2007 with the opening of Miette. A DBA cheque was issued to replenish the cash funds but was not processed before 2007-2008. The proper account should be used to enable the audit services account to reflect the right expenditures for the current fiscal year.

The review of files revealed many claims for gasoline. Vehicles from the fleet are often used for transportation, however there is no corroboration between the actual mileage traveled and the gasoline expense, which limits the possibility of challenging the claim to ensure that the expense is legitimate.

Some claims reviewed posed questions that need to be followed up with the traveller, indicating that no review was conducted by F&A at the time the claim was processed.

RECOMMENDATIONS

- 9) The COO should ensure that travel expenditures are verified and challenged prior to payment authorization.

Management response

Agree. Each Section 34 manager is responsible for this review before signing section 34 authorization. This will be confirmed at the January 2008 Management Meeting.

- 10) The COO should ensure that all travel is authorized prior to departure.

Management response

Agree. A review of blanket travel authority has been carried out. Section 34 managers have been notified that they are responsible to ensure staff have proper documentation in place prior to travel.

- 11) The COO should ensure the implementation of a log system per vehicle to keep track of mileage in order to corroborate that the gasoline expense applies to the travel claim.

Management response

Agree. Logs are to be placed in each vehicle in Banff and Radium by the end of January 2008 and Miette in mid-May 2008 shortly after opening for the season. Copies of data are to be forwarded with expense claims for Accounting review and verification. Log reviews will be carried out on a twice-yearly basis.

- 12) The COO should ensure that the outstanding travel advance is cleared.

Management response

Agree. This item has been addressed.

- 13) The COO should ensure that the employee reimburse the amount claimed in error for both mileage and gasoline.

Management response

Agree. Employee has re-imbursed the unit.

- 14) The COO should implement monitoring activities to minimize the risk of ineligible travel expenditures.

Management response

Agree. The Finance Manager is now reviewing all travel claims prior to processing.

- 15) The COO should ensure that the entry for replenishing the cash funds in Miette is made in the proper account.

Management response

Agree. Instructions on the proper procedure have been placed in DBA file for future reference.

- 16) The COO should ensure that copies of DBA cheques, kept in files, include both signatures on it.

Management response

Agree. The HSEU was following known security procedures, instructions and practices. These were to not record or copy signatures in the DBA chequebook. However, the HSEU has implemented compliance on receipt of clarification from the Auditors.

- 17) The COO should examine the possibility of using the American Express Travel Card for all employees traveling on a regular basis.

Management response

Agree. American Express travel cards will be provided to all employees who travel on a regular basis by March 1, 2008.

2.5 CONTRACTING

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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Each site manager has signing authority (\$34) for contracts related to daily operations. However, only the COO is authorized to sign commercial leases or contracts with Public Works and Government Service Canada (PWGSC). Between March 2006 and August 2007, 24 contracts related to daily operations were in effect. There were also 6 commercial leases and 5 specific service agreements with PWGSC ongoing.

More than half of the contracts (13) related to the pool operations were reviewed, which represents \$125,390.65 or 84% of the total value.

The audit work revealed a clear progress in the way contracts were handled and monitored over the 2 fiscal years. However, the following issues have been identified:

- ◆ One contract was signed by a manager, acting as COO. However, we were unable to validate the acting authority of the person, as no acting form or email was on the signing authority file. (see section on management control framework)
- ◆ One contract contained misleading information. The contract sections *basis for payment* and *terms of reference* contradict the information in the *payment schedule* and *invoice instructions*.
- ◆ One contract, covering a 2-year period, provided an estimated cost per year. The first year, expenditures exceeded the estimated value by \$1,400. However, an amendment had not been created. For 2007-2008, expenses incurred represented 48% of the total value of the contract. This amount is higher than the amount for the same period the previous year.
- ◆ One contract had been amended twice to increase the value of the contract and once to extend the period of work. No amendment form was completed for these changes. In fact, the total value of the contract was changed with the mention *amended* in bracket. Also, the first value modification was initialled; however, the second value modification can only be assumed as the new amount shown on the document mentions only a change to the end date for the contract.

As part of the audit work, all commercial lease files were also reviewed. On file, there were traces of monitoring being performed with regards to revenue collection. Except for the following case, all files were complete.

- ◆ In one lease, there had been a verbal agreement to modify the revenue payment schedule. No amendment was ever created. Moreover, the lessee changed the name of the company operating the concession without having the contract amended either.

As already stated, the files were complete. However, it was obvious that files were missing essential information like financial statements, proof of adequate insurance coverage, business licences or required permits the month preceding the audit. A request had been made to concessionaires to provide missing information prior to the auditors' visit. Management must show due diligence and ensure that information is kept on file at all times, not just prior to an audit. Missing information may impact on HSEU revenue collection. As the licence fee of all commercial leases is based on the greater of a fixed amount or a percentage of revenue, financial statements must be available to enable managers to validate the amount due.

The audit team also noted that the financial statement bore only a 'notice to reader' disclaimer from an independent accountant who had drawn it. This therefore carries a much lower degree of assurance than if there had been an audit or even a review. HSEU may want to consider asking for audited statements on an ad hoc basis to ensure that the business will continue to meet its obligations and HSEU receives its fair share of revenue.

Even though they did not specifically involve HSEU commercial leases, a previous audit performed in the late '90s and its follow up done in 2002 had already addressed the issue of missing key elements on commercial lease files. As best practice, management should be proactive and ensure that recommendations made in other audits that could apply to their business are reviewed and implemented.

As previously mentioned, HSEU has 5 specific service agreements (SSA) ongoing with PWGSC. Any agreement entered into with PWGSC needs to be monitored like other contracts with a third party. As such, the audit team expected to find on file key information that demonstrates adequate monitoring of projects managed by PWGSC on HSEU's behalf. To allow for adequate control and avoid any operational gaps, HSEU's files should include at least the following documentation:

- ◆ Signed original contract or terms of reference: such documents should provide a clear description of the roles and responsibilities of all parties involved in the project and must be clearly stated. In doing so, duplication of tasks will be avoided and it will also be easier for HSEU personnel to follow up on the contract.
- ◆ Signed program charter, which represents an updated status of the project: signatures are required on the document to confirm that both parties are aware of the changes and that they are approved.
- ◆ Minutes of meetings: as contracts are managed by PWGSC, minutes should reflect suggested and approved changes to the project as well as discussions and decisions related to the project.

Only the SSA 411549-Miette file was reviewed. This SSA originated in 1999. The audit team's attention focused on the 2 year major capital project that started in the fall of 2005 and was completed in 2007. This project, initially described as a \$1.2M project, was modified along the way resulting in a project slightly over \$2M. The documentation review showed that critical information was missing on HSEU's file to demonstrate that adequate monitoring was performed.

The most recent "program charter" was dated 2005-2006 and was not signed. Knowing that a major project was ongoing for 2006-2007 and completed in 2007-2008 the audit team expected to find program charters for these 2 years. The documents provided by PWGCS didn't have any signatures either. Our understanding is that approval, required by PWGSC before processing the file, could be provided by e-mail. However, there was no trace of emails on HSEU's file.

As for the minutes of meetings that would report on the status of projects, suggested changes, decisions made, no copy was kept at HSEU.

Based on HSEU's file, the audit team was unable to assess whether or not management does any monitoring on projects managed by PWGSC.

RECOMMENDATIONS

18) The COO should ensure that contract amendments are properly documented, authorized and signed using the appropriate contract amendment forms.

Management response

Agree. The HSEU will use the Calgary Contracting office for all future Contracts or Amendments with any complexity. Section 34 managers have been instructed to provide Contracts and amendments to Finance in a timely manner to ensure they are captured in the Material Managements systems in advance of the startup date. LPOA's and other means of legal procurements will be used for supply or service up to the implementation of a proper contract or amendment.

19) The COO should ensure that concessionaires comply with the clauses of the agreement and look into the possibility of requiring audited financial statements.

Management response

Agree. Rewiew of Concessions compliance had been started prior to the notice of the Audit.

The request for a more comprehensive financial statement is at the discretion of the COO. Audited financial statements are viewed as a costly requirement to place on concessions that generate modest returns on operations. However the HSEU will look at this with some of our more prosperous concessionaires in 2008/09.

20) The COO should ensure that PWGSC contract files are maintained the same way as any other type of contract (i.e. all required information for good monitoring of the project is kept on file).

Management response

Agree. The COO will ensure that all documentation related to contracts are maintained in an accessible file at the HSEU headquarters.

2.6 REVENUE

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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Four types of revenue are generated by HSEU: pools, concessions, staff housing and miscellaneous goods & services sales. The main revenue generator is the pool admissions representing 90% of the total revenue. Concessions generate 8% of the revenue (see section 2.5 for details) while miscellaneous goods & services and staff housing are 2%. Staff housing is only available in Miette and miscellaneous goods & services revenue come from the sale of items needed for the pool. Both types of revenue are taken out of the Vectron system and entered directly in the agency's financial system. The audit work focused on the revenue generated by pool entrance fees.

Pool Revenue

Guests can either present a voucher that was previously given to them by a wholesaler associated with the HSEU or pay on site.

Vouchers

The marketing coordinator is responsible for making arrangements with different tourism and hotel companies so they can provide access to the pool to their customers. Vouchers range from a single entrance to the pool to multiple guests entrance and can include the renting of towels and/or swimsuits. Most of the time vouchers will have an effective date and sometimes the name of the guest.

When a voucher is presented, the cashier verifies the effective date and stamps the date on it. The cashier will then enter the voucher into the cash register. All vouchers are to be kept together in a voucher box. At least once a month, vouchers collected are sent to the F&A office in order for the accounting assistant to bill the wholesalers.

HSEU did not create a standard voucher and therefore wholesalers use their own type of voucher. Vouchers are divided by wholesalers, by types, copied, and counted. Once these tasks have been accomplished, billing can be done using the financial system. The invoice and the originals of the vouchers are mailed to the wholesaler with a net 30 day condition.

A total of 6 files were reviewed; 2 from each site, one containing numerous redeemed vouchers and one containing few redeemed vouchers. A file contains invoices sent to a wholesaler in the current fiscal year as well as copy of all supporting redeemed vouchers. The files tested contained between 2 and 5 invoices for a total of 23 invoices that were reviewed. In one file, containing numerous vouchers, the audit team found 3 invoices out of 5 where the count was missed by a couple of vouchers. The discrepancies came because of handwritten information on single adult entrance vouchers that modifies the number of guests and therefore makes it difficult to count.

The following was observed during the audit:

- ◆ Invoices are sent in a timely manner after the month-end (around 10 days turnaround).

However,

- ◆ The process of adding vouchers is tedious and mistakes can easily be made.
- ◆ Some wholesalers are writing by hand the number of people allowed in the pool with the single adult entrance voucher. There is a risk that hand written information on the voucher is not accurate and that the wholesaler may decide not to pay for the full quantity.
- ◆ Two wholesalers out of the six reviewed had not paid any invoices sent since April 1, 2007. The audit revealed that no follow-up had been done, however these wholesalers had paid their dues in full during fiscal year 2006-07.

RECOMMENDATIONS

- 21) The COO should discuss with wholesalers the possibility of improving the practice of hand-written manipulations on vouchers.

Management response

Agree. A review of the wholesale voucher system is underway. Changes, if found to be positive, will be in place by the end of this fiscal year.

22) The COO should study the possibility of having standardized vouchers to facilitate the reconciliation work in order to avoid delays.

Management response

Agree. This will be implemented based on findings voucher system review identified above.

23) The COO should ensure that a monitoring process is implemented over accounts receivables.

Management response

Agree. Receivables are monitored on a regular basis with letters to overdue accounts sent. This practice will be accelerated with reports provided to the COO provided by the Finance Manager monthly. Suspension of credit will be initiated on accounts over 90 days. This practice will be in place, in it's entirety by the end of January 2008.

Entrance fees

Site visitors have three options in terms of entrance fees: unlimited daily entry fee, single time user or annual/seasonal pass. The three sites accept cash, debit and credit card payment.

The following was observed during the audit:

- ◆ Family, adult and children rates exist for all three options and these rates are in accordance with the user fees published in the Canada Gazette.

Payment

Visitor entrance fee and payment method are recorded on the cash register. At the end of the day the cashier and a witness count the cash register's drawer, leave an authorized amount in the drawer and deposit the surplus. Deposit is keyed in the cash register and initialled. The deposit summary and the money are put in a deposit bag and dropped in the safe. Copies of the deposit summary plus the summary from the card machine are sent to the F&A office. A supervisor is always present and will review the procedures. Management made a conscious decision to accept a discrepancy of \$50 or less, as the cashiers are leaving their cash registers to a lifeguard during their break. If there is a discrepancy of \$50 or more, the cashier and the witness must provide an explanation in the summary report sent to F&A office. Sales information for specific days for a specific site can be extracted from the F&A office using software named Commander. Although Commander is providing accurate and reliable information to the F&A office for Radium and Banff Upper Hot Springs, some problems are occurring with the Miette site, which provides misleading and unreliable information about

the sales. It is either that no information is available for one day, or the information is available, but proven inaccurate when reconciling with bank deposit and Vectron's cash register summary. HSEU is currently working to have both problems resolved. The finance and administration manager is reviewing the sales results each day and is questioning unexplained errors.

Each site has a secured and unpredictable time to deposit money at the bank. Once deposited, the money is automatically recorded in the financial system. Credit card summaries are sent daily to the F&A office and money from these transactions is deposited to the general ledger account each day.

The accounting assistant has to enter all information recorded on the Vectron's cash register summary in the system to create an invoice and link that invoice with the deposit that is already recorded in the financial system. Vectron and Commander systems are not linked to the PCA financial system, which increases the risk of human error when keying in the information which could lead to lost time in reconciling the bank account with the revenue.

The procedures asking for the cash register summary of each site with explanations of any discrepancies was implemented in May 2007 and a backlog of 2 to 5 months existed when the site visit was done. The new procedures have been tested for two months for one site. As per what was observed, the procedures seem effective and efficient with the limits of the PCA financial system. Although no formal conclusion can be drawn as the new procedures have not been in place for long enough, they represent a major improvement in comparison to prior years procedures.

Unlimited daily entry fee

The unlimited daily entry fee allows the visitor to enter and re-enter the site as much as desired during one day. These visitors are identified with a wristband. Each day has a different coloured wristband. Even though the wristbands are numbered, no formal control is made on them. All staff working close to the cashier have access to the wristbands and no log of numbers distributed exists. The current practice with the wristbands increase the risk of having an employee selling wristbands and pocketing the money from the sale. Reducing this risk could be done by keeping a log of the wristbands given to each cashier and reconciling the sale recorded on the cash register with the wristbands leftover after the cashier's shift.

RECOMMENDATION

24) The COO should increase controls over wristband utilisation by implementing monitoring.

Management response

Agree. Wristbands for daily entry are used at Radium and Miette only. A log for monitoring use is to be implemented in Radium by the end of March 2008 and at start of season, in mid May 2008 for Miette when the facility opens for the season.

Annual/seasonal passes

Annual/seasonal passes are sold year-around with an advertisement strategy to push for sales during spring. Radium and Banff sites are selling annual passes and Miette is selling seasonal passes, as its operations are seasonal. Passes give access to all three sites. Pass cards are numbered and a log of cards sold is kept at each site with the card number, owner name, address, and phone number. Passes are not automatically deactivated after the expiration date. The Radium site manager is temporarily responsible to extract a report from Commander that shows the cards that have not been renewed and/or are expired. These cards have to be deleted from the Vectron system manually. The responsibility for monitoring card expiration will be transferred to the finance and administration manager. By not having an automatic deactivation of expired cards, the HSEU is exposed to the risk of losing revenue by allowing entry with expired cards.

Passes have no photo ID and even though the staff is allowed to ask for one, it is not often done. Annual pass holders frequently go to the same site and they became known by the staff. Since the 3 sites can be visited with the pass, the risk of having a person entering the site with someone else's pass is high when the pass holder is not a regular client of the site.

RECOMMENDATIONS

25) The COO should study the possibility of having automated deactivation of expired annual/seasonal passes.

Management response

Agree. The existing Parks Canada standard Vectron System does not do this. The HSEU will continue to look for more advanced systems to aid in these areas.

26) The COO should increase controls over the usage of annual passes by the holders.

Management response

Agree. The Reports created by Commander System will be utilized for review of annual pass usage. Pass holders will be asked for picture ID on a random basis starting in the 2008/09 fiscal year.