AUDIT OF KEY FINANCIAL PROCESSES

External Relations and Visitor Experience Directorate

FINAL REPORT

by:

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TABLE OF CONTENTS

Report presented to the Audit Committee at the meeting of March 18, 2010.

SUMMARY

The Parks Canada Agency (PCA) conducts cyclical audits of key financial, administrative and management practices in the national and regional offices, directorates and branches, Field Units, Service Centers. The audits evaluate compliance with the policies and practices of the Treasury Board Secretariat (TBS) and the Parks Canada Agency. The audit of the External Relations and Visitor Experience (ERVE) Directorate was conducted as part of the PCA audit cycle.

The objectives of this audit were to determine whether due diligence is exercised in key management processes and to provide assurance to senior management that processes and controls in place at the Parks Canada Agency limit risks of non-compliance with TBS and PCA policies are satisfactory.

The exercise included a review of the management control framework (MCF) for financial management as well as key processes in the following financial areas: financial coding, hospitality and food charges, telecommunication, travel expenditures, payments to suppliers, contracting, use of acquisition cards and non-capital assets inventory management. This audit covered the period from April 1, 2009 to October 31, 2009.

The audit methodology consisted of a review of relevant documents, interviews with staff of the ERVE directorate and sampling of transaction in order to test controls in the main financial areas. The on-site work was carried out between November 1 and November 30, 2009.

In our professional judgment, the audit work carried out and the evidence collected were sufficient to support the conclusions formulated in this audit report.

We determined that, with the exception of Inventory management, financial controls are in place and functioning. However, some changes and improvements are required to strengthen systems and controls in place and increase the level of compliance with TBS and PCA policies.

Audit Report Rating Summary

REF.	MANAGEMENT PROCESS	RATING
6.1	Management Control Framework	BLUE – Minor improvements Needed
6.2	Financial coding	GREEN – Controlled
6.3	Hospitality & Food	YELLOW – Moderate Improvements Needed
6.4	Telecommunication-ERVE	YELLOW – Moderate Improvements Needed
	Telecommunication-CIO	
6.5	Expenditures on Travel	BLUE – Minor improvements Needed

6.6	Payments to Suppliers	BLUE – Minor improvements Needed
6.7	Contracting	YELLOW -- Moderate Improvements Needed
6.8	Use of Acquisition Cards	BLUE – Minor improvements Needed
6.9	Inventory Management	RED - Unsatisfactory

Below is our list of recommendations to the Director General ERVE Directorate, to the Chief Financial Officer and to the office of the Chef Information Officer:

Management Control Framework

1- The Director General ERVE Directorate must ensure that administrative manuals, process guides and work instructions are developed, updated, approved and communicated at the Directorate level in a way that facilitates the harmonization of financial processes and controls and preserves the directorate's corporate memory.

2- The Chief financial officer (CFO) should up date the Account Verification Policy to reflect changes in operational structure.

Hospitality & food expenses

3- The Director General ERVE Directorate in collaboration with the Chief Finance Officer need to provide and clarify the Directorate/Agency's position on providing bottled water to Agency employees outside authorized hospitality functions.

4- The Director General ERVE Directorate needs to ensure that hospitality activities are pre-approved and are compliant to PCA and TBS Hospitality Policy.

Telecommunication

5- The Director General of ERVE directorate must put controls in place to ensure that cellular phone invoices are reviewed by managers, that personal calls are tracked on a cumulative basis and reviewed by managers in order to ensure compliance to the PCA policy on cell phones and wireless devices.

6- The Director General of ERVE directorate should implement, as a good practice, a process to ensure that users acknowledge their obligation with respect to the Policy on the Use of Cellular and Other Mobile Wireless Devices. Cellular and wireless device users should sign an acknowledgement letter signifying that:

- They have received a wireless device;
- They have received proper instruction on the cellular phone and wireless device policy;
- They have read the policy, and
- They will comply with Agency policy.

7- The Chief Information Officer must ensure the standardization of all acquisition requests for wireless devices (including cell phones) in order to properly document the required information.

8- The Chief Information Officer must ensure that non-standard requests receive the necessary approval by the CIO before proceeding with PWGSC.

9- The Chief Information Officer must implement a system to monitor the acquisition and use of wireless devices in order to ensure policy compliance by the designated administrators.

Expenditures on Travel

10- The Director General ERVE Directorate, in collaboration with the CFO, should establish and implement a standard procedure for the reconciliation of AMEX card statements throughout the Directorate.

Payments to Suppliers

11- The Director General ERVE should reinforce controls to ensure that payment file documentation is strengthened in the following areas:
- Invoices received date stamp should be indicated on all invoices.
- Copies of purchase orders, supplier contracts and other required approval documentation (travel) to be included with each supplier payment.

Contracting

12- The Director General ERVE Directorate should ensure that sole source contracts awarded:
- Are supported by the appropriate documentation.
- Are entered in SAP under the proper contract type description.

13- The Director General ERVE Directorate should ensure that contract file documentation is complete, including evidence of competitive process, copies of the original signed contract and all required signatures.

Use of acquisition cards

14- The Director General ERVE should ensure that guidelines are established; indicating timing of funds commitment, based on monetary limits, frequency and type of purchase. This guideline would be applicable notwithstanding type of payment instrument used.

Inventory management

15- The Director General of ERVE directorate must put controls in place to ensure that there is compliance with the Directive on Inventory Management for Items Valued at between $1,000 and $10,000 and Attractive Items valued at less than $1,000, and that items of $10,000 or more are inventoried and recorded in the systems.

1. BACKGROUND

The Parks Canada Agency (PCA) conducts cyclical audits of key financial, administrative and management practices in the national and regional offices, directorates and branches, Field Units, and Service Centers. The ERVE Directorate was created in 2005 to provide national leadership and direction in the areas of social science, public information and education, corporate communication, visitor experience, and stakeholder and partner relations. The Directorate offices, the Director General and most directors are located in Gatineau, Quebec. Since April 2009, accounts payable, procurement and contracting services are provided by Parks Canada's Ontario Service Center located in Cornwall, Ontario. The service centres also support the organization in a variety of professional and technical disciplines.

The audit of the ERVE Directorate was conducted as part of the program of cyclical audits of key financial processes by Parks Canada's Internal Audit and Evaluation Office.

Under the direction of the Office of the Director General, the External Relations and Visitor Experience Directorate is structured in five branches:

- Social Sciences Branch
- Public Information and Education Branch
- Visitor Experience (VE) Branch
- Stakeholder and Partner Relations Branch
- Corporate Communications Branch

Most ERVE Directorate employees work at the National Office in Gatineau. Due to the nature of their work, employees who need to be present on the field when required to complete program activities often travel within Canada, to the United States and abroad.

The directorate also interacts with field units, as it is responsible for collecting and recording revenues from various Park Canada facilities. The 2009/2010 annual operating budget for the External Relations and Visitor Experience Directorate is approximately $24 million.

2. OBJECTIVES AND SCOPE

The objectives of this audit were to confirm whether due diligence is exercised in key management processes within the ERVE Directorate and to provide assurance to senior management that processes and controls in place are adequate to ensure compliance with TBS and PCA policies and practices.

The audit comprised the review of the management control framework (MCF) as applied to financial management and the following key financial process areas:

- Financial coding;

- Expenditures on hospitality and food;
- Telecommunication;
- Expenditures on travel;
- Payments to suppliers;
- Contracting;
- Use of acquisition cards; and
- Inventory management.

For the most part, the audit covered transactions entered into the financial system (STAR) between April 1, 2009 and October 31, 2009.

3.   METHODOLOGY

The audit methodology included the following activities:

- Interviews with ERVE Directorate management and staff responsible for key financial process areas;
- Interviews with Park Canada's Ontario Service Center (OSC) finance staff whom are responsible for account verification and processing of accounts payable, and provide most procurement and contracting services for the ERVE Directorate;
- Examination of relevant documentation, including the organization chart, the PCA delegated signing authorities chart, policies governing key financial process areas, the business plan and a sampling of the budgets and financial reports prepared by the Manager, Corporate Services; and
- Examination of a sample of transactions for each key financial process areas identified above, as required.

The transaction sample was selected using sorted data from STAR and based on the level of risk associated with transactions relating to the areas covered in the audit. Also, proportional sampling was applied to travel expenditures to ensure fair, representative coverage of expenditures. The on-site work was carried out between November 1 and November 30, 2009.

TRANSACTION TESTING TABLE		
CONTROL TESTED	NO. OF TRANSACTIONS	TRANSACTIONS VALUE
Financial coding	17	$20,000
Hospitality & Food	8	$2,528
Telecommunication	20	$3,253
Expenditures on Travel	25	$51,055
Payments to Suppliers	24	$55,125

Contracting	25	$4,266,000
Acquisition Cards	10	N/A
Inventory Management	N/A	N/A

After the fieldwork was complete, the Manager, Operational Services, Office of the Director General, was debriefed on our preliminary observations.

Our observations and recommendations were 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 of program/operational objectives.
BLUE	Minor improvements needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
GREEN	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

4.   STATEMENT OF ASSURANCE

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

5.   CONCLUSIONS

With the exception of Inventory management, financial controls are in place and functioning. However, some changes and improvements are required to strengthen systems and controls in place and increase the level of compliance with TBS and PCA policies.

6.   OBSERVATIONS AND RECOMMENDATIONS

6.1   Management Control Framework (MCF)

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.

To determine whether the management control framework is adequate to ensure compliance with financial policies, we used the following audit criteria:

C1-   Information essential for achieving operational objectives is identified, collected, processed and quickly transmitted to those concerned.

C2-   Staff members' roles and responsibilities, specifically those relating to control, are clearly identified, documented and communicated.

C3-   Business and operational plans are prepared in cooperation with the stakeholders concerned and adequately establish the budget parameters, human and material resource needs, and security needs.

C4-   The control environment in place is conducive to sound and effective management.

C5-   The control activities conducted allow for shortcomings to be identified quickly and for corrective measures to be taken within a reasonable timeframe.

C6-   The control activities conducted ensure proper management of financial staff.

C7-   There are sufficient finance team members capable of achieving operational objectives.

C8-   Operational risks are assessed formally on a regular basis.

6.1.1   Organizational Structure

Management Information

The ERVE Directorate has established a management committee made up of the directors and a number of managers, including the operations manager. The committee discusses and establishes short and long-term policies for the Directorate and updates the strategic business plan. Once adopted, information critical to the achievement of operational objectives is identified and communicated through the directorates business plan.

Policies, guidelines and work instructions are communicated to staff members through emails and are available on the Agency's intranet site. Administrative assistants ensure that changes in policy and guidelines are communicated to all branch managers. Staff in remote sites have access to the Agency's intranet and receive notice of changes through emails from the national office. New video and teleconferencing technology, along with email, minimizes the communication challenge posed by staff remoteness.

The Agency and Directorate dispose of numerous policies, guidelines, work instructions and checklist documents to guide staff in their daily operational responsibilities. Because there are no Agency wide procedural manuals that document administrative procedures and requirements, some branches have individually developed various administrative guides and orientation kits to facilitate the transition during employee changeovers. These guides are shared but not formally approved by Directorate or PCA management. For day-to-day operations, managers and staffs rely heavily on administrative assistants, financial managers and procurement officers to obtain verbal information on procedural requirements. Managers expressed concerns that information on the Agency's intranet portal is sometimes not current or easy to find.

A risk exists that without appropriate documentation, work practices may differ between branches; the coaching period may be longer and result in additional costs, thereby reducing transition efficiency. Documentation of the activities included in key positions helps preserve corporate memory, which is essential given the current period of frequent changes in terms of human resources.

All staff meetings at the directorate and branch level are held to inform staff of the status of projects, emerging priorities and realignment of resources. Retreats can also be held to discuss strategy and alignment where it is deemed necessary. The Director General holds monthly management meetings where directorate ongoing business is reviewed and discussed. Manager performance accords include provisions on delivery of objectives.

The Directorate's organizational chart is updated on a regular basis. At the time of the audit, the current chart was up to date, with the exception of recent changes in the Visitor Experience Branch.

The Directorate reacts to customer complaints through local staff. Complaints are elevated to senior management when required.

Recommendation

   1- The Director General ERVE Directorate must ensure that administrative manuals, process guides and work instructions are developed, updated, approved and communicated at the Directorate level in a way that facilitates the harmonization of financial processes and controls and preserves the directorate's corporate memory.

Management response

Agree. By end of September, a financial binder will be provided to all managers with financial authority that will include all the relevant policies and guidelines.

Roles and Responsibilities

The ERVE Directorate is responsible for providing national leadership and support to the achievement of the Agency's mandate in the following areas:

- The Social Science Branch provides leadership, strategic coordination and functional direction for social science for the following areas: 1) market and tourism research, including monitoring social and travel trends, 2) socio economic research, 3) national visitor information programs and reporting, and 4) human dimensions-type research across Parks Canada.

- The Public Information and Education Branch (PIE) provides functional leadership and develops outreach and education strategies, policies and tools to support program-wide capacity for initiatives aimed at reaching Canadians with learning opportunities that are interesting and relevant to them. PIE provides functional leadership in the areas of Web Policy and Operations, Outreach and Education, New Media Strategies and Investment, and Corporate Identity and Image Collection Management.

- The National Corporate Communications Branch (PCCOM) is responsible for coordinating and providing guidance to the Agency regarding public affairs, media relations and communications planning. PCCOM works with the Minister's office and Parks Canada staff at all levels - from the Minister and CEO to service centers and field units.

- The Visitor Experience Branch (VEB) develops policy, guidelines, frameworks, strategies, tools and training related to national and local Visitor Experience objectives and planned results. VEB provides national functional leadership to the field units in the areas of Planning, Interpretive Product Development, Recreational Activities, Service Delivery, Promotion, Advertising and External Communication. The Branch implements national pilot programs and promotes best practices that assist the Field Units in the delivery of their operations related to visitor experience. Additionally, VEB manages the day-to-day operations of the Parks Canada Campground Reservation Service and the Information Transaction Centre.

- The Stakeholder and Partner Relations (S&PR) Branch provides system-wide support, capacity building and tools to assist in "Sharing the Leadership", helping the Agency move from stakeholder consultation to stakeholder and citizen involvement and partnerships. A primary responsibility for the branch is coordinating the planning and delivery of the Minister's Round Table on Parks Canada (MRT) a biennial event required by the PCA Act as a forum for public input into the Agency's governance. With the creation of the ERVE Directorate in 2005, responsibility for co-operative activities became part of the S&PR branch. The branch is responsible for appropriate and effective private-sector partnerships, and provides support for collaborative arrangements to assist the Agency in delivering its mandate.

Reporting to the Director General, the primary role of the Operational Services group is to act as a resource for managers, in connection with budgets and financial directives and policies. As the programs managed by the ERVE Directorate are highly visible and impact the general public, applying financial directives and policies requires the support of persons with an in-depth

knowledge of the rules. This ensures that all parties involved can exercise their area of expertise effectively and ultimately this will shorten the time required for decision-making.

Payments to suppliers on behalf of the ERVE Directorate are processed by Ontario Service Center (OSC) finance staff. They are responsible of paying invoices from the national office and for monitoring the completeness of the supporting documentation submitted with invoices.

With respect to the roles and responsibilities of staff members, some official documents are available, such as the organization chart and the generic job descriptions. Generic job descriptions are used as a basis to develop "statements of qualifications" that describe job competency requirements and specific tasks to be performed on an everyday basis as part of the staffing process. When employees are initially hired, they receive a copy of their generic job description and the statement of qualifications that complements the generic job description. In addition, these documents may be consulted at all times on the Agency's Intranet. The specific tasks that are to be performed are included in the employee's performance and evaluation plan. Appraisals are conducted on an annual basis; personal development plans and objectives set for the next year are reviewed with the employee to ensure that their significance in terms of achieving the Agency's overall objectives has been understood. Adjustments may be made verbally during the year.

There is good cooperation between branches and with Operational Services group to share information and staff to resolve temporary excessive workload issues.

Business Plans and Budgets

The ERVE Directorate management committee prepares a five-year sustainable business plan that is reassessed and updated every year. The plan was under construction at the time of the audit and usually needs to be finalized in mid-December. The plan includes the Directorates' five objectives along with program objectives, and those specific to each branch by fiscal year. The Branch Business Plan prepared by each Director is reviewed at the Directorate level by a planning committee comprising of all directors. A crosswalk exercise is conducted where overlapping initiatives are identified and financial and human resources are planned and allocated.

Currently, the Directorate does not have a contingency plan to ensure that business can be resumed quickly in case of an unplanned business interruption. A risk exist that valuable corporate information, memory and knowledge is lost in case of an unplanned business interruption. However, the business-planning model currently used by the Agency requires that contingency plans be prepared. Once ERVE's contingency plan is developed and approved by the Agency, the Director General ERVE should ensure that such a contingency plan is communicated to, and understood by directorate staff as appropriate. A working group from National Office is currently developing the business continuity plan. Directives to this effect should follow in spring 2010.

The sustainable business plan includes the budget allocations for the year and the forecasts for the coming years. Directors and managers monitor budgets, expenditures and forecasts. Financial

reports, budget analysis and forecasting templates are sent to ERVE directors and managers by the office of the CFO to enable them to account for their financial activities and to address potential budget variances. The Director General, ERVE challenges and questions financial information and any discrepancies monthly.

The total operating budget of the ERVE Directorate for 2009-2010 is approximately $24 million.

Segregation of Financial Duties and Team capacity

The segregation of duties is clearly defined by the ERVE Directorate's organizational structure. Expenditures are initiated in various sectors and approved by the competent authority. All managers with Section 34 of the Financial Administration Act (FAA), spending authority have passed the F101 and F102 courses, a prerequisite for obtaining such authority. The administrative assistant responsible for commitments reserves funds in the STAR financial system. Administrative assistants are also encouraged to follow the prerequisite Finance and Administration courses to improve their understanding of the requirements. Once the goods or services are received or rendered, the manager signs the invoice to confirm receipt and authorizes payment of the amount owing. OSC finance personnel ensure that all supporting documents are appended to the invoices and enter the payment information into STAR. Finally, the person with payment authority under Section 33 of the FAA ensures that the information is in compliance and complete before issuing payment.

6.1.2   Control and Monitoring Environment

For controls by finance staff to be effective, the signature specimen register must be available and up to date. This audit, which is the first for ERVE, established that the signature specimen cards, within the directorate and at the OSC were kept up to date in accordance with the standards.

To ensure that staff clearly understands acceptable financial practices, directors are responsible for ensuring that personnel with financial delegation of authority have successfully completed the F101 and F102 courses that are prerequisites for obtaining spending authority. Directors rely heavily on administrative assistants to monitor the use of proper procedures and to provide support and advice to managers on financial policies. The Manager, Operational Services also provide direction on any questions regarding financial policy. When policy changes are made, emails are sent to all staff to keep them informed. Copies of policy, guidelines and other explanatory documents are available on the Agency's Intranet.

Responsibility for compliance with financial policy lies with the manager with spending authority under Section 34 of the FAA. The accounts payable staff at the Cornwall OSC review payment files. In processing expenditures, instances of non-compliance identified on an ongoing basis are not formally documented because the information missing is obtained by the OSC from managers before the payment is issued. This practice provides a good form of on the job training for directorate employees. Recurring and widespread errors are elevated to senior management, and solutions and decisions are communicated back to all staff as appropriate.

The Account Verification Policy dates back to 2006 when account verification was performed through Canadian Heritage (PCH). It describes the statistical sampling process for low risk transactions and the extent of verification required for high-risk transactions. The Agency should review the *Account Verification Policy* to ensure it is based on the Agency's current organizational structure.

The OSC has begun processing ERVE payment files in March 2009. Since that time, 100% of payment files are verified at the OSC, regardless of the level of risk of the transaction. This practice is in place to determine level of insurance with the process. The OSC will have to re-evaluate the process based on the results of the current practice.

In order to comply with the current *Account Verification Policy*, the Office of the CFO statistically selects transactions to be verified a second time by OSC finance personnel. Statistical sampling is carried out nationally, and account verification results are compiled and sent to the office of the CFO. Feedback from the office of the CFO to the OSC on issues identified during the account verification process is sporadic. Regular feedbacks reduce repetitive errors and confirm staff understanding of how to apply financial policies.

Expenditure reports (in Excel) are sent to directors and managers by the office of the CFO. They must confirm the accuracy of the data and provide variance analysis and forecasts for the coming months. Forecasts are reviewed and challenged by the Director General. This exercise is carried out at the end of the first and second quarters of the fiscal year and every month during the last two quarters. Adjustments may be made to the budget targets as required to ensure optimization of resources at the directorate level. Branch forecasts are reviewed and challenged by the Director General ERVE on a monthly basis.

Recommendation

> 2- The Chief financial officer (CFO) should up date the Account Verification Policy to reflect changes in operational structure.

Management response

Agree. National Office Finance is in the process of updating the account verification policy. The updated policy document will be available on the National Intranet by April 1, 2010.

6.1.3 Risk Assessment

The national office has conducted a risk assessment for the whole Agency. The ERVE Directorate manages risk based on the Agencies' corporate risk assessment and the priorities identified for the Directorate. There are risks at various levels in the Directorate. Each branch is aware of the operational risks specific to themselves, the directorate and the Agency. Risk

management strategies are established and documented based on Agency directives. Some examples of risks include:

- Communication with the media;
- Public opinion;
- Legislative compliance risk; and
- Physical damage and loss (Forest fires, floods, etc).

While establishing the sustainable business plan, some activities were identified as representing a higher risk than others. These risk factors are discussed and reviewed at management committee meetings. Mitigating measures are also studied and implemented to reduce the impact of the risks identified. This process ensures that business plans and financial forecasts take in account the risk management strategies identified at the branch and directorate level.

As the ERVE directorate has only been created recently, risk management is a work in progress. Essentially, major risks are identified and addressed in the Branch Business Plan. Some tools have been developed to help manage risks pertaining to recurring operational risks. As an example, a tool kit has been developed and is being implemented for partnering initiatives. This includes partnering with private sector organizations. Implementation includes training for managers as well as the hiring of a partnering specialist. These tools allow a systemic approach to mitigate risks associated with certain types of activities.

Other tools are in the process of being developed. However, it is difficult to predict events that will generate risk for the branch. Risks emerging from unforeseen situations are managed in a reactive but integrated mode within the directorate to ensure risk mitigation solutions are aligned with the Agency's objectives.

Conclusion

Minor improvements are needed for the management control framework. Documentation should be created and communicated to facilitate the financial processes and controls and to preserve the corporate memory.

6.2 Financial Coding

GREEN	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

To determine if the financial coding process is exercised with due diligence and if controls in place are adequate to ensure compliance with TBS and PCA policies and practices, we used the following audit criteria:

C1- Coding guidelines and procedures at the Field Unit/Service Center exist.

C2- Adequate training/instruction is provided at all levels to ensure awareness and understanding of coding procedures.

C3- Adherence to chart of account is monitored.

C4- Coding is done by individual with proper knowledge.

C5- Coding is validated when entered in SAP.

Observations

Managers with Section 34 FAA spending authority are responsible for financial coding. When invoices are received, the financial code is entered by hand by the cost centre manager and reviewed by the Branch Administrative Assistant prior to sending the invoice for payment at the OSC in Cornwall. Coding is based on the Agency's chart of account. The chart of accounts and any information necessary to select the appropriate financial codes are available by hard copy or through the Agency intranet.

Finance officers at the OSC examine the financial codes for 100% of transactions received from ERVE. Manager responsible are consulted and/or informed by e-mail of any errors or changes required.

In addition, the same review of coding is done when transactions are selected by statistical sample by the CFO for account verification purposes.

We verified the financial coding on the basis of the transactions selected from the sample of payments to suppliers, hospitality and food, travel and use of cellular phones made by the national office and found no coding errors.

Overall, the use of financial coding is satisfactory.

No recommendation

6.3 Hospitality and food 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 of program/operational objectives.

To determine whether due diligence is being exercised in the financial process relating to hospitality expenses and whether controls in place are adequate to ensure compliance with policies, we have used the following audit criteria:

C1-   Hospitality functions take place in appropriate venues.

C2-   The financial limitations placed set out for hospitality functions are respected.

C3-   Hospitality functions are approved by the appropriate authority prior to the event.

C4-   The recipients of hospitality are consistent with Parks Canada Agency policy.

C5-   Payment for activities functions comply with Parks Canada Agency provisions.

C6-   Transactions entered in the food account are in compliance and do not include any hospitality fees.

Observations

Hospitality is used to provide non-alcoholic beverages (i.e. coffee, juice) at official Agency functions and certain types of meetings. Hospitality expenditures do not include food, except for pre-approved strategic management meetings where it is demonstrated that it is more efficient to provide food instead of interrupting the meeting for lunch and breaks. Otherwise, government employees that are on travel status receive a daily meal allowance to cover food costs. No other costs are to be charged to hospitality.

Requests for hospitality functions must be approved at the appropriate level one-month before the activity takes place using the appropriate form, which explains the nature and scope of the planned activity. The completed document must be signed and submitted with the payment request.

Where approval by the Minister (>$5,000) or by the CEO (between $1,500 and $5,000) is required, requests for approval of hospitality must be submitted sufficiently in advance to ensure that authorization is received before the activity is held.

Findings

- One case where meeting room and projector rental costs were incorrectly coded as hospitality.
- Two of the files reviewed where bottled water costs for office use were charged to the food expenditure account.
- In three of five cases, the hospitality pre-authorization form was not found in the payment file.
- In three of five cases, the nature of the activity did not respect the intention of the hospitality policy.
- In two cases, hospitality charges were for staff meeting costs, including food costs in one instance.
- In one case, a business meal was paid during a business trip and approved after the fact.

Overall, the controls in place to manage and process hospitality expenses are satisfactory. However, management needs to clarify the interpretation of allowable hospitality activities and strengthen controls of allowable hospitality expenditures.

Recommendation

    3- The Director General ERVE Directorate in collaboration with the Chief Finance Officer need to provide and clarify the Directorate/Agency's position on providing bottled water to Agency employees outside authorized hospitality functions.

Management response

Parks Canada is currently having discussions with different stakeholders in order to determine its position and it will be communicated at the next audit committee meeting.

Recommendation

    4- The Director General ERVE Directorate needs to ensure that hospitality activities are pre-approved and are compliant to PCA and TBS Hospitality Policy.

Management response

Agree. A checklist is attached to all hospitality requests in order to ensure that all required information is joined and is compliant with PCA and TB Policies. A reminder from the F&A Manager will be sent to the Directors and administrative assistants to remind them of the deadlines in submitting hospitality requests and that all requests must be pre-approved.

6.4 Telecommunication

ERVE YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.
CIO YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.

In order to give fair treatment to the entities audited in the course of the audit cycle, we have given two audit ratings in the telecommunications section in order to reflect the current situation at the ERVE Directorate. The Directorate has implemented processes based on the instructions received, if any, from the National Office. Certain points raised in the "Observations" section concern the Chief Information Officer. Specific recommendations are therefore addressed to the Director General of ERVE and others, to the Chief Information Officer.

To determine whether due diligence is being exercised in the financial process for telecommunications expenses and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

C1-   The designated manager or authority is to document user needs for wireless telecommunications devices and services

C2-   All request for procurement, use and service charges are coordinated by the designated administrative authority

C3-   The procurement process for the devices complies with guidelines.

C4-   Non-standard requests are submitted at the manager's recommendation to the chief Information Officer (CIO) for approval

C5-   The allocation of the communication devices was authorized by a manager at level A or higher and complies with effective standards

C6-   Managers ensure that users under their responsibility are familiar with the Policy on the Use of Wireless Devices and that users agree to comply with the policy before devices are allocated.

C7-   Devices are used in compliance with current policy and guidelines.

C8-   Personal calls are identified and tallied and any resulting charges are reimbursed by the user in accordance with policy provisions.

C9- Administrative authorities responsible for managing wireless services in the Directorate have developed internal procedures for this policy.

C10-   Designated managers and authorities regularly review employee usage.

C11-   The CIO performs random audits of the use of wireless devices and services to ensure compliance with effective policies.

Description of the process

Parks Canada's new *Policy on the Use of Cellular and Other Mobile Wireless Devices* came into force on October 1, 2008. Its purpose is to ensure more profitable and appropriate use of wireless devices. To this effect, Public Works and Government Services Canada (PWGSC) has implemented a new procurement process and a new acquisition agreement. In the past, cell phones and other devices were purchased from a large number of suppliers offering a wide range of functions and plan options. Now, only two authorized service providers have been selected. No other service providers are allowed, unless there are zone coverage issues. The policy is available on the Agency's intranet. The new agreement should enable the Agency to reduce the costs of using such devices. The policy provides guidelines and official procedures for safe and appropriate purchase, management and use of cell phones and other wireless devices.

The policy concerns both acquisition and use of these devices. A person must be designated as the administrative authority for the field units and service centres. Any request for purchase, modification or cancellation must be sent to the designated administrative authority. The acquisition must be made from the suppliers listed in the new PWGSC agreement, unless an exception is made. User needs must be documented in order to allow the designated administrator to recommend an appropriate and adequate service. Further to the

recommendations, the user's manager must approve or cancel the request. The Office of the Chief Information Officer and the user's manager or supervisor must conduct random checks of how wireless devices are used.

A non-standard request is possible if it is well documented and approved by the Chief Information Officer (CIO). Once the CIO's approval has been obtained, the designated administrator informs PWGSC and obtains its consent to proceed with acquisition of the device. A non-standard request may occur when the suppliers under the agreement cannot meet the user's needs (e.g., some regions of Canada are not serviced by the accredited suppliers) or if the requested device is not included in the agreement.

The use of cell phones and wireless devices is also regulated. Devices must be used for the Agency's activities and services, emergency calls and limited personal use. Personal calls must be controlled and identified by users on their monthly statement. A threshold of $30 per year for personal use is considered reasonable. Data is compiled twice a year, in September and March. However, if the $30 threshold is reached in September, the employee must reimburse all personal use expenses for the first six months and in March must reimburse all personal use expenses for the last six months of the fiscal year. The roles and responsibilities of the employee and his or her manager are set out in the policy. The employee must take all necessary measures to ensure the integrity and security of the Agency's information when using wireless mobile devices to send information. He or she must also comply with guidelines as well as local, provincial and federal laws on the use of wireless devices. The manager must ensure that the employee is familiar with the *Policy on the Use of Cellular and Other Mobile Wireless Devices* so that he or she may use the device appropriately. He or she must also use indicators to check for potentially unauthorized or inappropriate use.

6.4.1 ERVE

ERVE YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.

Observations
Directors manage the phone requirements for their branch. Phones are issued to staff with travel requirements, or those that must be reached in case of emergencies or outside business hours. New phone requests must be properly justified. Requests for new units, approved by managers (Director) are forwarded by email to the Manager Operational Services that acts as the Directorates wireless device coordinator. There is no standard request form used within the Directorate for new units.

The coordinator through the Telus and Rogers web sites, which are password protected, purchases phones. Requests for exceptions to the pre-selected phone model list are systematically rejected.

At the time of a new purchase, the manager of operational services provides the appropriate invoicing information to the service provider. New phone units are received directly by the CIO group where they are programmed based on the selected wireless service package authorized for the user.

Contrary to PCA cellular phone policy, there is no formal monitoring of phones in circulation, however, planned phone expenditures are reviewed by managers and directors at the time of the annual business plan and forecast. The phone coordinator can review and print a list of telephones on demand by consulting the Telus or Rogers web site. These web sites are password protected in order to control access.

Employees receive informal instruction on the cellular phone policy, and are encouraged to get familiar with the policy. However, phone users sign no formal acknowledgement when phones are issued. As a best practice, users should be asked to sign a form acknowledging the policies in force with respect to the use of wireless devices before they are given the device. This formality will encourage the user and manager to meet their respective responsibilities and obligations. This practice is observed with acquisition cards.

Employees are required to identify and track personal phone use; however, there is no formal oversight process in place to monitor personal phone use at the Branch or Directorate level. Managers with the appropriate delegated authority review and approve phone invoices under Section 34 of the FAA.

Findings

- In 75% of cases (15 of 20), there was no evidence of tracking of personal calls on file.
- In 80% of cases, there was no evidence of manager review of personal phone calls, even where the phone user provided a list of personal phone calls.

Recommendation

5- The Director General of ERVE directorate must put controls in place to ensure that managers review cellular phone invoices, that personal calls are tracked on a cumulative basis and reviewed by managers in order to ensure compliance to the PCA policy on cell phones and wireless devices.

Management response

Agree. The F&A Manager will be sending a memo to all staff in early March with the PCA Wireless policy attached to make sure that everyone has the most up to date information and that they comply. Also attached will be a form to identify personal calls that employees will need to fill out, sign and attach to the monthly wireless statements. The form will also be signed off by the responsible manager to ensure that they do check the information. The F&A Manager will also conduct "spot checks" on a regular basis of individual accounts to ensure compliance.

Recommendation

> 6- The Director General of ERVE directorate must put controls in place to ensure that cellular and wireless device users sign an acknowledgement letter signifying that:
>
> - They have received a wireless device;
> - They have received proper instruction on the cellular phone and wireless device policy;
> - They have read the policy, and
> - They will comply with Agency policy.

Management response

Agree. By April 1st, a letter of acknowledgement will be given to all employees with wireless devices which they will have to sign and return to the F&A Manager. The letter will be similar to acquisition cards letter.

6.4.2   Office of the Chief Information Officer (CIO)

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.

Observations

ERVE managers submit approved requests to the directorate's coordinator by email. The ERVE coordinator submits device financial and programming information for new wireless device to the CIO. For Blackberries only, a standard financial information form is used. Requests modify a service package for an existing phone is done by email. New phones purchased by the directorate are sent directly to the CIO where they are configured prior to being sent to the user.

Use of a standardized form would ensure that every request is documented as described in the policy, whether the request is standard or non-standard. This form could be used to obtain the approval of the CIO in the case of non-standard requests as well as facilitate inventory control for cell phones and other wireless devices for field units, services centres or directorate.

As mentioned, the acquisition must be made from the suppliers listed in the new PWGSC agreement, unless an exception is made. A non-standard request is possible if it is well documented and approved by the Chief Information Officer (CIO). Although no non standard request were made by ERVE Directorate, other audit showed that in practice, the administrative authorities do not seek approval from the CIO before the acquisition is made.

The Chief Information Officer must develop the necessary tools and forms to facilitate compliance to the Agency's wireless policy by all, and to ensure that required approvals are properly documented.

The Office of the Chief Information Officer must also conduct random checks for the acquisition and use of wireless devices. No formal monitoring process is in place. A system will have to be developed in order to monitor and support the designated administrators.

Recommendation

7- The Chief Information Officer must ensure the standardization of all acquisition requests for wireless devices (including cell phones) in order to properly document the required information.

Management response

Agree. The CIO will create an official form to standardize requests for wireless devices (including cell phones). This form will be implemented across the Agency beginning April 1, 2010.

Recommendation

8- The Chief Information Officer must ensure that non-standard requests receive the necessary approval by the CIO before proceeding with PWGSC.

Management response

Agree. The CIO will amend the Agency's Policy on the Use of Cellular and Other Mobile Wireless Devices to ensure that it clearly sets out the steps needed for approval of a non-standard request, including the need to obtain authorization from the CIO or his/her delegate before contacting PWGSC. Policy amendments will be made before April 1, 2010.

Recommendation

9- The Chief Information Officer must implement a system to monitor the acquisition and use of wireless devices in order to ensure policy compliance by the designated administrators.

Management response

Agree. The CIO will analyze a sample of requests twice a year to ensure that designated administrators comply with the policy. Sampling will begin on April 1, 2010.

Conclusion

Certain elements of the *Policy on the Use of Cellular and Other Mobile Wireless Devices* require clarifications in terms of their interpretation. The ERVE directorate and the Office of the Chief Information Officer must implement processes in order to ensure compliance with the policy.

6.5 Expenditures on Travel

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.

To confirm whether due diligence is being exercised in the management of travel expenditures and to provide assurance to senior management that financial processes and controls were in place at the Field Unit/Service Centre for the period of audit to mitigate the risk of non-compliance to TBS and PCA policies and practices:

C1- Guidelines and procedures governing travel expenses exist in the field unit/service centre and comply with TBS and PCA policies and directives.

C2- Appropriate training and instruction is provided at all levels to ensure that staff are informed of and understand policies and procedures governing travel.

C3- Compliance with the policies and procedures governing travel is monitored.

C4- Travel and travel advances are properly authorized prior to travel (general or individual authorization), with Section 34 FAA certification.

C5- Travel advances are reasonable and not given to travel cardholders, and payment is approved by a person authorized under S.33 FAA.

C6- Travel claims comply with the TBS Travel Directive, and expenditures are verified for accuracy and eligibility.

C7- Travel claims include Section 34 FAA certification.

Observations

The PCA travel policy is available on the Agency's intranet. Emails are received when there are changes in TBS policy and guidelines and/or to Agency policy. There is also a How-To guide that is available to managers that includes a section on travel procedures. Branch business plans and budgets include travel activities at the local, national and international level. Travel is an important component of the work and the Directorate's overall work plan.

Employees must, prior to departure, obtain travel authorization signed by the competent authority. Once a travel activity has been approved, the amount is committed in the SAP system, and a "Travel Authorization Number" (TAN) is assigned to the travel activity, and all costs associated to this travel are tracked through this number.

Two types of credit cards are used by the Agency to manage and facilitate travel activities. First, to simplify the process and to save cost, PCA requests that all public transportation ticket purchased in advance (train, airline, etc.) be conducted through the American Express (AcXess) travel web site. Ticket purchases are invoiced directly to the Parks Canada Agency branches and

travellers do not need to advance funds to purchase tickets. Administrative assistants receive American Express credit card monthly statements with itemized travel charges identified by TAN for their branch. Administrative assistants reconcile and code each charge on the AMEX statement. Travel costs are then entered in the SAP system and the statements are sent to Cornwall for payment. Our review of AMEX statement reconciliation process performed at the branch level revealed differences in the procedures used between branches in terms of the extent of back up documents and follow-up on outstanding AMEX charges and credits extending over multiple periods. There is a risk that some AMEX charges are paid incorrectly and credits not recovered as appropriate. Use of the AMEX travel card is encouraged and most frequent travellers do use it.

Secondly, personal American Express credit cards authorized by Directors and the Director General are issued to travellers that are required to travel on PCA assignments. Cardholders are personally responsible for the use of their card and the timely payment on monthly balances. Administrative assistants act as the Branch liaison with the Agency's national travel card coordinator for issuing and cancelling AMEX individual credit cards. Admin assistants maintain a list of travel cards issued to travellers in the Branch. When employees leave the organization, a departure checklist is used by the Administrative Assistant to recover Agency property. The travel card coordinator cancels the card directly on the AMEX web site. With the use of travel cards, no travel advances are made as a general rule.

Travel claims are authorized by the manager responsible and then forwarded to OSC in Cornwall for payment. 100% of all travel claims submitted for payment are verified by the OSC. In addition, managers must review the accuracy of the cost claimed and rates used by travellers before approving travel claims under Section34 FAA.

A sample of 25 travel claims was selected for analysis among the trips made by employees. No supporting documentation was found for two of the claims under review.

Findings:

- Inconsistent methodology is used throughout the Directorate to reconcile AMEX Corporate credit cards statements

Recommendation

10- The Director General ERVE Directorate, in collaboration with the CFO, should establish and implement a standard procedure for the reconciliation of AMEX card statements throughout the Directorate.

Management response

Agree. Finances is currently developing a procedure for the reconciliation of AMEX card statements throughout the Directorate; that procedure will be tested as a pilot project for approximately three months before being applied throughout the Agency.

6.6 Payments to Suppliers

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.

To confirm whether due diligence is being exercised in the management of supplier payments and to provide assurance to senior management that financial processes and controls were in place at the Directorate for the period being audited to mitigate the risk of non-compliance to TBS and PCA policies and practices.

C1-   Policies, guidelines and procedures regarding the purchase of/payment for goods and services from suppliers exist at the Field Unit/Service Centre and they adhere to TB and PCA policies.

C2-   Adequate training/instruction is provided at all levels to ensure awareness and understanding of the policies and procedures.

C3-   Adherence to the policies and procedures is monitored.

C4-   Procurement of goods and services is appropriately initiated and authorized, and funds are properly committed in the financial system.

C5-   Goods and services on suppliers' invoices are matched to PO/contract specifications.

C6-   Price and quantities on invoices are agreed to POs/contracts

C7-   Section 34 FAA is signed by appropriate delegated authority.

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

Observations

Managers must have the appropriate delegation of authority to initiate expenditures, commit funds and approve payments to suppliers under Section 34 of the FAA.

Managers must follow training courses F101 and F102 that were developed for the Agency before they can receive the financial delegation authority. The delegations are described in the Agencies Delegation of Authority Document approved by the Minister.

Administrative assistants do not have financial delegation authorities; however, they are strongly encouraged to attend these training courses, in order to ensure they understand the requirements. Administrative assistants review contract files to ensure that a commitment exists, bids were obtained, coding is accurate and the required signatures documentation is provided with the payment request. If discrepancies with the commitment are found, the manager concerned is informed by email and a correction is made to the commitment. This practice ensures transparency in the payment process and accurate financial information.

Managers must sign off section 34 before an invoice can be paid to a supplier. In addition, most purchases and payments also undergo a Director review.

Administrative assistants keep copies of all signature cards for those who have authority. This includes authorities that are given on an "Acting" or temporary basis.

Supplier payments files are sent to the Ontario Service Center (OSC) in Cornwall for account verification and final payment approval under FAA Section 33 where the following process is followed:

1. Invoices are received by mailroom attendants where they are date stamped.

2. Invoices are sent to the Accounting Assistant where they are sorted and prioritized.

3. During the initial verification of payment files, there is no selection of files based on a risk assessment. 100% of payment file are verified following the OSC's Standard Procedures document and a standard checklist. The 100% coverage is due to the fact OSC and ERVE are relatively new entities, and more refining is required before the scope of file review can be reduced.

4. Errors are corrected with the client's accord. Recurring errors are communicated to ERVE management to ensure corrective action is taken.

5. Section 33 is approved by electronically by batch; authorized financial officers have been provided an electronic key that allows them access to the S33 approval function in SAP.

6. Once the Section 33 approval is done, an electronic file is sent to the Receiver General of Canada to process the payment to the supplier.

Statistical sampling:

1. The OSC receives a list of transactions pre-selected by the CFO office for further account verification.

2. Files to be reviewed are assigned to accounting staff that did not perform the original review of the payment file.

3. The OSC performs a review of files selected based on a checklist provided by the CFO.

4. Errors noted are sorted as critical VS non critical; review results are formally documented and sent to the CFO.

Feedback is received sporadically from the CFO office.

The Agencies current *Account Verification Policy* dates back to 2006. It was prepared at the time when accounts payable and account verification functions were conducted by Heritage Canada (PCH) on behalf of the Agency. Therefore, the current policy is not current and contains

references to PCH and none to the PCA Service Centers that are currently providing accounts payable and account verification services.

During the testing of files, we found that the "Date received" stamp information is missing on most invoices when sent to OSC. This is due to the fact that the "Date received" is stamped on the invoice envelope, and not on the invoice copy itself. We also found that the Section 34 manager approval date was not indicated on most invoices. It is important that the invoices be dated or that the envelopes be attached to the invoices so that the chronological sequence of payments can be traced. The finance officers are responsible for ensuring that all required information is present and that the signatures are authorized prior to making payment. If there are questions, or if there are instances of non-compliance with policies, the manager responsible for the expenditure is contacted and the justifications are appended to the payment records. This practice ensures the legitimacy of the expenditures.

Findings

- In 16 cases or 67% of files reviewed, the invoice was not date-stamped when received by ERVE.
- In six cases or 25% of files reviewed, there was no purchase order or contract agreement attached to the invoice being paid.
- In one case, a purchase card was used to pay $4,146 for the purchase of 14 GPS units. There was no evidence of competitive bid or section 32 pre-approval on file.

Recommendation

  11- The Director General ERVE should reinforce controls to ensure that payment file documentation is strengthened in the following areas:
  - Invoices received date stamp should be indicated on all invoices.
  - Copies of purchase orders, supplier contracts and other required approval documentation (travel) to be included with each supplier payment.

Management Response

Agree. By April 1st, a checklist will be developed to ensure that all necessary documentation is included with each payment and that the invoices are date-stamped when received.

6.7 Contracting

YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.

To confirm whether due diligence is being exercised in the contracting practices and to provide assurance to senior management that financial processes and controls were in place at the

Directorate for the period of audit to mitigate the risk of non-compliance to TBS and PCA policies and practices.

C1-   Guidelines and procedures related contracting practices at the Field Unit/Service Centre exist, and adhere to TB and PCA policies and directives.

C2-   Adequate training/instruction is provided at all level to ensure awareness and understanding of contracting policies and procedures.

C3-   Adherence to contracting policies and procedures is monitored.

C4-   Management reporting related to contracting activities is generated and used in monitoring/supervising contracting activities.

C5-   There is an identified need to enter into the contract

C6-   The appropriate method of contracting is used.

C7-   Contracting is conducted fairly with due regard for economy.

C8-   Nature of work to be performed or good to be delivered is defined in contracts.

C9-   There are terms and conditions in contracts to mitigate risk of non-performance.

C10-   Contracts are approved by individuals with delegated authority.

Practices and Observations

The ERVE Directorate uses the following methods for contracting: standing offers, hiring temporary resources, purchase orders, competitive sourcing and non-competitive sourcing.

We established that ERVE Directorate staff received advice and assistance about contracting from the OSC. With the exception of Temporary Help Services (THS), the current directive requires managers to use the OSC's Contracts Administration and Procurement Officer for all purchases over $5,000. In this way, the risk of non-compliance with the contracting policy will be considerably reduced. The evaluation criteria and terms of reference are developed by the managers with the help of the contracts officer to ensure that there is a consistent and fair contract awarding process for the goods or services required.

Once the firm has been chosen, the contract is signed by the contractor, then by the Manager. Various reports on contracting are available on request from the OSC. Our review of contract files revealed that in many cases, signed copies of original contract was not on file at the OSC in Cornwall. This is due to the fact that copies of signed contracts by managers are not returned to the OSCs contracting officer in a timely manner.

Training and contracting tools, such as Statement of Work, Request for Contract Action service templates, are available to managers to assist them with contracting activities. The F101 and F102 courses also cover the policy on contracting. For more specific questions, the contracts officer provides managers with the information they need verbally.

Senior management expressed their concerned with sole source contracting. Reports are produced on a regular basis and reviewed by managers to track sole source contracts. Managers claim that the major reason for using sole sourcing instead of competitive bidding is lack of time to respond to last minute requests and changing priorities. In order to facilitate and reduce the time lags regarding contracting, the Directorate is planning to put standing offers in place, for a number of key services.

Findings:

- In 50% of contract files tested, justification for sole source contract was not found in file. There is a lack of awareness for the need to provide justification for sole source contracts of all sizes.
- In 37.5% of files reviewed, found file documentation sometimes incomplete. Original signed contract often missing in 20% of cases, as well as SOW, section 32 signature missing.
- In three cases contract type listed as competitive were found to be sole source contracts.
- Evidence of sending bid to three bidders not always on file.

Overall, the contracting process is satisfactory. However, we found that the rationale for awarding sole source contracts needs to be better documented.

Recommendations

12- The Director General ERVE Directorate should ensure that sole source contracts awarded:
- Are supported by the appropriate documentation.
- Are entered in STAR financial system under the proper contract type description.

Management response

Agree. By April 1st, a checklist will be developed and attached to each contract file to ensure that the proper documentation is included in the file. On the checklist, a listing of STAR contract coding will be included to ensure that the entries are properly entered in the system. We are also in the process of creating RFPs to have standing offers in place to eliminate the number of sole source contracts.

13- The Director General ERVE Directorate should ensure that contract file documentation is complete, including evidence of competitive process, copies of the original signed contract and all required signatures.

Management response

Agree. Same as recommendation # 12.

6.8 Use of 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.

To confirm whether due diligence is being exercised in the management of Acquisition Card (A-Card) expenditures and to provide assurance to senior management that financial processes and controls were in place at the Directorate for the period of audit to mitigate the risk of non-compliance to TBS and PCA policies and practices.

C1- A-Card guidelines and procedures at the Directorate exist, and adhere to TB and PCA policies.

C2- Adequate training/instruction is provided at all levels to ensure awareness and understanding of A-Card policies and procedures.

C3- There is a designated A-Card Coordinator; processes for the issuance and cancellation of A-Cards are in place; and a log of issued and cancelled cards is maintained.

C4- A-Card limits and other restrictions are periodically reviewed to ensure reasonableness relative to intended use

C5- Adherence to A-Card policies and procedures is monitored.

C6- Purchases are made only by the cardholder and are within approved transaction and credit card limits.

C7- Expenditures are verified for accuracy and compliance to TB and Agency directives for A-Card use.

C8- There is a monthly reconciliation of purchases to the credit card statement.

C9- There is valid Section 34 Certification by individual other than cardholder.

C10- Processing and payment are made on a timely basis to avoid interest charges.

Observations

There are 16 cards issued at the present time at ERVE. Typically, purchase cards issued to managers have a $5,000 limit, directors and administrative assistant cards have a maximum limit of $15,000 unless a higher credit limit is deemed necessary as determined on the basis of planned use and as approved by the cardholder's manager. Once a card is issued, the credit limits are only analyzed if a user requests an increase in the limit.

The Manager Operational Services is the coordinator for purchase cards. Purchase cards are used to pay for expenditures such as association membership fees, on line registration to conventions, and other expenditures of that nature.

PCA follows TBS policy for the use of purchase cards. The role of the coordinator at the National level and Directorate level is documented. When there are policy changes, reminders about the card use policy are sent out by email.

As per the PCA Card Coordinator role description:

1. The CC manager determines that an employee requires an acquisition card.

2. The manager prepares an application form that is signed by himself and the applicant.

3. The form is sent to the bank by the coordinator.

4. When the new card is received, the coordinator provides information to the new card holder on the use of the card; the applicant and the manager sign an acknowledgement letter that highlights the terms and conditions of the card.

5. The cardholder activates the card before use.

6. The cardholder prepares the "Purchase Register" to reconcile purchase card statements received monthly. Expenditures are listed and coded.

7. Funds are committed under Section 32 of the FAA when card statements are received.

8. The manager with proper signing authority authorizes the expenditures under Section 34 of the FAA

9. The approved Purchase register is sent to OSC Cornwall for payment

The card is given to the new user only after the acknowledgement letter stipulating that the card holder is aware of purchase cards of obligations, Agency policy and procedures has been signed and returned by the cardholder.

The acquisition cards coordinator and administrative assistants perform on the job training with new cardholders on the procedures and controls associated with the use of their card. Training was recently provided to cardholders by the Agency. If an employee is transferred within the Agency to another branch, the coordinator is responsible for updating the account information. When an employee leaves the Agency, a checklist is used by administrative assistants to recover all Agency property, including acquisition cards. Cards recovered from ex employees are cancelled with Master Card.

A list of card holders is available on the bank's web site and can be accessed at all times with the appropriate password. Card use is monitored through the monthly expenditure reporting process, as well as on the banks web site. The coordinator can review expenditure levels and payment history for each card.

Currently, administrative assistants review the purchase register prepared by cardholders to ensure that all supporting documentation is appended to the monthly statement and that it

includes Section 34 FAA authorization. If information such as the financial coding is missing or incorrect, a note is sent to the cardholder to obtain the required information.

Fund for expenditures paid through the purchase cards are committed after the fact, when monthly card statements are received and paid. This practice although appropriate for small recurring type of expenditures creates a risk that certain types of purchases are made without the proper authorization. Commitments should be created based on the type and value of the expenditure rather than the type of payment instrument.

Findings:

- Observed card statement payments made after limit date, however, no interest charges observed on card statements.
- Funds for the purchase of goods and services of all value and types, paid by purchase card are committed after the fact when card statements are processed for payment. In the case of larger expenditures, funds should be committed at time of expenditure approval, prior to purchase of item. The use of purchase cards as a means of payment does not excuse staffs to follow Agency approval policies for various types of expenditures.
- During our review of supplier payments, we found one case, where a purchase card was used to pay $4,146 for the purchase of 14 GPS units. There was no evidence of competitive bidding or Section 32 pre-approval on file.

The controls in place during the payment of acquisition card statements are adequate to ensure that the basic rules of the TBS *Credit Card Purchase Card Policy and Directives* are followed.

Recommendation

14- The Director General ERVE should ensure that guidelines are established; indicating timing of funds commitment, based on monetary limits, frequency and type of purchase. This guideline would be applicable notwithstanding type of payment instrument used.

Management response

Agree. The F&A Manager will immediately provide the administrative assistants with the appropriate policy on limitations of acquisitions by credit cards. The F&A Manager will also ensure that commitments are entered in the STAR system at the time of purchase. The F&A Manager will conduct "spot checks" to ensure compliance.

6.9 Inventory

RED	Unsatisfactory	Controls are not functioning or are nonexistent. Immediate management actions need to be taken to correct the situation.

To provide senior management with assurance that there is compliance with the *Directive on Inventory Management for Items Valued at between $1,000 and $10,000 and Attractive Items valued at less than $1,000*, and that items of $10,000 or more are inventoried and recorded in the systems.

C1-   Items listed in the directive, acquired after April 1, 2007, are recorded in the financial system.

C2-   The separation of duties pertaining to the inventory management process is adequate.

C3-   The physical inventory was taken in the past 24 months.

C4-   Measures are in place to ensure that purchased items are entered in the inventory, regardless of the purchasing mechanism used.

C5-   Acquisitions information is recorded in the Asset Management System.

C6-   Acquisitions are entered in the STAR financial system in a timely manner.

C7-   The physical inventory is taken on a regular basis (vehicle equipment, etc.).

C8-   The separation of duties pertaining to the inventory management process (purchaser, book entries, inventory, disposal, etc.) is adequate.

Observations:

ERVE does not track inventory items. Inventory items are purchased through the procurement process and expenditures are recorded in the appropriate cost centres. However, inventory items are not recorded in the inventory-tracking module available in SAP. This is contrary to the *Directive on Inventory Management for Items Valued at Between $1,000 and $10,000 and Attractive Items Valued at less than $1,000.*

Personal computers purchased are received by the CIO group where they are configured and an inventory number is assigned to each unit prior to remitting the unit to its user.

The Directorate relies on managers to keep track of attractive items; there is no formal process to ensure compliance to the Agency's inventory management directive; and no physical inventory counts are performed.

Recommendation

  15- The Director General of ERVE directorate must put controls in place to ensure that there is compliance with the Directive on Inventory Management for Items Valued at between $1,000 and $10,000 and Attractive Items valued at less than $1,000, and that items of $10,000 or more are inventoried and recorded in the systems.

Management response

Agree. The F&A Manager is in the process of staffing a position, which will be responsible for the entry of the inventory in the STAR system. The entries should be completed by March 31,

2011. In the meantime, a manual registry will be created and each administrative assistant will be responsible for the entry and keeping the log up to date. Each item entered in the registry will be assigned a PCA serial number.