

Audit of Environment
Canada's Financial and
Staffing Activities -
11th Session of the
Conference of the Parties

September 2006

Report Clearance Steps

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List of acronyms used in the report

ADM	Assistant Deputy Minister
AEB	Audit and Evaluation Branch
CoP11	Eleventh Conference of the Parties
DMS	Departmental Management Services
EC	Environment Canada
EMC	Executive Management Council
FAA	Financial Administration Act
GST	Goods and services Tax
HR	Human Resources
K\$	Thousands of dollars
M\$	Millions of dollars
PRB	Procurement Review Board
PWGSC	Public Works and Governmental Services Canada
TBS	Treasury Board Secretariat

Notice to Reader

In order to simplify the reading of this report, we will refer to “**the conference**” to describe the organization and running of the eleventh session of the Conference of the Parties (CoP) to the United Nations Framework Convention on Climate Change and the first meeting of the Parties to the Kyoto Protocol, held in Montreal from November 28 to December 9, 2005.

Prepared by the Audit and Evaluation Branch

Acknowledgments

The Audit and Evaluation Project Team, under the authority of Stephen McClellan, would like to thank those individuals who contributed in various ways to this audit project, particularly:

- all those interviewed who spent time sharing with us their expertise, thoughts and comments, all of which were essential to this audit; and
- all those who helped to provide the documentation required for the sampling.

The project was led by Bruno Pilotte, along with Lise Gravel and Edmund Murphy, under the direction of Jean Leclerc, Director, Internal Audit.

Table of Contents

EXECUTIVE SUMMARY	1
1.0 INTRODUCTION	5
1.1 Background	5
1.2 Objective.....	5
1.3 Scope	5
1.4 Methodology	6
2.0 FINDINGS AND RECOMMENDATIONS	7
2.1 General Findings	7
2.2 Findings with Respect to General Financial Criteria	8
2.3 Specific Financial Criteria	11
2.4 Staffing Process Audit Criteria	13
3.0 CONCLUSION.....	15
Appendix 1: Audit Criteria.....	16
Appendix 2: Summary of Periodic Audits	21
Appendix 3: Number of Times Criteria Could Not Be Checked.....	22
Appendix 4: References	23

EXECUTIVE SUMMARY

The conduct of this audit engagement was approved by the Departmental Audit and Evaluation Committee in its 2005/08 Audit and Evaluation Plan. Senior management requested the Audit and Evaluation Branch (AEB) to carry out an audit of expenditures and staffing actions related to the organization of the eleventh session of the Conference of the Parties (CoP) to the United Nations Framework Convention on Climate Change and the first session of the Parties to the Kyoto Protocol. This event, a first for Canada, was held in Montreal from November 28 to December 9, 2005 and involved over 10,000 participants from 189 parties to the Convention with a total budget of \$90 million. Environment Canada (EC) was responsible for a budget totalling \$54 million.¹

The primary objective of this audit was to assess whether expenditures charged to Environment Canada's budget (EC) and the staffing actions taken in connection with the conference complied with the requirements of the *Financial Administration Act* (FAA), as well as with Treasury Board and EC policies.

The audit included operating expenditures, capital expenditures, transfer payments and staffing actions. It included all expenditures from the start of the project until the end of January 2006. Salaries and wages, management and asset protection were not covered by the audit.

The methodology included a preliminary review of source documents, as well as interviews with management and staff in charge of the conference. In total, 123 transactions representing \$10.5 million in expenditures were selected using two sampling methods. A random sample allowed the audit team to draw conclusions, with a statistical error rate of 10 percent, 9 times out of 10. A judgemental sample provided additional information about higher risk expenditures (hospitality and travel expenses, acquisition card purchases, contribution payments, contracts). Three periodic audits were completed between July and November 2005, in order for senior management to take corrective actions as needed (Appendix 2).

The *Departmental Payments Sampling Policy* sets the minimum acceptable compliance rate at 93%. In view of the nature of this audit, this rate was adopted as a general guide. However, recommendations related to key management controls are made regardless of the compliance rate.

The results for the financial criteria showed an overall compliance rate of 95%. Compliance rate varies from 94,8% to 97% for key controls. Examples of key controls are processes put in place to meet the requirements under Sections 32, 33 and 34 of the FAA. The FAA requires that three authorizations be obtained for each financial transaction:

- section 32: commitment of funds by an authorized official before the good or service is acquired;
- section 34: certification by an authorized official that good or service were received;
- section 33: payment issued by an authorized official.

¹ Actual total expenditures by the department were \$45.3 million.

Other errors were mainly related to the absence of documents or vouchers or to lower risk control processes, such as date stamping, or contributions payments that did not follow the timetable. The errors were not related to the manner in which public funds were utilized or to any systematic breach of key controls.

An analysis of all the transactions was also performed at the end of the audit to identify any contract splitting and double invoicing.

The audit concludes that while the overall compliance rate was satisfactory, compliance with key financial controls requires further improvement. Recommendations to this effect are made below.

With respect to staffing actions, the compliance rate was 90.6 percent. Overall, the audit team found the compliance rate less than satisfactory. Most errors stem from the fact that there was information missing from the employee files, particularly on the security clearance documentation. The Audit and Evaluation Branch asked the Departmental Security office to verify incomplete files. Results indicated that the required security clearance levels were met for all employees. These documentation weaknesses have been identified in a previous audit and require early management attention.

Recommendation 1

In order to improve the level of compliance to the FAA and TBS and EC policies, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch,

- make sure that files under her responsibility are complete and well documented.
- ensure that employees, with delegated authorities for sections 32, 34 and 33 of the FAA, under the Department's *Delegations of Financial Signing Authorities Instrument* have a good understanding of their roles and responsibilities and are properly trained so that all financial transactions are initiated, certified and authorized by the officials empowered to do so.

Management response:

Finance will process payment only when the evidence and justifications for the expenditure initiation (Section 32 of the FAA) and payment certification (Section 34 of the FAA) are on file.

Finance does provide direct training to managers with spending authorities. Additional training on delegation authority will soon be available from the Canada School of Public Service. The training is offered to support the mandatory assessment that will be required on delegation authority before a manager can exercise their delegated powers. Finance will be in a better position to monitor the understanding of managers through this assessment.

Recommendation 2

In order to comply with the requirements of the TBS *Payment on Due Date Policy*, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch review and modify the invoice processing to make sure that invoices are date-stamped when they are received by the Department.

Management response

Procedures will be instituted in the mailroom to ensure all invoices are date stamped.

Recommendation 3

In order to reconcile hospitality expenses paid and hospitality expenses approved ahead of time in the Departmental Hospitality Plan, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch, implement a process ensuring the identification of all invoices related to a specific event in the Plan.

Management response

Finance will report annually on the hospitality expenses including the expenditure initiation approval levels.

Recommendation 4

To ensure that acquisition cards are used only to buy authorized goods and services and that Departmental requirements are met, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch, reminds cardholders to follow proper procedures.

Management response

The Assets Contracting & Environmental Management Directorate will issue a bulletin in the Fall 2006 regarding procurement & contracting procedures including a reminder on the proper use of the Acquisition Card.

Recommendation 5

It is recommended that the Assistant Deputy Minister, Human Resources Branch, ensure that staffing files under her responsibility are complete and well documented.

Management response

The Casual Employment Policy has been amended to include the requirement for managers to provide a written rationale for each casual hire.

In addition, the Staffing Checklist used for all staffing processes has been amended to reflect the requirement of a security certificate on all files regardless of the type of staffing process.

These measures should ensure proper documentation of staffing files. This amended policy and procedure will be presented at DMS/EMC in the fall for approval.

Commencing in this fall HR Branch will be placing significant resources and concentration on developing and implementing performance measurements, service standards and monitoring systems that will require all HR activities including staffing to be reviewed and monitored on a regular basis.

This will include monitoring reports to senior management on the overall performance of the human resources management activities within EC, including specifically the use of casuals, students and secondments and the quality of the processes related to such staffing activities.

In our professional judgement, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the conclusions reached and contained in this report. The conclusions were based on a comparison of the situation against the audit criteria as they existed at the time of the audit.

1.0 INTRODUCTION

1.1 Background

Canada was the host country for the eleventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (CoP 11) and the first meeting of the Parties to the Kyoto Protocol. This event was held in Montreal from November 28 to December 9, 2005.

Approximately 10,000 people attended the conference, as representatives of the 189 parties to the Convention, non-government organizations, intergovernmental organizations and international media.

The complexities of organizing the conference and the number of decisions that had to be made in a very short time increased the risk of urgent and unexpected situations arising. The managers responsible for organizing the conference were faced with a major challenge in view of the following factors:

- management of a significant budget (\$90M; \$54M or 60% of which was EC's responsibility;²
- high public visibility of the event;
- the nature of certain types of expenditures; and
- the limited time available for organizing the conference.

In this context, the Department's senior management asked the Audit and Evaluation Branch to conduct an audit of the expenditures and staffing actions related to the conference. The audit was carried out during the preparatory phase of the conference as well as during the conference itself in order to ensure the timely correction of any control weakness.

1.2 Objective

The primary objective of this audit was to ensure that expenses assigned to the EC budget, and the staffing actions undertaken as part of the conference, were in compliance with the requirements of the Financial Administration Act (FAA), and with Treasury Board (TB) and departmental policies.

1.3 Scope

The scope of the audit included operating and capital expenditures, transfer payments and staffing actions. It covered all expenditures made from the start of the project until the end of January 2006. Salaries and wages, and asset protection were not covered.

² Actual total expenditures by the department were \$45.3 million.

1.4 Methodology

Financial Transactions

The methodology used included the following:

- a preliminary review of the documentation
- interviews with managers and staff responsible for the conference
- review of 67 random samples (\$9.5M); and 56 judgemental samples (\$1M) for a total of 123 transactions
- a comprehensive analysis of transactions
- periodic audits while the project was under way (appendix 2).

The random sampling allowed the audit team to draw conclusions with a statistical error rate of 10%, 9 times out of 10. Judgemental sampling was used to provide additional assurance about the expenditure categories deemed to be of a higher risk, such as hospitality, travel, acquisition card purchases, contribution agreement payments and contracts.

The table below gives an overview of the relative size in numbers and dollars of each category of audited expenditures.

Expenditure category	Number of transactions	Amount (in thousands)
Hospitality	7	217.6
Travel	37	119.9
Acquisition cards	11	24.6
Payments under contribution agreements	15	5,529.9
Contracts	23	3,328.5
Subtotal	93	9,220.5
Other expenditures	30	1,266.1
Total	123	\$10,486.6

An overall analysis of the transactions was carried out to identify any possible case of contract splitting³ and double invoicing.

Three periodic audits were conducted before and during the conference to provide assurance to senior management with respect to compliance with statutes, policies and regulations and to allow for corrective measures to be implemented, where appropriate (appendix 2).

³ **Contract splitting** - the practice of unnecessarily dividing an aggregate requirement into a number of smaller contracts, thereby avoiding controls on the duration of assignments or contract approval authorities.

Staffing Actions

The methodology included the following:

- a preliminary review of the documentation
- an interview with the official responsible for staffing actions
- a review of the 173 files available for this audit.

The audit criteria used to evaluate the financial transactions and staffing actions are shown in Appendix 1.

This report takes into account the modifications proposed by the Departmental Audit and Evaluation Committee and new evidences provided by management since its presentation to the Committee.

2.0 FINDINGS AND RECOMMENDATIONS

The findings are described in four different sections. The first section presents a general conclusion on the compliance rate of the financial transactions and the nature of errors. The second section covers the financial criteria that were applied to all transactions, particularly the criteria related to the application of the FAA. The third section relates to specific criteria applicable to categories of expenditures deemed to be of a higher risk (contracts, contributions, etc.). The last section relates to the staffing actions.

2.1 General Findings

The financial transactions review showed an overall compliance rate of 95% (1,947 times out of 2,050 possibilities), which is higher than the rate of 93% set out in the *Departmental Payment Sampling Policy*. Compliance rate for key controls varies from 94,8% to 97%.

The errors were related to the application of financial controls and not to the manner in which public funds were used. These errors indicated weaknesses in terms of processes under sections 32, 33 and 34 of the FAA, and of available documentation in the audited files. A more rigorous application of the FAA and policies and procedures is in order.

The audit criteria could not be verified 126 times because information was missing from the files. More effort is required to ensure that files are complete. Details can be found in Appendix 3.

Previous audits identified similar issues and appropriate recommendations were made at the time:

- Audit and Evaluation of Class Contributions in Support of Environmental & Sustainable Development Projects (2001)
- Audit of Contracting (2002)
- Audit of Grants and Contributions Classes 301, 302, 304 & 305 (2003)
- Audit of Acquisition Card Transactions (2004)
- Audit of Accounts Payable (2004)
- Audit of Accounts Payable – National Capital Region (2005)
- Audit of Casual and Student Hiring Practices (2005)

Therefore, Audit and Evaluation Branch will continue to monitor the implementation of these recommendations. Furthermore, audits on financial delegation, hospitality fees and travels expenditures are part of the 2006-2007 departmental audit plan.

2.2 Findings with Respect to General Financial Criteria

The Expenditure Initiation Process – Including Section 32 of the FAA

Compliance with the FAA process for expenditure initiation allows the Department to ensure that the total expenses for an activity do not exceed approved budget. Each transaction must be initiated by an official with appropriate authority under the Department's *Delegations of Financial Signing Authorities Instrument*.

The analysis of criteria related to key controls shows a compliance rate of 94,8%. The errors are related to:

- the absence or lack of evidence of signature under section 32 of the FAA; and
- the absence of authority under section 32 of the FAA (wrong cost centre, expenditure period or category).

The compliance rate for criteria related to other controls is 85.8%. The errors are related to:

- signature after the fact;
- the absence of a purchase order or contract; or a purchase order showing an insufficient amount;
- expenditures that should have been charged to another budget than the conference one; and
- the lack of justification for initiating transactions.

The financial reports indicated that the budget was not exceeded. That said, and in spite of a compliance rate for key controls above the guideline adopted for this audit, the Department should be able to meet the requirements of section 32 of the FAA in all financial transactions. The application of section 32 of the FAA is critical and the compliance rate could be increased by paying more attention to the authorization process. A recommendation to this effect is presented further in this section. With respect to other controls, most of the errors are related to missing documentation and a recommendation to this effect is also made in this section.

Certification That Services Were Rendered or Goods Received – Section 34 of the FAA

The processes and controls under section 34 ensure that the Department has actually received the goods and services ordered under the terms and conditions initially agreed to with the supplier (quantity, price, condition, terms and conditions of contribution agreements and contracts, etc.). They also ensure that the expenditures comply with the policies of TBS and EC (hospitality, travel, transfer payments, etc.). The certification must be made by an official who has the proper authority under the Department's *Delegation of Financial Signing Authorities Instrument*. An official cannot sign under section 34 for an expense from which he or she benefited personally, or if he or she also signed for the same expenditure under section 33.

The analysis of criteria related only to key controls shows a compliance of 97%. The errors are related to:

- the absence or lack of evidence of signature under section 34; and
- the signature under section 34 by an unauthorized official (cost centre, expenditure period or nature)

The compliance rate for criteria related to other controls is 69.4%. Most of the errors were related to the absence of a stamped date on the invoice, making it impossible to determine with any certainty whether interest had to be paid and, if so, the exact amount. According to TBS *Payment on Due Date Policy*, the Department must pay its suppliers within 30 days of receipt of the invoice and the delivery of goods or services. If the payment is not made within this period, interest must be paid to the suppliers

The risk to the Department of paying for goods or services that were not received or did not meet the terms and conditions initially agreed upon with the suppliers was low. However, the Department should apply more rigorously section 34 of the FAA. A recommendation to this effect is presented further in this section.

Payment Process – Section 33 of the FAA

This section deals with the processes and controls to ensure that expenditures are made in accordance with section 33 of the FAA. Payments must be made for the correct amount, to the right supplier, and charged to the right budget. Processes and controls also verify that section 34 of the FAA is functioning properly. Each invoice payment must be authorized by a financial officer who has appropriate authority under the Department's *Delegations of Financial Signing Authorities Instrument*. An official cannot sign under section 33 if he or she has also signed for the same expenditure under section 34.

The analysis of criteria related to key controls shows a compliance rate lower than 94.8%. The errors are related to:

- the absence or the lack of evidence of a signature under section 33; and
- the absence of vouchers (invoices, contracts, requisitions, etc.).

The compliance rate for criteria related to other controls is 97.7%. The errors are related to:

- errors in financial coding;
- failure to consider taxes in making payment;
- errors in converting a payment to foreign currency;
- reimbursement of travel expenses not previously authorized; and
- transfer payment made without an adjustment to consider the surplus declared by the recipient in the previous period.

The compliance rate with the requirements of section 33 is higher than the guideline rate adopted for the audit, 93%. Moreover, this audit did not identify any incorrect payments. Nonetheless, given the importance of these controls, there is still a risk that the Department issued incorrect payments.

Recommendation 1

In order to improve the level of compliance to the FAA and TBS and EC policies, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch,

- make sure that files under her responsibility are complete and well documented.
- ensure that employees, with delegated authorities for sections 32, 34 and 33 of the FAA, under the Department's *Delegations of Financial Signing Authorities Instrument* have a good understanding of their roles and responsibilities and are properly trained so that all financial transactions are initiated, certified and authorized by the officials empowered to do so.

Management response

Finance will process payment only when the evidence and justifications for the expenditure initiation (Section 32 of the FAA) and payment certification (Section 34 of the FAA) are on file.

Finance does provide direct training to managers with spending authorities. Additional training on delegation authority will soon be available from the Canada School of Public Service. The training is offered to support the mandatory assessment that will be required on delegation authority before a manager can exercise their delegated powers. Finance will be in a better position to monitor the understanding of managers through this assessment.

Recommendation 2

In order to comply with the requirements of the TBS *Payment on Due Date Policy*, it is recommended that the Assistant Deputy Minister, Finance and Corporate Branch review and modify the invoice processing to make sure that invoices are date-stamped when they are received by the Department.

Management response

Procedures will be instituted in the mailroom to ensure all invoices are date stamped.

Timeline

The timeline must be respected from the beginning to the end of the purchasing process, starting with the requisition for goods or services and including the drawing-up and signing of any contract, commitment of funds, billing, acknowledgment of receipt of goods or services, and authorization and payment requests.

The compliance rate is 99.7%. The errors were twofold: the payment of an invoice dated before the contract date and interest that should have been paid but was not.

Despite a high compliance rate, the current controls should have prevented these occurrences. These errors should have been detected at the time of the acknowledgment of receipt for goods or services (section 34) or of the authorization to issue payment (section 33).

2.3 Specific Financial Criteria

In this section, the compliance rate cannot be assessed as the study was conducted on a subset of the random sample. Consequently, it was not possible to calculate a statistically representative and valid rate for all the transactions. However, the audit team identified the weaknesses in key controls and made appropriate recommendations. Of all the 123 audited transactions, 93 were assessed against specific audit criteria.

2.3.1 Hospitality

The audit criteria for hospitality were designed to assess the degree of compliance with the following policies and procedures:

- TBS *Hospitality Policy*;
- EC *Procedures for the Departmental Hospitality Plan*; and
- EC *Procedures for hospitality authorization requests not included in EC departmental plan*.

All hospitality expenses seemed related to the needs of the conference. Further, while the total budget for hospitality was not exceeded, it was not possible, in many cases, to link invoices to a specific event approved ahead of time in the Departmental Hospitality Plan. The audit also revealed errors related to:

Key Management Controls

- authorization after the fact (2 cases)
- exceeding the initially authorized amount by more than 10% without receiving further approval (2 cases).

Other Control

- lack of information about the number of guests and government officials attending the conference (1 case).

All hospitality expenses should be approved ahead of time to provide assurance to senior management that they are justified. The existing rules are adequate; however, they need to be applied in a stricter manner.

Recommendation 3

In order to reconcile hospitality expenses paid and hospitality expenses approved ahead of time in the Departmental Hospitality Plan, it is recommended that the ADM, Finance and Corporate Branch, implement a process ensuring the identification of all invoices related to a specific event in the Plan.

Management response

Finance will report annually on the hospitality expenses including the expenditure initiation approval levels.

Hospitality expenses will be audited in 2006-2007.

Travel Expenses

The audit criteria for travel expenses were designed to assess the degree of compliance to TBS *Travel Directives* and EC *Travel Policy and Procedures*.

The audit identified 16 errors stemming mainly from the absence of justification for the choice of hotels or the use of business class air travel. Managers may authorize employees to make these choices; however, such decisions must be justified. Even though the audit revealed no inappropriate transactions, these decisions need to be substantiated (See recommendation #1 above on documentation).

2.3.2 Acquisition Card Expenditures

The audit criteria for acquisition cards were designed to assess the degree of compliance to EC *National Directive on Acquisition Cards*.

The errors were:

- a purchase of items where a different procurement procedure should have been used; and
- one case where the acquisition card was used by someone other than the cardholder.

The types of errors identified are not considered a high risk for the Department.

Recommendation 4

To ensure that acquisition cards are used only to buy authorized goods and services and that Departmental requirements are met, it is recommended that the ADM, Finance and Corporate Branch, remind cardholders to follow proper procedures.

Management response:

The Assets Contracting & Environmental Management Directorate will issue a bulletin in the Fall 2006 regarding procurement & contracting procedures including a reminder on the proper use of the Acquisition Card.

2.3.3 Contribution Agreements

The audit criteria for contributions were designed to assess the degree of compliance to TBS *Policy on Transfer Payments*.

The audit team did not find any cases where payments exceeded the contribution agreement. The audit did reveal the following control errors:

- a payment of administrative expenses invoiced by a recipient and which are not covered by the contribution agreement;
- a payment of an advance that exceeded the limit under the TBS transfer payments policy;
- a payment of an advance that exceeds the recipient's cash flow needs for the period in question according to the cash flow statement ; and
- a payment made after the date provided for in the agreement.

While the few errors are essentially related to the payment schedule, they represent a risk to the Department because the amounts paid in contribution agreements are usually high. The Department needs to apply strictly the conditions of the contribution agreements and the TBS policy. Even if the limit of all contribution agreements for the Conference was respected, the Department was still at risk of paying more than the total amount of the agreement and, therefore, exceeding the budget allocated to the program.

Finance and Corporate Branch has committed to developing a new grants and contributions management framework. Audit and Evaluation Branch will continue to monitor progress.

2.3.4 Contracts

The audit criteria for contracts were designed to assess the degree of compliance to TBS *Contracts Policy*.

The errors were the lack of information on file (2 cases) and the absence of an intellectual property clause (1 case).

The errors identified do not represent a real issue for the Department. However, it is appropriate to reiterate the need for the Department to ensure that its contract records are complete and accurate.

It should be noted that in view of the short period of time available to organize the conference, the requirement for the review of contracts by the Departmental Procurement Review Board (PRB) was waived. The role of PRB is to ensure compliance with all procedures related to the award of contracts.

2.3.5 Double Billing and Contract Splitting

An overall analysis of the expenditures committed for the conference was carried out. It included all expenditures, and not only the 123 transactions used for the purpose of this audit.

The goal of this analysis was to identify instances of double billing or contract splitting. The overall analysis of the invoices did not identify any cases of double billing or contract splitting.

The overall analysis of contracts indicated that the limit of \$25K included in TBS Contracting Policy was exceeded in two cases (\$26K and \$27K). These errors were related to service contracts. There was no indication in the files that a competitive process was followed as required by the Policy.

2.4 Staffing Process Audit Criteria

A total of 173 staffing files were audited. The staffing action criteria were met 808 times out of 892 possibilities, which represent a compliance rate of 90.6%. The errors were the lack of evidence on file confirming that the applicant met security and language requirements, and the absence of other supporting documentation.

The staffing files sampled were given to the auditors only when they were considered complete and final by Human Resources, and not during the staffing process. The audit of the

staffing files therefore began a few weeks after the financial transaction audit. Under these circumstances, a compliance rate of 90.6% is low.

Of the 84 errors found, 38 (45% of cases) were related to cases where employees were assigned to the conference without proper documentation on file to substantiate their security clearance. The Audit and Evaluation Branch asked the Departmental Security office to verify incomplete files. Results indicated that the required security clearance levels were met for all employees. These weaknesses in documentation on file have been identified in a previous audit and require early management attention.

Recommendation 5

It is recommended that the ADM, Human Resources Branch, ensure that files under her responsibility are complete and well documented.

Management response

The Casual Employment Policy has been amended to include the requirement for managers to provide a written rationale for each casual hire.

In addition, the Staffing Checklist used for all staffing processes has been amended to reflect the requirement of a security certificate on all files regardless of the type of staffing process.

These measures should ensure proper documentation of staffing files. This amended policy and procedure will be presented at DMS/EMC in the fall for approval.

Commencing in this fall HR Branch will be placing significant resources and concentration on developing and implementing performance measurements, service standards and monitoring systems that will require all HR activities including staffing to be reviewed and monitored on a regular basis.

This will include monitoring reports to senior management on the overall performance of the human resources management activities within EC, including specifically the use of casuals, students and secondments and the quality of the processes related to such staffing activities.

A previous audit of casual employees and students hiring practices had recommended improving the staffing file documentation. Audit and Evaluation Branch will continue to monitor the implementation of this recommendation.

3.0 CONCLUSION

The main objective of this audit was to ensure that expenditures charged to the EC budget and the staffing actions undertaken for the conference were in compliance with the FAA, and with TBS and EC policies.

The audit criteria for financial transactions were met 1,947 times out of 2,050 possibilities, which represent a compliance rate of 95%. While the compliance rate is above the guideline of 93% adopted for this audit, the Department should increase its compliance rate with respect to key management controls related to the FAA. Overall, the audit team considers that the management of the conference satisfactorily met the financial requirements of FAA and other policies. That said, the errors are similar to those noted in previous audits and therefore require early action by management to rectify.

The audit criteria for staffing actions were met 808 times out of 892 possibilities, which represent a compliance rate of 90.6%. Most errors stem from the fact that there was information missing from the employee files. This is an unsatisfactory performance particularly in view of the fact that similar weaknesses were identified in previous audits. Again, management needs to take early corrective action.

In our professional judgement, sufficient and appropriate audit procedures have been conducted and sufficient evidence gathered to support the conclusions contained in this report. The conclusions were based on a comparison of the situations against the audit criteria as they existed at the time of the audit.

Appendix 1: Audit Criteria

A – General audit criteria related to financial transactions

EXPENDITURE INITIATION PROCESS (INCLUDING SECTION 32 OF THE FAA)
<ul style="list-style-type: none"> • Given the nature and the amount of the transaction, was approval to initiate it given by the proper authority? • Was the transaction entered into the financial system to commit the funds? • Was the transaction initiated in connection with Project CoP11? • Are the needs that give rise to the transaction clearly identified?
CERTIFICATION THAT SERVICES WERE RENDERED OR GOODS RECEIVED (SECTION 34 OF THE FAA)
<ul style="list-style-type: none"> • Has a delegated authority declared that goods have been supplied, services have been rendered, or work has been performed, and that the price and the proposed schedule of payments are in accordance with the contract? • Was the invoice date-stamped when it was received by the Department? • Was the invoice forwarded to the paying agent before the due date? • Is the claimant eligible for payment? (34.1b)
PAYMENT AUTHORIZATION (SECTION 33 OF THE FAA)
<ul style="list-style-type: none"> • Was the payment request signed by a paying agent with the appropriate delegated authority? • Should the payment be removed from the process of statistical sampling, and be subject to a full audit? Has this been done? • Were all the necessary supporting documents attached? • Does this payment have two different signing authorities, one for each of Sections 33 and 34 of the FAA? • Was the payment adequately coded to reflect the type of goods supplied or service rendered, and to match the information on the invoice or in the contract? • When the payment was entered, was the GST included? • When the payment was entered, were amounts in foreign currency taken into account? • When the payment was entered, were ineligible services excluded (e.g.: legal services, film, video, advertising, etc.)? • When the payment was entered, were ineligible elements excluded (e.g.: interest charges on Grants and Contributions)? • When the payment was entered, was consideration given to the full value vis-à-vis partial payment? Ex. Contribution paid in full (final payment) • When the payment was entered, was double accounting ruled out? • If the purchase is an attractive item or listed as a capital item, has it been recorded in the appropriate inventory system?

TIMELINE
<ul style="list-style-type: none"> • Was the invoice received after the date of the purchase order? • Was the signature required under Section 33 obtained after the signature required under Section 34? • Were the goods or services paid for after receipt of the invoice? • Were interest payments avoided? (Policy on due date) • Is the date on the invoice later than the date on the contract or purchase order? • In the case of a Local Purchase Order Authority, was the limit of \$5 000 (including GST) respected?

B - Specific Financial Criteria for High Risk Transactions

HOSPITALITY
<ul style="list-style-type: none"> • Is the name of the responsible branch or service noted in the file? • Are the goal and the circumstance of the activity noted in the file? • Is the nature of the activity, including the number of meals served, noted in the file? • Are the estimated costs of the activity noted in the file? • Is the location of the activity noted in the file? • Is the number of participants (officials and guests) noted in the file? • Is the hospitality request following the procedures for Minister, DM or other levels of approvals? (Hospitality plan or request for approval of hosp not included in the plan) • If the hospitality activity took place without the necessary approval, was the request retained by the FPSAB (Financial Policy, Systems & Acc. Branch) including comments and rationale from the branches or services involved, for submission to the Deputy Minister or Minister? • Is the actual cost below the initial estimate by less than 10%
TRAVEL EXPENSES
<ul style="list-style-type: none"> • Does the travel claim clearly indicate the name and address of the claimant? • If supporting documents are missing, has a personal statement been completed in the Travel Expert System as a substitute? • Was the use of business class justified? • Is the hotel listed in the TBS accommodation directory, if not, is justification on file? • Does the expense claim reflect the permitted rates for meals, kilometre, incidentals, taxis etc., as indicated in the TBS travel policy? • If an advance was issued for this trip, was it factored into the reimbursement of the expenses claimed?
PURCHASES ON CREDIT CARDS
<ul style="list-style-type: none"> • Is the purchase NOT on the list of restrictions as set out in EC's national policy on acquisition cards? • Is the purchase within the limit of \$9 999 per transaction? • Was the purchase made by the cardholder?

CONTRIBUTION AGREEMENTS

- Does the title of the claimant appear in the contribution agreement?
- Does the reason for the contribution appear in the contribution agreement?
- Do the anticipated outcomes appear in the contribution agreement?
- Does the effective date appear in the contribution agreement?
- Does the date of the signature appear in the contribution agreement?
- Does the duration of the agreement appear in the contribution agreement?
- Do the financial and non-financial conditions of the contribution appear in the contribution agreement?
- Do the consequences of not observing these conditions appear in the contribution agreement?
- Does the list of approved costs or the categories of allowable expenses appear in the contribution agreement?
- Do the terms of payment, or a payment schedule, appear in the contribution agreement?
- Does the maximum amount payable appear in the contribution agreement?
- Was a clause allowing the department to withdraw from the agreement if the initial goals are not met included in the contribution agreement?
- Are measures to recover payments if the claimant does not meet the terms of the agreement included in the contribution agreement?
- Does a statement of all amounts due to the Federal Government appear in the contribution agreement?
- Is the disposal of assets from the contribution included in the contribution agreement?
- Is a method of reimbursing overpayments, unexpended amounts and unapproved expenses (debts due to the Crown) included in the contribution agreement?
- For a contribution exceeding \$100 000, has the claimant provided a statement of proposed financing for the project?
- Is the contribution agreement based on the program conditions as approved by the Treasury Board?
- Has the claimant abided by the conditions of the contribution agreement?
- Did the claimant provide a status report when the claim was submitted?
- In the case of an advance payment, were the provisions of Schedule B (ii) of the Policy on Transfer Payments observed?
- Are the sum remaining after the payment at the end of the agreement, or disallowed disbursements, designated as receivables or recoverable?
- Was the reimbursement of an overpayment considered a credit to which the payment had been made?

CONTRACTS

- Is a complete and detailed Statement of Work included in the file?
- Are clear and concise payment methods noted in the file?
- Is a clearly-defined list of goods to be supplied included in the file?

- Are clear delivery dates noted in the file?
- Is a signed proposal included in the file?
- Are professional fees, travel expenses, and all administrative expenses related to the total value of the transaction included in the contract? These must be detailed, and show the total value without GST.
- Are intellectual property and security level dealt with in the contract?
- Is the contractor's company name mentioned in the contract?
- Is the contractor's full address mentioned in the contract?
- Is the GST number, the business number, or the SIN and ownership status of the contractor mentioned in the contract?
- Is the Employee-Employer relationship avoided? Use of items belonging to EC, such as office equipment (cell phone, computer), e-mail account or network access, ID card, parking spot, credit or travel card
- Does the contract need the approval of the Procurement Review Board? If so, does the file show evidence that this approval has been obtained?
- Is the supplier a former employee? If so, were all the applicable rules and regulations followed?
- If the contract was modified, is the necessary rationale attached?
- Where a call for proposals is made to one supplier only, is rationale attached? (sole source)
- If the contract involves the purchase of a "good" AND if the amount exceeds \$25K (including GST), was the PWGSC approached (competitive process)
- If the contract involves the purchase of a "service" over \$100 000 (GST included), was the PWGSC approached (competitive process)?
- Is there evidence in the file that seems to indicate that applicable agreements were appropriately observed? (Each International agreement has a limit verify list - does contract exceed limit) If so, was an analysis conducted.

C – Audit Criteria related to Staffing Actions

GENERAL CRITERIA
<ul style="list-style-type: none"> • At the time of hiring, did the employee meet security, language and educational requirements, etc.? • Was the staffing action approved by the appropriate delegated authority? (financial authority) • Is there a letter of offer on file and does it include the following: job title, salary scale, start and end dates? • Was the letter of offer signed by the appropriate delegated authority? (HR authority)
CASUAL
<ul style="list-style-type: none"> • In the case of a casual employee, does the number of days worked by the employee in the Department in a 12-month period meet the requirements of the policy on casual employment? (<90 days / contract and <125 working days / period of 12 months)
ACTING
<ul style="list-style-type: none"> • In the case of a temporary appointment lasting longer than four months, was the right of appeal given?

ASSIGNMENT AND SECONDMENT
<ul style="list-style-type: none">• In the case of an assignment or a secondment agreement, does the file contain an agreement between the two managers or departments, as the case may be?• In the case of a assignment or a secondment agreement, was an appropriate reimbursement made to the other department as stipulated in the agreement?
STUDENTS
<ul style="list-style-type: none">• Was preference given to a Canadian Citizen? If not, is a rationale has been provided?• Is the student part of an accredited Co-op/Internship program? (Does the student meet the requirements of a "student" as per TB Student employment policy)?• Is there sufficient information on file to demonstrate the process used to determine the winning candidate? (fairness and equity in hiring process)
DEPLOYMENT
<ul style="list-style-type: none">• In the case of an exchange between two groups, does the file indicate any analysis to show that the two positions are equivalent?• In the case of a change from one term position to another, is the term of the new position equal to or shorter than the term of the original position?• In the case of a deployment, was the right of appeal given?

Appendix 2: Summary of Periodic Audits

Three periodic audits were conducted during the organization and holding of the conference. The detailed results of these periodic audits were passed on to the conference managers to ensure that appropriate action be taken. The following table summarizes these results.

Periodic audit	Period covered
1	From early to mid September
2	13 September to 22 October
3	23 October to 11 November

Errors identified	<ul style="list-style-type: none">• procedures to follow under Sections 32, 33 and 34 of the FAA• lack of documents or substantiation• dates not stamped• advances of contributions that do not follow the timetable• integrity of staffing files.
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Appendix 3: Number of Times Criteria Could Not Be Checked

Category of criteria	Number of times / (% of cases)
General	
Initiating expenditure	3 (0.6%)
Legitimacy of payment	16 (1.4%)
Acknowledging receipt of goods and services	31 (6.3%)
Timeline	34 (5.5%)
Specific	
Hospitality	8 (11.4%) ⁴
Travel	6 (3.2%)
Acquisition card purchases	3 (9.1%)
Payments under contribution agreements	6 (1.9%)
Contracts	19 (4.6%)
Total for financial transactions	126 (3.4%)
Total for staffing actions	34 (3.8%)

The information showed in this table is based on all the 123 audited transactions; Including the 56 selected base on the auditor's judgement.

⁴ In seven situations, audit criteria on hospitality could not be checked because it was impossible to associate the invoice to a specific event in the Departmental Hospitality Plan.

Appendix 4: References

FINANCIAL TRANSACTIONS

Section 32, 33 and 34 of the *Financial Administration Act*

- *Financial Administration Act*
- EC's Delegation of Financial Signing Authorities and Designation Order Instrument
- EC's Statistical Payment Sampling Policy

Acquisition Cards

- TBS Policy on Acquisition Cards
- EC's National Directive on Acquisition Cards

Travel Expenditures

- EC's Policy and Procedures on Travels
- TBS Travel Directive
- TBS Taxis Policy
- TBS Policy on Using Travellers Cheques, Travel Cards and Travel Accounts
- TBS Special Travel Authorities
- TBS 2005 Accommodation and Car Rental Directory

Hospitality

- TBS Hospitality Policy
- EC's Procedures for the Departmental Hospitality Plan
- EC's Procedures for Request for Approval of Hospitality Not Included in the Departmental Plan
- EC's Departmental hospitality Plan for Minister and Deputy Minister's Approval (from October to December 2005 and from January to March 2006)

Contributions

- TBS Policy on Transfer Payments
- EC's Managers Guide on Grants and Contributions

Contracts

- TBS Contracting Policy
- EC's Low Dollar Value Procurement of Goods Policy
- EC's Procurement Review Board Policy

Other references

- EC's 2005-2006 Financial Coding Manual

STAFFING ACTIONS

- TBS Deployment Policy
 - EC's Deployment Policy
 - TBS Terms and conditions of Employment Policy
 - TBS Terms and conditions of Employment for Students Policy
 - TBS Term Employment Policy
 - TBS Acting assignment Policy
 - EC's Casual Employment Policy
 - Public Service Commission's Staffing Toolkit for Managers Guide
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