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Audit of Capital Experience Assets

Office of the Chief Audit Executive

April 2016





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List of Acronyms

CCPOD	Capital Celebrations and Program Operations Directorate
CE	Capital Experience
NCC	National Capital Commission
NCR	National Capital Region
PCH	Department of Canadian Heritage
PM	Plant Maintenance module
RLP	Rent and Loan Program
RPP	Report on Plans and Priorities
STAR	Department's Integrated Financial and Materiel System

Executive Summary

On September 30, 2013, specific duties and functions of the National Capital Commission (NCC) were transferred to the Department of Canadian Heritage (PCH) as a result of Budget 2013 and subsequent amendments to the *National Capital Act* and the *Department of Canadian Heritage Act*. Accordingly, a number of the activities that were part of the NCC's Capital Experience (CE) Program were transferred to the Department of Canadian Heritage (PCH), specifically the mandate for organizing, sponsoring and promoting public activities and events in the National Capital Region (NCR), as well as for coordinating the policies and programs of government departments respecting such activities and events.

In October 2013, assets and liabilities related to the CE were transferred to PCH from the NCC to the Capital Experience Branch. This branch was later merged into the Major Events, Commemorations and Capital Experience Branch under the Sport, Major Events and Commemoration Sector. Included with the transfer of Capital Experience Program in 2013-14 were a series of assets with an initial book value of \$4,698,000. The Major Events, Commemorations and Capital Experience Branch delivers more than 20 initiatives, programs and public activities in the NCR each year, and has approximately 60 employees.

Delivery of Capital Experience is now through Capital Interpretation and Commemoration Directorate and the Capital Celebrations and Program Operations Directorate (CCPOD). CCPOD provides production services, information technology, and communications equipment that are mainly used in the course of the Capital Experience events and activities (e.g. Sound and Light Show, Christmas Lights across Canada – Illumination of Confederation Boulevard). Also, CCPOD provides overall management of inventory for festival equipment and hardware that can be rented through its Rent and Loan Program (RLP). The assets can be rented by not-for-profit associations and government agencies for the festivals or events being held within the NCR.

The objective of this audit was to provide assurance that a management control framework related to Capital Celebrations and Program Operations Directorate assets is appropriate and in compliance with relevant policies. The scope of this audit included CCPOD processes and practices covering fiscal years 2014-2015 to the substantial completion of the audit work in January 2016.

Audit Opinion and Conclusion

Based on the audit findings, our opinion is that the CCPOD's assets management operations have effective governance in place to support effective management controls and practices. Access and inventory controls are in place and operating to secure assets. Improvements should be made to ensure communication and compliance to relevant policies.

Statement of Conformance

In my professional judgment as Chief Audit Executive, this audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program. Sufficient and appropriate audit procedures were conducted, and evidence gathered, to support the accuracy of the findings and conclusion in this report. The findings and conclusion are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management and are only applicable to the entity examined and for the scope and time period covered by the audit.

Original signed by

Natalie M. Lalonde

Chief Audit Executive
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1. Background

The authority for this audit is derived from the Department's *Risk-Based Audit Plan* for 2015-2016 to 2017-2018 as approved by the Deputy Minister in June 2015.

On September 30, 2013, specific duties and functions of the National Capital Commission (NCC) were transferred to the Department of Canadian Heritage (PCH) as a result of Budget 2013 and subsequent amendments to the *National Capital Act* and the *Department of Canadian Heritage Act*. Accordingly, a number of the activities that were part of the NCC's Capital Experience (CE) Program were transferred to the PCH, specifically the mandate for organizing, sponsoring and promoting public activities and events in the National Capital Region (NCR), as well as for coordinating the policies and programs of government departments respecting such activities and events.

In October 2013, assets and liabilities related to the CE were transferred from the NCC to PCH's Capital Experience Branch which is now within the Major Events, Commemorations and Capital Experience Branch under the Sport, Major Events and Commemoration Sector. The transfer included assets with an initial book value of \$4,698,000.

Capital Celebrations and Program Operations Directorate (CCPOD) objectives are to:

- Improve awareness of the NCR as a place where people can experience Canadian heritage, culture, and achievements;
- Promoting the NCR among Canadians throughout the country;
- Organizing and producing major events (e.g., Canada Day and Winterlude), and
- Building a sense of pride in Canadians through the programs and other services PCH provides in the NCR.

CCPOD assets consists mostly of production services, information technology, and communications equipment that are used in the course of the Program events and activities (e.g., Sound and Light Show, Christmas Lights across Canada – Illumination of Confederation Boulevard). Also, CCPOD provides overall management of inventory for festival equipment and hardware that can be rented through its Rent and Loan Program (RLP). The assets can be rented to not-for-profit associations and government agencies for the festivals or events being held within the NCR.

At the time of the transfer, a Memorandum of Understanding was signed with the NCC that outlined the collaborative relationship regarding the rent and loan of equipment requests for festivals and events, the safeguarding and maintenance of assets, and the availability of NCC sites. The NCC also provides accommodation to PCH's CE Production Services at 80-84 Bayview (e.g., warehouse, office space, training room, etc.) for storage and program administration purposes.

2. Objective and scope

The objective of this audit is to provide assurance that a management control framework related to Capital Celebrations and Program Operations Directorate (CCPOD) assets is appropriate and in compliance with relevant policies. The scope of this audit included CCPOD processes and practices covering fiscal years 2014-2015 to the substantial completion of the audit work in January 2016.

3. Approach and Methodology

The audit methodology included, but was not limited to:

- assessment of the organization's relevant documentation, guidelines and procedures, Terms and Conditions, policy and legislation;
- collection of data through interviews and observations with the organization's personnel to examine processes, procedures and practices;
- walkthroughs of key controls and processes including process mapping/flowcharting exercise to assess the organization structure, processes and accountability obligations;
- analysis and testing of samples of CCPOD files;
- analysis of financial and non-financial information.

4. Findings and Recommendations

This section presents detailed findings and related recommendations for the audit. The findings are based on a combination of the evidence gathered through the audit methodology for each audit criterion. Appendix A provides a summary of all findings and conclusions for each criterion assessed. Findings of lesser materiality, risk or impact have been communicated with the auditee either verbally or in a management letter.

4.1 Governance

Capital Celebrations and Program Operations Directorate Directions, Objectives and Mandate

Capital Celebrations and Program Operations Directorate directions, objectives and mandate are clearly defined, communicated and aligned with PCH's mandate, strategic objectives and priorities.

The objective of CCPOD is to foster pride amongst Canadians towards their Capital, while increasing their overall awareness of the Canada's Capital Region as a destination where people can experience Canada's heritage, culture and achievements. To meet its objectives, the Directorate delivers the Capital Experience Program that organizes events, such as Canada Day celebrations in Canada's Capital Region, Winterlude and Christmas Lights across Canada. In addition, CE has festival

equipment that can be rented to not-for-profit associations and government agencies within Ottawa, Gatineau and the region. The audit team expected to find that CCPOD, including the RPL objectives and mandate were clearly defined and communicated to employees and management and that there was alignment with PCH's mandate and strategic objectives.

Through interviews and document review, the audit team found that CCPOD directions, objectives and mandate are clearly defined at the Branch level. The Branch mandate and objectives are articulated and linked to the Department's mandate and priorities. In addition, the team found that employees and management understood the objectives and mandate of the Directorate. This information is available on the intranet and in key corporate documents.

Performance Measurement and Reporting

There are formal performance measures in place and reporting is provided to senior management on the results of Capital Celebrations and Program Operations Directorate activities.

Best practices incorporate reporting on asset management activities into their regular management reporting to reinforce the importance of asset management practices, due diligence, and allows management to readily identify and respond to areas of priority to optimize the allocation of its resources.

Through the review of key corporate documents, the audit team observed performance information related to Capital Experience Program; specifically, established and communicated expected results, performance indicators, targets and actual results. The team found that at the operational level, there was an understanding of the need to have assets available in assisting the delivery of planned events to meet CCPOD performance objectives.

The audit team found that expected results, performance indicators, targets and actual results are effectively monitored and reported. Formal, regular, and consolidated reporting on activities and performance enables management to monitor and respond to emerging and systemic issues in a proactive manner.

4.2 Risk Management

Compliance with the Policy on Management and Use of Assets

Capital Celebrations and Program Operations Directorate is not fully compliant with relevant asset management policies and directives.

The PCH *Directive for the Management of Moveable Assets* is the principal instrument applied in the management of PCH assets. The *Directive* came into effect June 15, 2010 and was established in accordance with the TB *Policy on the Management of Materiel*. The objective of this *Directive* is to ensure that moveable assets are

effectively and efficiently used, managed and controlled in accordance with the principles of Life Cycle Material Management so that PCH can realize maximum benefit from their use in program delivery. The audit team expected to find evidence of compliance to the *Policy* and *Directive* because moveable assets represent a significant investment for the Department and their use has a direct impact on program delivery, making it essential that they be used effectively and efficiently.

An examination of CCPOD inventory reports against the requirements indicated in the *Directive*, found that the CCPOD inventory system is currently not fully compliant with specific sections of the *Directive* regarding:

1. Requirements of all moveable assets;
2. Recording and Tracking of moveable assets; and
3. Verification of Moveable Assets (partially met).

The *Directive* indicates that all moveable assets are planned for, acquired, stored, transported and disposed of in accordance with the Management of Assets and Acquired Services Framework, applying the principles of Life Cycle Material Management and modern comptrollership and in manner that adheres to the Government's objectives, legislation and policies. The audit team found that CCPOD does not have a Life Cycle Management Plan in place. Such a plan for the assets did not exist at the time of the transfer to PCH and was the result of decisions made prior to the transfer. A Life Cycle Management Plan should be developed to determine the effective and efficient management of assets from the identification of a requirement to the disposal and replacement of the asset acquired to meet the requirement. The phases of life cycle management include assessing requirements; analyzing options; planning acquisition; acquiring; operating, using, and maintaining; and disposing and replacing.

Without a Life Cycle Management Plan, there is a risk of inefficient and/or reactive management of assets from requirements to disposal and replacement. This would have a direct impact on CCPOD's operations and its ability to meet Departmental activities and objectives.

Recommendation

1. The Director General of Major Events, Commemorations and Capital Experience should develop and implement a Life Cycle Management Plan for CCPOD assets.

Assets Management Framework

Capital Celebrations and Program Operations Directorate does not have an assets management framework in place that reflects an integrated approach to risk management.

As per the *Policy of Management of Materiel*, the basis for the PCH *Directive on the Management of Moveable Assets*, an asset management framework should be in place that reflects an integrated approach to risk management; provides relevant performance

information; sets out clear accountability and decision-making regimes that are consistent with organizational resources and capacity; and supports timely, informed asset management decisions and the strategic outcomes of departmental programs. As part of this approach, risks related to CCPOD assets should be identified, assessed, prioritized, mitigated, monitored and reported.

The audit team found that CCPOD did not have an asset management framework in place, including risk management mechanisms/tools pertaining to CCPOD inventory. In addition, the team found that management and employees were not aware of the *Directive* and its requirements. The current practice is to mitigate emerging issues and risks on a reactive basis. Without an asset management framework, there is a risk that management would not make timely and informed materiel management decisions consistent with organizational resources and capacity; and this would have an impact on program delivery.

Recommendation

2. The Director General, Major Events, Commemorations and Capital Experience in consultation with the Director of Contracting and Material Management Directorate, should ensure relevant asset management policies and directives are communicated to CCPOD employees and that an asset management framework is established and implemented.

4.3 Controls

Inventory system access control

Inventory systems access controls are in place and adequate.
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As per the Treasury Board Secretariat's *Operation Security Standard: Management of Information Technology Security (MITS)*, IT and information access must be restricted to individuals who have been screened and authorized, have been identified and authenticated, and have a "need to know." The audit team expected to find processes in place to add and remove access, password, sign-on controls, and unique user IDs to ensure that inventory system access is controlled.

The audit team found that IntelEvent is the only inventory system used by CCPOD and access to the system is only granted to CCPOD's Production Services employees. Passwords are required to log in. Through interviews with CCPOD Management and employees, system walkthrough and inquiries with PCH Chief Information Officer Branch (CIOB), the audit team found that access to the system is only permitted when an employee is provided with a unique ID with the approval from the CCPOD Manager and working with a PCH workstation that has IntelEvent software license installed within PCH network.

In addition, the audit team found that access to privileged user accounts is restricted. The responsibility for adding and removing user access is known and restricted to three (3) administrators. Individual access rights within the system are also appropriate with work responsibilities. Lastly, an operating manual of IntelEvent that provides information on how to fully operate the system is available.

The audit team concludes that the Capital Celebrations and Program Operations Directorate has appropriate access controls and processes in place and operating to secure assets.

Assets controls

Capital Celebrations and Program Operations Directorate assets are kept in secure location with controlled access and are periodically inspected and counted.

CCPOD assets are essential to the delivery of CE activities and represent a significant investment for the Department. The *Directive for the Management of Moveable Assets* requires that physical security and safekeeping of all moveable assets is established and that physical verification and monitoring of assets are being performed. The audit team expected to find that CCPOD assets were kept in a secure location with controlled access, periodically inspected and counted.

The physical security of the warehouse is managed by PCH Security; access is only granted upon CCPOD Manager's approval and validation of security clearance. Access to the warehouse is removed by PCH Security once notified by CCPOD Management or receiving employee's departure form. PCH Security also conducts an access reconfirmation procedure every three months to ensure given access is updated.

To identify anomalies and missing assets, CCPOD also conducts annual inventory count. The count is performed by an external firm and by CCPOD employees; the results from both counts are compared to identify anomalies. Through document review, auditors found that the last inventory count was performed in October 2015. In addition, under the RLP, there is a formal process for reception of returned assets. Upon return of assets from each client, a visual inspection is performed by a CE warehouse employee, who documents any damage and missing assets. For other heavy/lifting equipment, inspection and maintenance is performed on an annual basis.

The audit team concludes that the Capital Celebrations and Program Operations Directorate has appropriate structures and processes in place and operating to secure assets.

Monitoring use of rented assets

Capital Celebrations and Program Operations Directorate has a process to adequately prevent misuse of rented assets.

CCPOD assets can be rented by not-for-profit associations and government agencies for the festivals or events being held within the NCR unless required by PCH.

Punitive and preventive measures for the misuse of these rented assets through instruments such as clauses, insurances, should be in place to adequately safeguard and monitor the use of rented assets.

The audit team found that the client is required to sign a Loan of Equipment Agreement that includes the borrower's responsibilities, punitive measures in case of damage or loss of equipment, insurance requirements and a termination clause. The client must also sign the agreement to accept the terms and conditions and provide the deposit and proof of insurance before being able to rent the equipment. The audit team also examined 46 Loan of Equipment Agreement files and found that clauses to safeguard the Department's interests are included in every agreement as required.

In addition to the Loan of Equipment Agreement, the audit team confirms that the RLP prevents misuse of its assets by communicating with the clients and responding to information requests. Evidence was also provided that CCPOD employees communicate with the clients to ensure understanding of terms and conditions and eligibility criteria for the RLP. Issues on misuse, damaged, missing or disposable items and any depreciation should be reported to management, but such events have yet to occur or be reported.

The audit team found that there are controls in place to prevent misuse of rented assets.

5.0 Conclusion

The main purpose of this audit was to provide assurance on the effectiveness of the governance framework, risk management practices, and internal control framework related to CE assets management. Based on the audit findings, our opinion is that the Department's assets management operations have effective governance in place to support effective management controls and practices. In addition, access and inventory controls are in place and operating to secure assets. Improvements should be made to ensure communication and compliance to relevant policies.

Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> well managed, no material weaknesses noted and effective.
2	Controlled	<ul style="list-style-type: none"> well managed and effective, but minor improvements are needed.
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> control weaknesses, but exposure is limited because likelihood of risk occurring is not high; control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> financial adjustments material to line item or area or to the department; or control deficiencies represent serious exposure; or major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAE and the subjects matter’s Director General or higher level for corrective action.</p>

Audit Sub-Objective 1: Capital Experience assets are appropriately managed.		
Criteria #	Audit Criteria	Conclusion
1.1	Inventory systems access controls are in place and adequate (excluding the Plant Maintenance Module)	2
1.2	Capital Experience assets are kept in a secure location with controlled access and are periodically inspected and counted.	1
1.3	Capital Experience guidelines and criteria and agreements contain clauses to safeguard the Department interests	2
Audit Sub-Objective 2: Capital Experience is compliant with relevant policies affecting the management and use of assets.		
Criteria #	Audit Criteria	Conclusion
2.1	Processes and procedures are in place to ensure Capital Experience is compliant with relevant policies.	3
Audit Sub-Objective 3: Capital Experience has a framework for establishing and communicating their purpose and objective for the acquisition and use of assets.		
Criteria #	Audit Criteria	Conclusion
3.1	The Rent and Loan Program has clearly defined and communicated directions and objectives, aligned with its authorities.	2
3.2	There is an established reporting process related to performance objectives.	1
Audit Sub-Objective 4: Capital Experience's contracting and procurement activities have been continuously improving while remaining compliant with applicable policies, procedures and regulations.		
Criteria #	Audit Criteria	Conclusion
4.1	Processes and practices are in place to identify areas for improvement and implement innovative changes to contracting and procurement activities.	2

Appendix B – Management Action Plan

Capital Experience Assets Audit

Recommendation	Actions	Responsibility	Target Date
1. The Director General of Major Events, Commemorations and Capital Experience should develop and implement a Life Cycle Management Plan for CCPOD assets.	<p>Develop a Life Cycle Management Plan for CCPOD Assets that will guide the effective and efficient management of assets.</p> <p>Identify and secure resources required to implement the Life Cycle Management Plan; implementation of the plan could create a financial pressure.</p>	Director, Capital Celebrations and Program Operations	<p>October 2017</p> <p>April 2018</p>
2. The Director General, Major Events, Commemorations and Capital Experience in consultation with the Director of Contracting and Material Management Directorate, should ensure relevant policies and directives related to the management and use of assets are communicated to CE employees and that an asset management framework is established and implemented.	<p>Develop, in collaboration with the Contracting and Material Management Directorate, an asset management framework for CCPOD assets.</p> <p>As part of the Integrated Business Plan, identify risks related to CCPOD assets and develop mitigation strategies, if required.</p> <p>Develop standard operating procedures for managing CCPOD assets.</p> <p>Communicate the standard operating procedures to CCPOD employees to ensure they are aware of the relevant policies and directives and apply the procedures in their operations.</p>	<p>Director, Capital Celebrations and Program Operations</p> <p>Director, Contracting and Material Management Directorate</p>	<p>August 2016</p> <p>November 2016</p> <p>December 2016</p> <p>December 2016</p>