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DEPARTMENT OF CANADIAN HERITAGE

FINAL REPORT

**AUDIT OF THE
CANADIAN HERITAGE INFORMATION NETWORK (CHIN)**

October 19, 2005

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Executive Summary

The Canadian Heritage Information Network's (CHIN) role within the Department of Canadian Heritage (PCH) consists of ensuring a unique Canadian presence on the Internet by fostering the collaborative creation of original and innovative Canadian content, making it accessible to Canadians and worldwide audiences in engaging ways through portal services and building the capacity of Canadian heritage professionals to become world leaders in the use of information and communication technologies. CHIN's goal is to promote an important and visible presence for Canadian heritage organizations in the world of networked information.

The objective of this audit was to provide program management with assurance on the soundness of the processes as they pertain to financial management and contracting and to identify opportunities to strengthen management practices. The scope of the audit covered the 2003-2004 fiscal year.

The audit team's conclusions are based on the assessment of findings against pre-established criteria (appendix A) and reflect audit work conducted between November 22, 2004 and February 24, 2005. In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- The processes in place to manage the budget, revenues, expenses and assets do not fully meet the needs of the organization. There is a need to formalize processes and ensure their consistent application. Special attention should be given to the delegation of authorities and contracting practices to ensure compliance with TBS contracting policy, directive and regulations.

Following, are some areas where management practices and compliance to government policies should be strengthened. The findings and recommendations that follow address these areas.

- Adequate controls need to be put in place to protect the integrity of the bidding process;
- A cost benefit analysis should be performed to justify the use of the sole source exception for professional services contracts;
- The signing authorities for contracts and credit cards need to be reviewed and individuals that have signing authority need to be informed of their responsibilities;
- The budget process has to be formalized and documented; and



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- Ensure that the financial coding and the documentation is complete for all the travel claims.



1.0 Background

The Canadian Heritage Information Network (CHIN) began as the National Inventory Program (NIP) in 1972. It was created in response to the 1970 UNESCO Convention on Means of Prohibiting and Preventing the *Illicit Import, Export and Transfer of Ownership of Cultural Property*, of which Canada was an early signatory. The 1972 National Museums Policy proposed the creation of an inventory of the cultural and scientific collections held by public institutions in Canada. The mandate of NIP was to create a computerized national inventory of Canadian cultural and scientific collections, to facilitate the sharing of collections information, to conduct applied research and development on information management standards and technology, and to advise museums and the heritage community in these areas.

In 1992, CHIN became a Special Operating Agency (SOA). The SOA concept is designed to achieve a balance between the philosophy of control (and risk avoidance) and the desire to encourage innovation and promote initiative. In essence, this concept gives CHIN increased management flexibility in return for agreed upon levels of performance and results.

In 1995, CHIN engaged in a major review of its programs. It developed a new mission, to *Broker effective access to Canadian and international heritage information for public education and enjoyment and for the collective benefit of Canadian museums.*

In 2001, CHIN launched the *Virtual Museum of Canada (VMC)*. The VMC is part of the *Canadian Culture Online Program*, it provides Canadians and the world with free access, in both official languages, to digital content developed by Canadian heritage institutions. CHIN works with the museum community in a collaborative effort to enable the creation, management and presentation of digital content. CHIN maintains two Web portals: the CHIN Web site provides professional resources to the heritage community while the Virtual Museum of Canada showcases Canadian museums and their collections to a worldwide public audience. CHIN also administers the VMC Investment Program, which support museums in the creation of digital content.

As of April 2004, more than 1025 Canadian heritage organizations are actively engaged in the Network.

2.0 Audit Objectives and Scope

The purpose of the audit was to provide program management with reasonable assurance on the soundness of its processes as they pertain to financial management and contracting and to identify opportunities to strengthen management practices. Accordingly, the audit addressed the following objectives:



Objective 1: Financial management

Sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of the organization.

Objective 2: Contracting

CHIN complies with the requirements of the government's contracting policy, directive and Regulations.

The audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. The criteria are listed in Appendix A to the report.

The scope of the audit covered the 2003-2004 fiscal year.

3.0 Audit Approach

The audit was conducted in accordance with generally accepted auditing standards, and the standards and requirements set out in the TBS Policy on Internal Audit.

Work performed included:

- interviews with CHIN program management and staff;
- interviews with representatives from PCH Finance Branch; and
- reviewing relevant program documentation.

The audit team looked at a sample of 68 files from contracts signed and transactions initiated in the 2003-2004 fiscal year. The allocation of files sampled from the various components was based on the highest dollar values except for the acquisition cards, where the transactions with the highest and lowest value for every month was chosen.



2003-2004

Type of transaction	Number of files reviewed	Value of files reviewed	% of files reviewed	Total number of files	Total value of files	% of value reviewed
Acquisition card	24	\$26,946	11%	214	\$93,838	29%
Interdepartmental agreements	9	564,743	31%	29	739,716	76%
Purchase orders	9	126,761	3%	357	371,035	34%
Professional services \$5,000 - \$25,000	12	254,275	17%	72	820,691	31%
Professional services greater than \$25,000 non VMC ¹	4	314,864	50%	8	512,653	61%
Professional services greater than \$25,000 VMC	10	1,396,481	71%	14	1,764,437	79%
Total	68	2,684,070	10%	694	4,302,370	62%

The audit team did not sample from the following transaction types:

- Contract type 9200 (PWGSC purchase orders) because CHIN's activity, in these cases, was limited to preparing the purchase requisitions. The contracting activity was undertaken by PWGSC and not by CHIN.
- Contract type 942 Call-Ups because they were, in part, constituted of call ups against PWGSC standing offers. The audit team also found that the supplier arrangements which complete these contract types were also put in place by PWGSC. Given the limited participation of CHIN, it was decided not to take samples from these contracts.
- Contract type PS2 (professional services less than \$5K) because the low value of the individual PS2 contracts which falls within policy limits for sole source contracting. The auditors also noted during the interviews that there was a control framework in place to govern the initial award and subsequent administration of these contracts.

¹Virtual Museum of Canada (VMC)



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- Contract type TH (Temporary Help) because of the low volume and low value of these contracts.

Limited audit work was conducted on revenues and assets.

Revenues

CHIN generated revenues in the amount of \$38.7K in 2003-2004. CHIN management does not expect to generate revenues exceeding that amount in the coming years.

Through interviews with CHIN representatives, the auditors documented the revenue process. Sufficient segregation of duties exist over revenue transactions. Given the low amount of income and the low number of transactions the auditors did not sample revenue transactions. The orders, invoices and sales receipts are tracked manually outside the corporate financial system with information recorded and documents generated using a spreadsheet.

Assets

CHIN has a total of eight capital assets, in three separate asset classes, whose net book value (NBV) amounts to \$58.6K. The number and NBV of the organization's capital assets are not material. Accordingly, there was no detailed audit work conducted in this area.

4.0 Conclusion

The audit team's conclusions are based on the assessment of findings against the pre-established criteria as defined in Appendix A and reflect the audit work conducted between November 22, 2004 and February 24, 2005. In the audit team's opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- The processes in place to manage the budget, revenues, expenses and assets do not fully meet the needs of the organization. There is a need to formalize processes and ensure their consistent application. Special attention should be given to the delegation of authorities and contracting practices to ensure compliance with TBS contracting policy, directive and regulations.

The audit team identified some areas where management practices and compliance to government policies should be strengthened. The findings and recommendations that follow address these areas.



5.0 Findings and Recommendations

5.1 Contract management

5.1.1 Bidding and selection

As required by Section 5 of the *Government Contracts Regulations*, the contracting authority is to solicit bids before any contract is entered into. This can be achieved by giving public notice, in a manner consistent with generally accepted trade practices, of a call for bids respecting a proposed contract or inviting bids on a proposed contract from suppliers on the suppliers' list.

Requirements should also be defined and specifications and estimates established before bids are solicited and contracts let, so that all prospective contractors are treated equally.

Findings

Purchase orders (less than \$25,000)

There are exceptions that permit the contracting authority to set aside the requirement to solicit bids. One of these exceptions occurs when the estimated expenditure does not exceed \$25,000. However, contracting authorities are expected to solicit bids whenever it is cost effective to do so.

The contracting policy suggest that if fewer than three potential suppliers are reached, the bid solicitation should be increased. The auditors found that, in seven of the nine files reviewed, CHIN did not solicit bids from 3 distinct suppliers.

The objective of the contracting policy is to achieve optimal balance of overall benefits to the Crown and the Canadian people when soliciting bids for contracts. Price is not always the primary consideration, other factors have to be considered i.e., performance of the bidder, after-sales service, delivery date, etc. The selection rational was not included in the files for the contracts reviewed.

Professional services (\$5,000 - \$25,000)

Requirements for contracts should be defined and specifications established before bids are solicited. The statement of work should clearly describe the work to be carried out, the objectives to be attained and the time frame. The auditors found that although a statement of work was prepared for the twelve files reviewed, in seven instances, there was no evidence that the statement of work was sent to the supplier.



The decision to set competitive bidding aside when only one person or firm can do the job (sole source) should be fully justified in the contract file. As a general practice, all contracts for professional services between \$5K and \$25K are awarded using the sole source exception. The auditors found that in four of the twelve sole source contract files reviewed, there was no justification in the file to invoke that exception.

Professional services (greater than \$25,000 non VMC)

A competitive process was followed for the four contracts reviewed. The auditors found that some key information was not kept on file. Records of tenders being sent, proposals being received and evaluation of proposals were missing in two of the four files reviewed.

Professional services (greater than \$25,000 VMC)

The contract bidding and selection for the Virtual Museum of Canada is different than for the other contracts. A call for proposals is placed on the website along with a list of pre established criteria inviting prospective bidders to submit projects to the selection committee. A selection grid is used by an independent committee to choose the projects that best meet the pre established criteria. Each committee member fills out the grid before they are put together and discussed by the committee. The committee then chooses a certain number of projects to be financed by CHIN.

The auditors found that the processes followed by CHIN to award these contracts follows governmental policy. They also found that the contract files are complete and well documented.

Recommendation # 1

CHIN management should ensure that adequate controls are in place to protect the integrity of the bidding process and that these controls ensure, among other things:

- that at least three respondents are reached when soliciting for limited bids and that proper justification is inserted in the file when it is not feasible to do so;**
- that a statement of work that clearly describes the work to be carried out, the objectives to be attained and the time frame is prepared for every contract and sent to all the suppliers from whom bids are solicited; and**
- that evaluation criteria are used and included in the request for proposal.**



Management response

As of FY 2004/2005, CHIN has enforced a process requiring all of our procurement staff to request three bids for procurement under \$25K. Furthermore, adequate rationale and justifications are now mandatory whenever such a request is made. We are also using a “contract due diligence checklist form”, with steps to be followed from the Pre-contract period until the file closure for all of our procurement. Finally, as of June 20, 2005, we have staffed a PG-03 Procurement Manager position. One of the main responsibilities of this position will be to ensure that all TB contracting policies are adhered to.

As of 2005/2006, a detailed scope of work, schedule of deliverables, and evaluation criteria are mandatory for all contracts.

Recommendation # 2

CHIN management should evaluate the cost/benefit aspect of utilizing the sole source contracting option for professional services.

Management response

CHIN management will be evaluating the cost/benefit of sole source contracting on regular basis to determine the viability of this approach in achieving the organization’s objectives.

5.2 Financial management

Financial transactions should be managed and administered in a manner that ensures that they are successfully executed in accordance with departmental policies, procedures and guidelines.

Findings

5.2.1 Delegation of authority

Financial authorities must be formally delegated and communicated in writing and appropriate division of responsibilities must be established in order to ensure that controls are applied in spending public money.



Policies and procedures must be established in order to ensure an adequate level of control over delegated authorities and that persons with delegated authorities are well informed of their responsibilities in this regard.

The auditors found three different issues with the delegation of authority:

In some cases, the individual had the delegation of authority for his budget but should not have exercised that authority to respect the principles of proper segregation of duties;

Some individuals received delegation of authority and signed section 32 and 34 of the Financial Administration Act (FAA) for cost centres outside their budget which goes against the policy on delegation of authority; and

In some instances, the individual signed for section 32 and 34 of the FAA for cost centres for which they did not have signing authority.

Examples of these issues are listed below.

Acquisition card

The credit card is controlled by one person and is used only to make official government purchases. Except for the following exception, the auditors found that appropriate procedures were in place for the acquisition card. The auditors found that the expenses are initiated and the payments are authorized by the same person. This does not ensure an acceptable segregation of duties.

Interdepartmental agreements

The auditors found that the delegation of authority was not pursuant to the delegation of authority chart. Expenditure initiation and confirmation of contract performance and price was performed by the same individual (section 32 and 34 of the FAA) for 8 of the 9 files reviewed. Even though that individual received delegation of authority, it was not consistent with his operational responsibilities.

Purchase orders (less than \$25,000) and Professional services (\$5,000 - \$25,000)

The auditors found similar issues with the purchase orders and professional services. The individual who attested that the services were rendered and the contract terms and conditions were met had no control over those transactions and should not have been accountable for them in six of the nine files reviewed for purchase orders. In two of the twelve files reviewed for professional services, the auditors found that the individual who initiated the expense did not have the authority to do so.



Recommendation # 3

CHIN Management should review the signing authorities to ensure proper segregation of duties and inform individuals with signing authorities of their responsibilities and make sure they operate within their level of financial and operational responsibility.

Management response

As of FY 2004-2005 all staff have been trained on their responsibilities with regards to their signing authorities. Refresher training sessions on the Financial Administration Act are also planned on ongoing basis. We will review all signing authorities for every manager with a budget and ensure they have the proper authorities to sign/approve section 32 and 34 only on their specific program.

5.2.2 Budget

CHIN's budget for 2003-2004 totalled \$10.8M. A good part of the budget (66%) is funded by the Canadian Culture On line Program (CCOP) for the Virtual Museum of Canada project (VMC). There was a MOU in place for 2003-2004 between CHIN and CCOP where CHIN, among other things, provided to the Canadian Culture Online Branch a detailed Business Plan for the administration and operation of CHIN during Fiscal Year 2003-2004, including a detailed budget and information for each of the VMC investment programs and any other planned use of CCOP funds.

The auditors found that there is no documentation on the budget preparation and monitoring process. The budget is prepared with the collaboration of cost centre managers. The cost centre managers present their projects for the year and management decides how to allocate the budget. The budget for 2003-2004 was finalized five months after the beginning of the fiscal year. The rationale supporting the amount budgeted under the various cost elements was not documented.

The auditors did not find evidence that variances between actual and planned expenditures were identified and explained.



Recommendation # 4

CHIN management should:

formalize and document the budget preparation and monitoring process;

ensure that the budget is prepared in a timely fashion; and

ensure that the results are reviewed on a periodic basis and that any variance between actual and planned expenditures are identified and explained.

Management response

As part of the new CHIN framework document, new budget forecasting and management tools are currently being implemented and managed by the Administration and Services Directorate in order to streamline processes across the organization. As early as April of each year, a detailed budget is finalized indicating the portion of projected salaries and Operation and Maintenance funds required.

Formal reviews of our budget forecast will be conducted on a quarterly basis and a monthly expenditure report will be prepared by the Administration and Services Directorate for review by the Director General.

5.2.3 Travel expenses

The travel expenses are separated in three distinct categories, international travel, local travel and travel by non public servants.

Type of expense	Number of transactions reviewed	Value of transactions reviewed	Total value of transactions	% of value reviewed
Local	10	\$19,832	\$250,631	8%
International	6	27878	46880	59%
Non-public servant	3	1096	231402	0,5%
Total	19	\$48,806	\$528,913	9%



Travel claims were approved and processed in accordance with TB and departmental policies. The auditors found issues that need to be improved when they looked at samples from each category and found that in 13 of the 19 transactions reviewed, the financial coding on the travel claim was incomplete and that some key documents to support payment were missing for 15 of the 19 files reviewed.

Recommendation # 5

CHIN management should ensure that financial coding is complete and that adequate documentation to support payments is attached to every travel claim.

Management response

A procedure was put in place in August 2004 in order to ensure all justifications are attached and invoices receive the correct coding and are processed by the responsible manager with the appropriate delegated authority (Section 34).



Appendix A

AUDIT CRITERIA

Criteria applied for the conduct of the audit:

Financial Management

Sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of the organization.

CHIN's budget is based on a comprehensive assessment of resource requirements.

CHIN management regularly monitors the status of the approved budget.

Acquisition cards are used in accordance with TB and Departmental policies, procedures and guidelines.

Appropriate approval and procedures are in place for acquisition cards.

Travel expenses are incurred in accordance with TB and Departmental policies, procedures and guidelines.

Appropriate approval and procedures are in place for travel expenses.

Appropriate delegation of authority to ensure segregation of duties.

Contracting

CHIN's contracting services are delivered in accordance with the requirements of the government's contracting policy, directive and Regulations in order to promote openness, fairness, competition and the achievement of best value.

Client goods and professional services needs are clearly defined.

Decisions to sole source professional service requirements < \$25K are justified.

Requirements for professional services > \$25K are subject to competition.

Purchase orders > \$5K are subject to competition.

Contracts are entered into by an individual who has been delegated sufficient and appropriate signing authority.

Section 32 and 34 authority is properly exercised by CHIN program personnel.

Contract amendments are properly justified.