

**AUDIT OF THE FINANCIAL AND  
PROCUREMENT MANAGEMENT  
OF THE  
CANADIAN CONSERVATION INSTITUTE  
  
CANADIAN HERITAGE**

**REPORT**

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## **EXECUTIVE SUMMARY**

The Canadian Conservation Institute (CCI), a Special Operating Agency (SOA) within the department of Canadian Heritage (PCH), is a national centre of excellence in heritage preservation, committed to preserving Canada's rich material cultural heritage and supporting conservation and heritage practices and institutions across Canada. Its objective is to promote proper care and preservation of Canada's moveable cultural property and to advance the practice, science, and technology of conservation. As part of its services, CCI operates the Exhibit Transportation Services unit (ETS) to provide transportation and storage facilities for fine art and artifacts.

The objective of this audit was to provide assurance that the processes and controls in place ensure that financial resources are managed economically and efficiently and the operations are carried out in compliance with the relevant authorities and policies governing the organization. The scope of the audit covered the 2004-2005 fiscal year.

The audit team's conclusions are based on the assessment of findings against pre-established criteria and reflect the audit work conducted between March 7, 2005 and May 11, 2005. Except as noted in our conclusion on the audit restrictions for the observation of certain newly acquired physical assets and on the inspection of some of the records and documents pertaining to ETS contracts, 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:

### **Financial Management:**

- Sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of CCI and such processes are documented;
- Management and internal controls are adequate and cost effective although it was noted that processes, procedures and practices should be further documented;
- Financial resources are budgeted, committed and spent to meet the needs of the organization, forecasted results are closely monitored on a monthly basis and planned initiatives and commitments are reviewed and prioritized accordingly throughout the year;
- Financial activities are properly authorized and tracking systems enable the monitoring and reporting of financial activity, however, control processes and procedures on CCI's internal control databases (ie Proteus, Signing Authorities, Requisitions, Travel and Accounts Receivable) should be developed and documented; and

- Due diligence is exercised in the management of revenue sources however processes and procedures for the revenue system should be developed and properly documented. The processes and procedures should include the complete cycle from initial receipt of request for services to the final reconciliation of revenue by employees.

Procurement and other Financial Activities:

- Activities are carried-out in compliance with the requirements of the Financial Administration Act (FAA), Treasury Board (TB) Contracts Policy and Guidelines, the Government Contract Regulations and the Government's Procurement Policy Framework and appropriate approvals are in place; and
- CCI's contracting processes and controls should be further documented and/or updated and internal procedures should be developed and/or updated on the procurement of services and goods, on Business Practices related to travel and on documentation to be included in files.

The audit team identified some areas where management practices and compliance should be strengthened. The major recommendations which are further detailed in the report are as follows:

The Director General (CCI) should:

*Financial Management*

- seek approval of a revised Framework Document that adequately reflects CCI's authorities and flexibilities;
- work with PCH to study the possibility of reinstating a carry-forward provision;
- consult with Financial Management to establish a realistic budget for Vote Netted Revenue (VNR); and
- ensure that there be consistent and appropriate application of the internal control processes incorporated in the database system for project selection and evaluation to provide proper information for financial management of the costs and resources required to deliver services.

### *Documentation*

- ensure that the control processes and procedures are fully documented and/or updated for the internal control database system, the revenue systems, the procurement of services, and Business Practices on travel;
- ensure that there be a clear procedure on the information that must be maintained in the contracting files and on the safeguarding of such files and, that this be reflected in the internal procedures on the procurement of services in each of the issuing responsibility centres;
- develop and implement the practice of providing written quotations or agreements for services for ETS at all times and that detailed daily record of all activities in support of the invoicing of the services by ETS drivers are submitted;
- ensure that the Record of Travel Expenses is completed for all travel claims and that discrepancies between TAAs and Travel claims are documented; and
- ensure that procedures including roles and responsibilities and the restrictions on the use of acquisition cards are made available to employees on the requisitions database or a shared drive and for ETS, that the use of acquisition cards by the drivers is in compliance with TB policy.

### *User and Service Fees*

- seek confirmation of CCI's status as it relates to the requirements of the application of the *User Fees Act*; and
- proceed with the planned review of its fee structure for all of its revenue sources to ensure the fees reflect the cost of those services which are provided on a cost-recovery basis.

### *Employment Relationship*

- should attempt to clearly establish the employment or business relationship between the ETS drivers and CCI or obtain a formal ruling from Canada Revenue Agency should CCI be unable to clearly determine the relationship.

## **1. Introduction<sup>1</sup>**

The Canadian Conservation Institute (CCI) is a Special Operating Agency (SOA) within the department of Canadian Heritage (PCH). A national centre of excellence in heritage preservation, the Institute is committed to preserving Canada's rich material cultural heritage and supporting conservation and heritage practices and institutions across Canada. It was created in 1972 to promote proper care and preservation of Canada's moveable cultural property and to advance the practice, science, and technology of conservation.

CCI is the Government of Canada's principal program for research and service delivery in the field of heritage conservation. As part of PCH, it contributes primarily to the achievement of one of the Department's four strategic objectives: to promote the creation, dissemination, and preservation of diverse Canadian cultural works, stories, and symbols reflective of our values and aspirations.

The Institute offers a wide range of conservation and preservation services to clients that encompass heritage institutions (museums, art galleries, libraries, and archives); museum, archival, archaeological, and conservation associations; heritage agencies; university and college conservation and museology training programs; and public authorities and religious organizations with collections accessible to the public. As part of its services, CCI operates the Exhibit Transportation Services unit (ETS) to provide transportation and storage facilities for fine art and artifacts.

As an SOA, CCI is financed through appropriations received from PCH and through revenues generated by fees for services. Many services are provided free-of-charge; some are provided for a nominal fee (negotiated on a project-by-project basis) in recognition of the public benefit associated with the service; others are offered on the basis of full cost recovery.

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<sup>1</sup>Source: Canadian Conservation Institute's Annual Report 2003-2004

Table 1: Funding Available to CCI for the Delivery of its Mandate

<b>Summary of Funding 2004-2005</b> (M\$)					
<b>Description</b>	<b>Salaries</b>	<b>Operating</b>	<b>Revenues</b>		<b>Total</b>
			<b>CCI</b>	<b>ETS</b>	
<b>Reference Levels</b>					
Reference Levels	4.8	3.2	1.1	0.7	9.8
<b>Resource Allocation</b>					
Regular Base and Revenues	5.8	4.4	0.5	0.9	11.6
Retrofit of Facilities <sup>2</sup>		3.1			3.1
<b>Total Allocation</b>	<b>5.8</b>	<b>7.5</b>	<b>0.5</b>	<b>0.9</b>	<b>14.7</b>

## 2. Objective

The audit examined the processes and controls in place to ensure that financial resources are managed economically and efficiently and the operations are carried out in compliance with the relevant authorities and policies governing the organization. Accordingly, the audit addressed the following:

- Financial Management
  - Sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of the organization;
  - Management and internal controls are adequate, cost effective and well documented;
  - Financial resources are budgeted, committed and spent to meet the needs of the organization; and
  - Financial activities are properly authorized. Tracking systems enable the monitoring and reporting of financial activity.

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<sup>2</sup> Sunset

- Procurement and other Financial Activities
  - CCI complies with the requirements of the FAA, TB Contracts Policy and Guidelines, the Government Contract Regulations and the Government's Procurement Policy Framework;
  - CCI's contracting processes are documented;
  - Due diligence is exercised in the management of travel expenditures;
  - Acquisition cards are used in accordance with TB and Departmental policies, procedures and guidelines and appropriate approval procedures are in place;
  - Payments to suppliers are made according to the TB Policy on Account Verification; and
  - Due diligence is exercised in the management of revenue sources and processes are properly documented.

### **3. Scope**

The audit examined the operations and activities of CCI during fiscal year 2004-2005 to March 9, 2005, cut-off date at which reports were provided to the audit team for selection of files. The audit examined the following areas as they pertain to financial and procurement management: the budgeting and planning process, internal control systems and user and service fees. It also examined the following activities: the procurement of services and goods, travel, acquisition cards, and payment to suppliers.

### **4. Approach and Methodology**

The audit approach and methodology used to obtain audit evidence included the following:

- interviews with CCI staff;
- a risk analysis to establish the scope of the audit;
- a review of relevant TB policies, directives, regulations and the FAA;
- a review of relevant PCH and CCI policies, systems and procedures and documenting and flowcharting CCI's structure, processes and controls;
- a review of CCI's business plans and financial reports;
- a testing of a sample of files to examine processes and practices and test compliance with FAA and TB and PCH policies, guidelines and procedures for the procurement of goods and services over \$5,000, acquisition cards, travel and payment to suppliers and, User and Service fees invoiced to clients; and
- follow-up interviews, as required, with CCI employees.

A non-statistical sampling approach was used in carrying-out audit testing of processes and practices for the procurement of goods and services over \$5,000, acquisition cards, travel and payment to suppliers. In addition, a selective testing of specific items was also completed for key items or items of high-value. These include files such as those related to the building retrofit project, large capital acquisitions and telecommunications. For User and Service Fees, a number of “walk-through” tests were performed on amounts received to March 31, 2005 to obtain knowledge and understanding of the processes and controls for these systems.

At the time of the audit, CCI was undergoing extensive work relating to the retrofit project. Therefore, much disruption of operations and activities was being experienced including the transfer and/or storage during construction of most of the newly acquired physical assets to other sites . As a result, the audit team could not gather audit evidence by means of inspection of such assets to confirm the existence or condition of the goods. Consequently, our audit report will be qualified accordingly.

Furthermore, for some of the contracts relating to the procurement of goods and services for ETS, the inspection of the records and documents could not be completed since the contract files could not be recovered from storage at the time of the audit. After much effort, it would appear these could not be located and provided for our review.

Finally, the audit team wishes to acknowledge CCI and ETS staff’s full and much appreciated cooperation throughout the audit process.

The allocation of files sampled was as follows:

Table 2: Audit Sample

<b>Activities</b>	<b>Files Reviewed #</b>	<b>Value of Files Reviewed \$</b>	<b>Value Reviewed % (1)</b>
Revenues	<b><u>24</u></b>	<b><u>\$ 186,498</u></b>	<b><u>15 %</u></b>
Procurement of services	7	\$ 213,770	
Procurement of goods	9	247,201	
Payment to suppliers	15	125,330	
<b>Sub total</b>	31	\$ 586,301	30 %
Acquisition Cards	18	99,032	18 %
Travel	10	\$ 50,365	17 %
<b>Total</b>	<b><u>59</u></b>	<b><u>\$ 735,698</u></b>	<b><u>26 %</u></b>

(1) Based on total value of population for both CCI and ETS (committed amounts) as at March 9, 2005 excluding high-value and key items as noted below.

In addition to the above sample, the auditors selected and reviewed a total of ten (10) key and high-value files for a total of \$ 4,831,610. This amount includes costs related to the building retrofit project for a total of \$ 3,700,046. These additional ten (10) files increase the total value of files sampled and reviewed in relation to the total population of committed funds to 73 %.

## **5. Conclusion**

Except for the fact that we could not, in a cost efficient manner, obtain through inspection sufficient audit evidence of the existence of some newly acquired physical assets at CCI due to the construction project and that the inspection of some of the records and documents pertaining to ETS contracts could not be completed, the audit was conducted in accordance with generally accepted auditing standards and the standards and requirements set out in the TB 's *Policy on Internal Audit* and those of the Corporate Review Branch at PCH. These standards require that the audit be planned and performed to gather sufficient and appropriate audit evidence to support the conclusions and findings in our audit report.

In general, the audit team found that:

For Financial Management:

- Sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of CCI and such processes are documented;
- Management and internal controls are adequate and cost effective although it was noted that documentation of processes, procedures and practices should be further documented;
- Financial resources are budgeted, committed and spent to meet the needs of the organization, forecasted results are closely monitored on a monthly basis and planned initiatives and commitments are reviewed and prioritized accordingly throughout the year;
- Financial activities are properly authorized and tracking systems enable the monitoring and reporting of financial activity however, control processes and procedures on the internal control database system should be developed and documented; and
- Due diligence is exercised in the management of revenue sources however processes and procedures for the revenue system should be developed and properly documented. The processes and procedures should include the complete cycle from initial receipt of request for services to the final reconciliation of revenue by employees.

For Procurement and other Financial Activities:

- Activities are carried-out in compliance with the requirements of the FAA, TB contracts Policy and Guidelines, the Government Contract Regulations and the Government's Procurement Policy Framework and appropriate approvals are in place; and
- CCI's contracting processes and controls should be further documented and/or updated and internal procedures should be developed and/or updated on the procurement of services and goods and Business Practices on travel and, on documentation to be included in files.

More specifically, the audit team identified the following areas where management practices should be strengthened as described in section 6.

## **6. Findings and Recommendations**

### **6.1 Financial Management**

In order to assess whether CCI has adopted sound and comprehensive processes and controls to economically and efficiently manage its financial resources, the auditors reviewed the budgeting and monitoring processes in place. This involved the review of various documentation and reports including the detailed budget, the Business Operating Plan and Capital Budget together with the regular reports analysing forecasted variances and the resulting financial decisions. In addition, the audit team reviewed the various tracking and monitoring tools developed within the organization to assist in the sound management of its financial resources to meet the needs of the organization and completed interviews with selected staff.

#### **6.1.1 Budgeting and Planning Process**

In general, the audit team found that:

- sound processes are in place to manage the budget, revenues, expenses and assets to meet the needs of CCI and such processes are documented;
- management and internal controls are adequate and cost effective;
- financial resources are budgeted, committed and spent to meet the needs of the organization, forecasted results are closely monitored on a monthly basis and planned initiatives and commitments are reviewed and prioritized accordingly throughout the year; and
- financial activities are properly authorized and tracking systems enable the monitoring and reporting of financial activity.

The audit team did find some areas where management practices should be strengthened and are as follows.

#### **Framework Document**

A Framework Document dated April 1, 1992 reflects the agreement by which CCI was designated as a Special Operating Agency in November 1992. This agreement provides for a number of financial authorities granted to CCI at the time including the authority to retain revenues and the authority to carry-over \$ 300,000 of its operating budget. Although many of the stated provisions in this agreement are no longer valid, CCI does not have an approved revision of its Framework Document that reflects such changes. A revised version of a Framework Document dated February 2000 was drafted but has yet to be approved. This revised Framework Document does not reflect the current authorities.

## **Recommendation #1**

Since the Framework Document serves as the charter for CCI and sets out amongst other things, its accountability and financial framework and authorities delegated to the Chief Operating Officer, the Director General (CCI) should seek approval of a revised agreement which adequately reflects its authorities and flexibilities.

### **Management response:**

*Recommendation accepted. The DG (CCI) will revise the Framework Document and seek approval (departmental or Treasury Board, as appropriate) in 2007/08 once the custodianship of CCI facilities has been resolved. The revised Framework Document will take into account the impact of a new museum policy on CCI's activities and revenue-generation policies.*

### Budgeting Process

As a Special Operating Agency, CCI is financed through appropriations received from PCH and also through revenues generated by fees for services. CCI must devote significant time and effort to monitor and commit these revenues (Vote Netted Revenue) for which allocations are received in advance at the beginning of the year. Any variance between allocations for VNR received and those earned whether it be in excess of or in deficit of, must be returned although not stated in the original or revised draft of the Framework Document. CCI has received allocations for Voted Netted Revenue significantly in excess of actual earned revenues for CCI fees for services for a number of years, therefore creating a need to commit and track a large portion of such allocations monthly up to year-end.

CCI no longer has a carry-forward provision that would allow it to adequately plan a number of significant capital initiatives. Some capital expenditures represent specialized equipment that require a number of months for ordering and delivery. These capital projects cannot be carried through since actual revenues earned and received cannot be accurately forecasted to the end of the year. More importantly, funds cannot be carried forward from one fiscal year to another to spread the cost of expensive equipment over two or three years. As a result, its programs and the delivery of services may be compromised.

CCI received a permanent increase of \$ 3.7M to its budget in 2003/2004, however, much of the increase has been redirected to fund the major retrofit costs to the building. These ongoing building renovations have affected operations and financial resources again into 2004/2005.

## **Recommendation # 2**

The Director General (CCI) should:

- a) Consult with Financial Management to establish a realistic budget and advance allocations for Vote Netted Revenue (VNR) based on past transactions for both CCI and ETS to eliminate the need to commit large funds from its advance allocations for VNR; and
- b) Work with PCH to study the possibility of reinstating a carry-forward provision to allow for a more efficient and adequate planning process for capital initiatives.

**Management response:**

*Recommendation accepted. The DG (CCI) will consult with the Financial Management Branch on the appropriate level of VNR and make the necessary adjustments in the 2007-08 ARLU. The DG (CCI) will also work with Financial Management Branch to reinstate the carry-forward provision that will allow more efficient and strategic management of CCI's resources in a vote-netted environment. Discussions on the carry-forward provision will be held before March 31, 2006.*

**6.1.2 Financial Management and Internal Control Systems**

CCI has adopted the following best practices:

CCI has developed a number of databases to improve internal control and facilitate and streamline processes. These databases designed by CCI's manager of computer services have a number of incorporated control features to designate the different levels of authority within CCI and are as follows:

Project Tracking	- Proteus (monitors client requests for services)
Requisition	- Acquisition (Goods & Services) Status & History
Travel	- All actions and details
Accounts Receivable	- Financial History
Signing Authority	- Identifies levels and delegations

A similar tracking system for transportation and storage contracts was developed for ETS and implemented at the start of the 2005/2006 year. Up to the end of 2004/2005, ETS was tracking revenue transactions using an EXCEL spreadsheet and other manually developed tools to reconcile transportation schedules to actual invoicing of services. The newly adopted system will address the inefficiencies identified by the audit team in the reconciliation procedures in place such as reconciling transportation contracts to final invoices.

A new Business Management System is also being developed by external consultants lead by KITS for all of CCI activities to address the current shortfalls of project tracking database (Proteus). The

new system was originally planned to be implemented in year 2005/2006, however it would appear that its implementation will be delayed to year 2006/2007.

The audit team did find some areas where management practices should be strengthened and are as follows:

#### Compliance to Delegated Authority

Changes to levels and delegated authority programmed in the system are completed by the manager of computer services. These changes are not reviewed for accuracy and compliance to delegated authority by another staff person. For the files examined, the audit team did not however find instances of non compliance to delegated authorities.

#### **Recommendation # 3**

The Director General (CCI) should ensure that regular random reviews of changes to delegated authority in the database system are completed by independent staff at CCI to ensure the existence of controls for accuracy and compliance to authorized delegations.

#### **Management response:**

*Recommendation accepted. By December 31, 2005, new procedures will be implemented and the Manager, Finance, Administration and Human Resources will conduct regular and random reviews of changes to delegated authority in the database system.*

#### System Dependency and Documentation

CCI and ETS depend strongly on the manager of computer services and his staff of one to ensure the efficient and continuous operation of the database system in which all the control processes are incorporated. The specific features and the knowledge of the system are tied to these staff people. In addition, CCI databases and their control processes and policies are not documented.

#### **Recommendation # 4**

The Director General (CCI) should ensure that the control processes and procedures of the database system are fully documented. In addition, the documentation of the control processes and procedures should be revised on a regular basis to reduce the risk of disruption in operations and most importantly, to reduce dependency on staff.

#### **Management response:**

*Recommendation accepted. By March 31, 2006, all control processes and procedures will*

*be fully documented for all CCI databases. The processes and procedures will be updated on a regular basis.*

### **6.1.3 Fees and Service Fees**

In order to assess whether due diligence is being exercised in the management of all revenue sources at CCI and to provide assurance that financial processes and controls are in place to ensure compliance to relevant policies and practices, the auditors reviewed transactions related to revenue generated from service fees and user fees from both CCI and ETS. As revenue activities are distinct for these two sectors of the organization, a separate review of processes and controls was conducted by the auditors.

In general, the audit team found that:

- processes and procedures are properly understood by staff involved in the performance of duties relating to revenues including invoicing, deposits and recording;
- proper segregation of responsibilities and controls exist over the receipt and recording of revenues;
- user fees, service and transportation fees are invoiced promptly following completion of projects or service;
- receipt of monies is deposited and reconciled promptly;
- for CCI revenues, signed agreements are on file prior to invoicing and proper documentation is maintained on file to support invoice;
- internally developed tracking systems operate efficiently to allow monitoring of invoicing and receivables (Lotus Notes Accounts Receivable database for CCI and EXCEL spreadsheets for ETS); and
- CCI reconciles its internal revenue control system to SAP on a regular basis and close monitoring is performed on any noted variances, errors and credits.

The audit team did find some areas where management practices should be strengthened and are as follows:

#### *Fee structure*

CCI had yet to establish and confirm as of the time of audit whether the User Fees Act was applicable to those revenues that are not provided on a contractual basis. CCI was awaiting confirmation as to whether it applies to its specific operations and accordingly, CCI user fees could not be modified until such time as confirmation was received. CCI must also assess the impact of the disclosure and consultation requirements of this Act in relation to the significance in volume of its revenue generating activities.

CCI has developed a number of fee schedules for services provided at CCI and ETS. However, these fee schedules are based in part on a year 2000 draft revision of the Framework Document that has yet to be approved as noted in the Financial Planning and Budgeting section (section 6.1.1).

Other than for ETS, the fee structure has not been kept current and does not reflect the cost of services provided for those that are on a cost-recovery basis.

CCI has identified the need to perform a thorough review of its existing fee structure and to conduct an analysis of TB's revenue generation policies and its impact on its own policy. This review is scheduled to be carried-out in year 2005-2006.

CCI has indicated it has requested confirmation of its status as it relates to the requirements of the application of the User Fees Act. A confirmation of its status may potentially impact on the need to meet TB's new policy on standards for External User Fees and consequently, this particular issue is of significance to CCI.

### **Recommendation # 5**

Following the outcome of the confirmation of CCI's status, the Director General (CCI) should proceed with the planned review of its fee structure for all of its revenue sources to ensure the fees reflect the cost of those services which are provided on a cost-recovery basis.

### **Management response:**

*Recommendation accepted. CCI is undertaking a review of its fee structure in preparation for addressing the requirements of the User Fee Act. However, since several organizations in the Department and the Portfolio will be implicated by the Act, the department is seeking legal clarification of the definitions and requirements contained in the Act. In updating its revenue generation policy and fee structure, CCI will be guided by the overall departmental decisions with respect to the interpretation of the Act. This exercise will be completed in 2006/07 (contingent on departmental decisions).*

### Cost analysis of services

CCI relies increasingly on earned revenues it generates to fund and maintain its current levels of operations. However, it does not have reliable and complete information to assess the cost of providing these services and consequently, adequately assess the net contribution from revenues in achieving this objective. Some areas of revenue generation do not appear significant on the operations of CCI in relation to the investment in time and effort to process this revenue (invoices, deposits, recording and reconciliation). A full cost analysis is essential in evaluating the cost and benefits of generating each category of earned revenues. Such a cost analysis of services provided has not been completed and consequently, a review of the potential revenue generation of its services cannot be efficiently completed until such time.

The management information system used at the present time for the final evaluation of completed projects is not appropriately and consistently used by staff. This system is incorporated within the database control system. Although it presents some shortfalls, it has some potential of providing

useful information which would allow the setting of service fees and cost-recovery fee schedules accordingly. More specifically it was noted that:

- ▶ actual time spent on cost recovery activities is often not recorded;
- ▶ time variances with original estimates are not documented and explained;
- ▶ other direct costs are not always recorded;
- ▶ cost of overtime to provide the service is not always recorded;
- ▶ time estimates are usually not documented.

As a result of the inappropriate and inconsistent use of the evaluation process at the completion of projects, adequate and appropriate planning of resources and priorities for future projects could be compromised.

### **Recommendation # 6**

The Director General (CCI) should ensure that:

- a) The present management information system (Proteus) or any future Business Management System be used appropriately and consistently by staff to ensure that project evaluation data is available to allow for a more useful and complete information on the cost and resources needed to deliver its services and consequently, on the making of future financial management decisions.
- b) Regular staff development and updating sessions are provided to ensure that staff understand the significance of an appropriate and efficient application of the internal control processes incorporated in the database system for the financial management of CCI. A systematic approach to completing relevant information on project and more specifically, those relating to the selection and evaluation of projects, is essential in properly assessing financial decisions.

### **Management response:**

*Recommendation accepted. Effective immediately, the DG (CCI) will ensure that all staff and managers use the current information management system (Proteus) and the new Business Management System (under development) consistently and accurately. Regular training sessions will continue to be available to all staff.*

### Project evaluation process

CCI has incorporated an evaluation criteria process within its database control system to review and assess at the initial phase, each different request for service and each client profile. This

evaluation criteria completed in the late 1990's based on a community consultation process with the objective of meeting its mandate and is documented in a publication entitled "New Directions for CCI". It was noted during our audit that this process is not used consistently and efficiently by staff within the database system and consequently, it is believed that allocation of resources and priorities cannot be achieved efficiently unless a specific and rigorous evaluation process to select and prioritize projects is completed.

Criteria guidelines for the selection of contracts and clients have not been developed and documented for ETS services. Although all federally owned museums, departments and agencies can request services together with any publicly chartered non-profit organizations moving fine art or heritage artifacts, within the context of limited resources, criteria guidelines would establish the basis on which requests are prioritized and accepted.

### **Recommendation # 7**

The Director General (CCI) should ensure that evaluation criteria are adequately developed and used by staff and that controls are implemented to ensure that each request is adequately reviewed and assessed within the set of established criteria.

### **Management response:**

*Recommendation accepted. By March 31, 2006, a review of existing criteria for the selection and evaluation of projects will be completed and training provided on the revised criteria to staff and managers.*

### Documentation

We have observed that written quotations and agreements on costs for service requests are not always provided for ETS by the manager at ETS and when provided, it is not necessarily documented. Moreover, procedures and processes for revenue systems are not documented with the exception of the system for preparing final invoices at CCI and for the preparation of deposits. This situation is of significance given the fact that CCI and ETS basically operate three distinct revenue generating operations: ETS, publications and CCI services which are unique and specialized and for which a limited number of staff are knowledgeable of these systems.

### **Recommendation # 8**

The Director General (CCI) should ensure that the procedures and processes for each of the

cycles within the revenue systems within CCI and ETS are fully documented. Furthermore, written quotations or agreements should be implemented for request for services provided by ETS.

**Management response:**

*Recommendation accepted. By March 31, 2006, the procedures and processes for the cycles within the CCI and ETS revenue systems will be documented. ETS will begin using written quotations or agreements for requests for services from its clients.*

Reconciliation of Revenues

It was noted that reports of revenues generated by ETS are not reconciled to the financial system (SAP) on a regular basis. Consequently, errors or variances may not be identified on a timely basis.

**Recommendation # 9**

The Director General (CCI) should ensure that a reconciliation is completed on a regular basis of the ETS revenues reported in the financial system (SAP) to those reported in the internal reporting system in order to ensure that any variance is investigated and resolved on a timely basis.

**Management response:**

*Recommendation accepted. Effective August 2005, reconciliation of ETS revenues is being completed on a regular basis (every two months).*

**6.2 Procurement and other Financial Activities**

In order to assess that CCI operations are carried out in compliance with the relevant authorities and policies governing the organization, auditors reviewed transactions related to the procurement of services and goods, travel, acquisition cards and payments to suppliers.

**6.2.1 Procurement**

The procurement of goods and services in the federal government is governed by two important principles: best value and open access to contracting opportunities. The *Government Contract Regulations* allows the contracting authority to set aside the requirement to solicit bids when: there

is an urgent need for the good or service; the estimated expenditures will not exceed \$25,000; it is not in the public interest to solicit bids; or, there is only one person or firm capable of performing the contract. The use of one of the four exceptions should be fully justified on the contract file.

Contracting for goods and services also involves risks, for example, if the objectives are not well defined, if the criteria for the selection of the supplier are not precise enough or the selection process is not well documented; if the selected supplier is not reliable or does not offer the best value for money.

The procurement of goods and services at CCI is done by using different methods such as service contracts, standing offers and local purchase orders. Payments are made by cheque or acquisition cards (see Section 6.2.3).

### **Procurement of Services**

Some of the best practices the audit team has observed include:

- the request from the program representative is documented in the requisitions initiated in the Requisitions database which includes approval under S. 32 of the FAA;
- most contracts include a statement of work clearly defining performance (i.e. deliverables), time and cost expectations;
- payments are initialled to confirm expected performance and have valid S. 34 certification; and
- reconciliation of the payments is done in the SAP system.

In the audit team's opinion, however, some improvements are required to ensure full compliance with the Treasury Board requirements.

### Procedures

Responsibility for the procurement of services is shared across CCI. All contracts under the delegation of CCI are prepared by the Procurement Officer after responsibility centre managers have selected successful suppliers. The Procurement Officer is also responsible for the provision of advice and guidance to management and for liaising with PWGSC when required. Further to our interviews, it was noted that roles and responsibilities for the procurement of services are not clearly defined and the Procurement Officer may be exercising responsibilities in addition to those which are required.

CCI has established internal processes and authorities for the procurement of services that are built into the Requisition Database. It has not, however, developed internal procedures to assist management and staff in carrying out their responsibility for the procurement of services.

The existence of internal procedures would have the advantage of clarifying roles and responsibilities, providing direction on the general requirements of the TB Contracting Policy and

providing a context for non-competitive contracting. The procedures should also include a requirement for using the tools developed by the Financial Management Branch such as the Contract Data Sheet or the Competitive Data Sheet and the Contract Due Diligence Check List (currently available on PCH's website) and file documentation.

### Contract Selection Process

The method used to select the contractor, especially in the case of a sole source, is rarely documented. While it is understood that some contracts are issued to conservation specialists, the rationale for selecting the contractor should be documented.

In cases where a mini tendering process is used, the selection of potential bidders and the method used to reach these potential bidders (i.e. CHIN network) should be appropriately documented on file.

When CCI uses the services of PWGSC, the recommended method used to invite bidders to submit a proposal (i.e. MERX or standing offers or ACAN) should be clearly documented on file.

The process used to evaluate proposals needs to be refined and properly documented. More specifically, it was noted that it was not always clear on file who the evaluators were, how the evaluation was done and, what the results of the evaluation were. In one of the three files examined, a summary of the individual evaluations was not completed and it was not clear who the successful bidder was.

### Contract Award and Administration

For the 3 contracts reviewed and issued by PWGSC, none of the files had a final contract signed by the Contractor. It was therefore difficult to ensure that payments were made according to the official version of the contract.

Following our request to obtain signed copies, an official from PWGSC informed the Procurement Officer that contractors' proposals form part of the contract and that since the proposals are signed by the bidders, there is no requirement for the selected contractor to sign the contract. The PWGSC official indicated that only amendments are signed by the contractor. The copy of the amendment requested did not, however, have the signature of the contractor.

Not all contracts had security clauses and for those that had it, proof of security clearance was not found on file. In the course of our interviews, it was confirmed that security clearance is usually mandatory for contractors and that relevant information is kept in a different file. Given that security requirements are an integral part of the contracting process, this information should be included in the contracting file.

For contracts examined that were amended, there were two instances where the 2<sup>nd</sup> page of the amendment was missing and it was therefore impossible to assess the reasons for the amendments

and to reconcile payments in relation to the amendments. In three other instances, the reconciliation of amendments to the original contracts was difficult to complete. In our follow-up activities, the Procurement Officer explained that there were some difficulties with the application of the automated template for service contracts and we were able to review the information on the computer screen. These difficulties have since been resolved.

### **Recommendation # 10**

The Director General (CCI) should ensure that:

- (a) Internal procedures on the procurement of services and on the evaluation of proposals are developed and properly documented. Internal procedures should include clearly defined roles and responsibilities in the procurement process.
- b) A procedure is established on the type of information that must be maintained in the contracting files and in issuing responsibility centres and reflect this in the internal procedures on the procurement of services.

### **Management response:**

- (a) *Recommendation accepted. By December 31, 2005, the internal procedures on the procurement of services and the evaluation of proposals will be documented and implemented, and the requisition database modified accordingly.*
- (b) *Recommendation accepted. By March 31, 2006, the existing procedures for the type of information required in contracting files will be documented, and incorporated into refresher training sessions.*

### Improvements to the Canadian Conservation Institute Building

In 2004-2005, CCI signed Specific Service Agreements (SSA) with Public Works and Government Services Canada (PWGSC) for a total of \$3.7M for improvements to the building they are currently occupying on Innes Road. Given that this project was part of our selection of files to be examined and that it could not be reviewed in the context of the assessment tool for the procurement of services, the auditors examined the management control framework put in place for the implementation of this project.

The building on Innes Road is managed by PWGSC and, as the custodian of the facility, it commissioned a study in 1995 to assess the deterioration of the building envelope. Failures in the building envelope were identified including mould and extensive rot and as a result, corrective measures were recommended. After several other studies and consideration of several options, a decision was made to proceed with the removal of the contaminated materials and retrofit the building. The project (including the prototype) was initiated in 2002 and is now scheduled to be completed by the end of 2005-2006. Funding for this project is shared by PWGSC (base building components only) and PCH.

The Director General of CCI is accountable for the project within PCH and PWGSC has assumed the role of contract manager on behalf of PCH and as such, is responsible for ensuring that the contracts and the completed work are done according to established procedures. The project is monitored by a management team which includes the CCI Manager of Treatment and Development who is also the PCH project leader, the CCI Director of Business Planning and Administration, and members of PWGSC.

A risk assessment and risk management strategy has also been developed in order to mitigate risks. Project expenditures are monitored closely by the Director of Business Planning and Administration and CCI's management team. PCH's Finance Branch also provides advice related to accrual accounting and financing.

In general, we can conclude that, while PCH must rely heavily on PWGSC, the management control framework for this project is adequate.

### ETS

ETS uses the services of four (4) drivers on contract on the terms of "as and when required" for the transportation of works of fine art and exhibitions. All of these contracts are in the last year of the second option under the contract. These same drivers have been retained by ETS under contract for a number of years as, according to CCI staff, they are the only ones which have responded to the Request for Proposal that was posted on MERX.

According to ETS, it would not be financially viable to use employees to provide these services due to the cost of time requirements and other conditions imposed on them. Overtime and other

benefit costs would be too onerous for the organization. Furthermore, the services provided are specialized and require reliable and professional service delivery to maintain ETS's excellent reputation which has been demonstrated by these drivers over the years.

In reviewing the terms of the contracts with these drivers, however, they do not appear to meet Canada Revenue Agency (CRA)'s definition of a business relationship status. One of the principal issues that define such a status is that of identifying the owner of the financial risk of the business. As stated in the contracts, the risks are assumed by ETS: the vehicles are provided and insured by ETS; maintenance and all costs of providing the services are the responsibility of ETS.

CRA has set a number of factors to be examined and analysed to determine the terms and conditions of the worker's employment which are grouped under four main topics:

1. Control over the terms of the services to be provided
2. Ownership of the tools to provide the services
3. Chances of profit or risk of loss for the contractor
4. Integration (connection and dependency on business of ETS)

Most of the factors examined in relation to these contracts would lead to believe that the status of these drivers would be that of an employer/employee relationship as opposed to that of a business relationship.

### **Recommendation # 11**

The Director General (CCI) should clearly establish the employment relationship between the drivers and CCI to ensure it meets its responsibilities in regards to withholdings, remittances and reporting for these individuals. Should CCI be unable to clearly determine the relationship, a formal ruling request should be made to determine the status.

### **Management response:**

*Recommendation accepted. The DG (CCI), in consultation with Planning and Corporate Affairs (Finance & Contracting) and the Human Resources & Workplace Management Branch (HR), is examining options with respect to the status of the drivers. A decision about how best to proceed will be taken by June 30, 2006. The timing of the implementation of this decision will depend on the option selected.*

Furthermore, we have observed that the drivers' invoices detail the distance traveled as reconciled to the vehicles' data system. However, a portion of the drivers' fees is based on time when the vehicle is not in use. Drivers are not required to submit a detailed daily record of activities to support all activities performed and the time invoiced. The ETS manager reviews the reasonableness of the time charged to the service according to the information noted on their invoices.

Moreover, the drivers have the authority to modify the transportation contract with the client for the description and quantity of goods transported. The changes on these contracts are not always confirmed by the sender or the receiver.

### **Recommendation # 12**

The Director General (CCI) should:

- a) Require the drivers to submit a daily record of activities in support of the invoicing of their services to ETS; and,
- b) request that all changes to delivery contracts be confirmed in writing by signature by the client on the transportation contract at the time of pickup.

### **Management response:**

*Recommendation accepted. Effective November 2005, the fine arts handlers/drivers have been submitting, at the time of invoicing, a daily record of the work performed (pick-ups/deliveries). This procedure will be reviewed once the status of the fine arts handlers/drivers is determined. Procedures regarding changes to delivery contracts will be incorporated into the ETS database (Art Porto).*

### **Procurement of Goods**

Because of the nature of their work, CCI requires the use of specialized equipment and tools such as spectrometers, cameras etc. Since this equipment is expensive and resources are not always readily available for their purchase on a timely basis, CCI must often rely on PCH to purchase some equipment. Furthermore, given that CCI provided some of its funding for the retrofit project, they had to postpone the replacement of much needed equipment thus reducing its service delivery capacity.

In the course of our audit we were able to identify some of CCI's best practices for the procurement of goods. These are:

- procurement records contain a request prepared from the Requisition Database and received from program personnel describing the good requirement;
- the PO contains a clear description of the good to be provided by the supplier and the deadline for the provision of the good;
- the supplier invoices are signed to acknowledge the satisfactory acceptance of the goods received;
- invoice details agree with the PO; and
- payments to suppliers are in accordance with the basis and terms stated in the PO.

However, some improvements are required in the following areas.

In forty-three percent (43%) of the files reviewed, a detailed quotation from three different suppliers was not included. While it is understood that for some specialized equipment there might be only one supplier, this information should be documented in the purchase file. In cases where suppliers consulted cannot provide the equipment by the date requested by management, this information should also be documented.

The Request for Proposal is not always on file and it is therefore difficult to assess the relevancy of the proposals or the basis for the selection of a supplier.

For goods purchased via PWGSC, signed copies of contracts with the supplier are not always on file and we were therefore unable to confirm that payments were made according to the terms and conditions of the contract (see section on the procurement of services).

The method used for the selection of suppliers is not always documented.

### **Recommendation # 13**

The Director General should ensure that procurement files include:

- a) request for proposals/quotations sent to potential bidders, the names of the companies the proposal was sent to and the proposals from all bidders to ensure that the quotations meet the requirements of the request for proposals;
- b) signed copies of contracts issued by PWGSC to ensure payments are made according to the terms and conditions specified in the signed contracts; and
- c) the method used to select suppliers.

## **Management response:**

*Recommendation accepted. By December 31, 2005, new procedures detailing the type of information required in the contract files will be implemented and the acquisition database modified accordingly.*

### **6.2.2 Travel**

In general, the audit team found that travel at CCI was compliant with the Treasury Board directive on Travel. Some of the best practices we have observed include:

- travel is approved in advance in the Travel Database;
- air transportation is usually booked as far in advance as possible;
- travel advances are reported on the travel claim;
- travellers submit signed travel expense claims; and there are indications on file that the expense claims have been verified.

Some minor improvements are required to ensure proper documentation of travel files.

- the expenses reported on the Travel Claims are not always arithmetically correct in instances where foreign currency conversions are made. A copy of the claim after verification from PCH-Finance should be kept on file to support claims where such conversions are made;
- the Record of Travel Expenses is not always completed fully resulting in inefficiencies in reconciling expenses;
- non-standard items in the Travel Authorization and Advance form are not always approved;
- hotel invoices or conference registration are not always indicated as “paid”;
- in situations where meals are provided on the plane and the traveller claims the same meal, there should be an indication on file as to the reason why this meal is reimbursed; and
- when there is a difference between the AMEX invoice(s) for air transportation and the TAA, there should be an indication on file to support this difference.

### **Recommendation # 14**

The Director General should request that CCI Business Practices procedures on travel be updated to ensure that:

- a) the Record of Travel Expenses is completed for all travel claims;
- b) non-standard items on the TAA are approved;
- c) proof of payments for items such as hotel and registration invoices are provided;  
and
- d) discrepancies between TAAs and Travel claims are documented.

**Management response:**

*Recommendation accepted. The CCI Business Practices procedures on travel have been updated, the database modified accordingly, and a training session held in November 2005 for staff.*

**6.2.3 Acquisition Cards**

CCI uses three types of acquisition cards: the Mastercard for the purchase of goods, the American Express for travel and the ARI card for vehicles. American Express cardholders are personally reimbursed for their travel expenses and the use of those cards were reviewed in the context of our examination on travel. This section of the report deals only with the Mastercard and ARI cards.

Mastercard

In order to solve certain problems related to the use of the Mastercard (i.e., pickup purchases), CCI decided that staff members would have a card issued in their name as required. There are currently 65 cardholders (the cardholder at ETS has five cards with different card numbers).

Some of the best practices include:

- files are well documented and include the following information: supplier monthly statement; coding to the relevant responsibility centre for each item; automated requisitions; invoices and log where every item purchased is registered; statements approved under S. 34 of the FAA;
- items purchased do not exceed purchase limit of \$5,000 per transaction and credit limits are not exceeded by the cardholders; and
- the Employee Departure Form includes an item on credit cards to ensure that cards are returned when employees leave CCI.

In our opinion, some improvements are required to ensure full compliance.

We cannot confirm that each item has been purchased by the cardholders since the supporting purchase slips are not always signed by the cardholder (i.e. phone orders). While CCI has generally good practices as stated above, internal procedures would ensure that the TB policy is applied consistently.

**Recommendation # 15**

The Director General should ensure that procedures including roles and responsibilities and the restrictions on the use of acquisition cards are made available to employees on the requisitions database or a shared drive.

**Management response:**

*Recommendation accepted. By December 31, 2005, procedures on the use of acquisition cards will be available to employees via the shared driver and the requisitions database. By March 2006, refresher training sessions will be developed and available to staff.*

Moreover, at ETS, acquisition cards have been given to each of the four contract drivers. These cards bear a distinct card number but are all issued in the name of the manager at ETS at a reduced limit of \$ 15,000 per card. These cards are used on a limited basis on the road by the drivers for repairs to vehicles when the ARI card is not accepted or for toll fees. The drivers also retain the credit card in their possession upon return from a transportation contract. Under TB policy, acquisition cards can only be issued to employees. ETS believes this to be an acceptable and less risky alternative to providing cash advances to the drivers for such transactions.

In the earlier part of 2004/2005, approval under S. 34 of the FAA was given by the manager at ETS on all statements. This practice was reviewed in the course of the year and the manager no longer approves any of the acquisition card statements under S. 34 for any of the cards issued since they are all in the manager's name. They are now being signed by the Associate Director General and Director of Conservation and Scientific Services.

It was noted that for those transactions where provincial sales tax had been charged to ETS, the GST portion calculated by ETS is overstated and consequently, the charge to the account in SAP is understated accordingly. Although provincial tax exempt, we have been advised that some smaller suppliers will nonetheless charge the provincial sales tax on some expenses. This situation was brought to the attention of ETS's manager.

### **Recommendation # 16**

Once the employer/employee relationship with its ETS drivers has been clarified (see recommendation 11), the Director General should resolve the issue relating to the use of acquisition cards by the drivers in order to be compliant with TB policy.

### **Management response:**

*Recommendation accepted. The issue of acquisition cards used by ETS drivers will be resolved once their status is determined.*

### ARI Cards

The ARI acquisition cards are supplied under the name of the vehicle and are used for the purchase of fuel and for repairs. At the beginning of our audit, management identified the issue related to the refusal from certain providers to accept the card.

The audit team noted the following best practices:

- ARI files are well documented and include the following information: monthly statements and monthly Service Card Activity Details reports for diesel and gas purchases and, original receipts/invoices for all transactions. All original invoices and receipts are filed by vehicle and in addition, copies of such receipts and invoices are also filed by month;
- every monthly statement and every original receipt are reconciled to the Service Card Activity report (date/quantity/amount/description/vehicle);
- purchase discounts appear on Service Card Activity Report by transaction and the net charge is reconciled to the monthly statement; and
- every statement is approved under S. 34 of the FAA.

#### **6.2.4 Payments to Suppliers**

We tested the following attributes for payments to suppliers such as Bell and AMEX to ensure that funds are committed and authorized under S. 32 of the FAA, invoices are date-stamped when received and paid on a timely basis and, that invoices were authorized under S. 34 of the FAA.

We can confirm that global commitments are made in the financial system at the beginning of the fiscal year and adjusted accordingly throughout the year; reconciliation of invoices is made on a monthly basis and, payments that were made but are not reflected on the next invoices were deducted from the amount due.

For the AMEX statements, a separate log is prepared with information such as the name of each traveller, the commitment and travel numbers, the dates of the trip and the amount paid. While it was not done for earlier files examined, the audit team noted that the manager of each traveller is now required to sign the log. For each travel report examined, the amount on the travel report was compared to the AMEX statements and for three (3) of the nine (9) files examined, it was not always possible to reconcile the two amounts. These discrepancies are due mainly to changes made by the traveller in his or her transportation arrangements. In order to avoid any confusion, a copy of the traveller's final itinerary along with the associated costs should be attached to the AMEX statement.

Moreover, there were no indications on the telecommunication invoices that phone charges (i.e., regular phones and cellular phones) are monitored by the relevant manager as section 34 of the FAA is signed by an administrative assistant.

#### **Recommendation # 17**

The Director General should ensure that phone charges are certified by the relevant manager and that travellers' final itineraries are attached to the AMEX statements.

**Management response:**

*Recommendation accepted. Effective November 2005, telephone charges are certified by the relevant manager and travellers' final itineraries attached to their AMEX statements.*

## Appendix A - Audit Criteria

The criteria applied for the conduct of the audit were as follows:

### Financial Management

*Budget Preparation and Monitoring Practices - to assess the adequacy of CCI's budget preparation and monitoring practices*

1. The budget is based on a comprehensive assessment of resource requirements.
2. Management regularly monitors the status of the approved budget.
3. Budget preparation and monitoring business process are documented.
4. Funding sources and levels for a fiscal year are established in a timely manner in order to, in turn, enable the timely preparation of financial plans and budgets at the cost centre level.
5. The rationale supporting the amount budgeted under the various cost elements is documented
6. Variances between actual and planned expenditures/revenues are identified and explained.

*Revenues - to confirm whether due diligence is being exercised in the management of all revenue sources and to provide assurance to senior management that financial processes and controls are in place to mitigate risk of non-compliance to TB and PCH policies and guidelines.*

7. Processes and procedures are properly documented and adequate training is provided to ensure awareness and understanding of revenue related policies and procedures.
8. Management reporting on revenues is generated and used by management to monitor and control all revenue activities.
9. Proper controls exist over the receipt and recording of public monies including reconciliation of deposit records to CCI account.
10. Revenues invoiced agree to CCI practices (pre-established prices per catalogue or fee as per signed contracts).

## **Financial Transactions**

*Procurement of Goods and Services - to determine compliance with the requirements of the government's contracting policy, directives and regulations and the extent to which CCI's contracting processes are documented.*

11. Procurement 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.
12. Client goods and professional services needs should be clearly defined.
13. Decisions to sole source professional service requirements < \$25K should be justified and requirements for professional services > \$25K are subject to competition.
14. Purchase orders > \$5K are subject to competition.
15. Sections 32, 33 and 34 of the FAA are properly exercised by CCI and PCH personnel.
16. Criteria should exist to guide the selection of which type of contract to put in place in response to client requirements.
17. The role, responsibilities and authorities of the various stakeholders involved in each type of contract processed are clearly articulated.
18. The inputs, process steps, outputs and controls associated with each type of contract processed is separately documented.
19. Contract file close out procedures are properly exercised.

*Travel, Acquisition Cards and Payment to Suppliers - Due diligence is being exercised in the management of travel, acquisition cards and payment to suppliers expenditures and financial processes and controls are in place to mitigate the risk of non-compliance to TB and PCH policies and practices.*

20. Expenses are incurred in accordance with TB and Departmental policies, procedures and guidelines.
21. Appropriate approval procedures are in place.