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## Final Report

2012-709

### Internal Audit (Phase 2) of Seized Property Management Directorate ("SPMD")

November 14, 2013

Office of Audit and Evaluation



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## **MAIN POINTS**

### **What we examined**

- i. The *Seized Property Management Act* authorizes the Minister of Public Works and Government Services to provide consultative and managerial services to law enforcement agencies in relation to property seized or restrained in connection with designated criminal offences or property that is or may be proceeds of crime or offence-related property.
- ii. The Seized Property Management Directorate (“SPMD”) is the Public Works and Government Services Canada (“PWGSC”) directorate responsible for managing seized or restrained assets under specific sections of the *Criminal Code*, Canada’s *Controlled Drugs and Substances Act* and the *Proceeds of Crime (Money-Laundering) and Terrorist Financing Act*. The directorate forms part of the Commercial Acquisitions and Supply Management Sector of PWGSC’s Acquisitions Branch.
- iii. SPMD works with law enforcement agencies, including federal police officers and Crown prosecutors on cases involving restraint, seizure and forfeiture by providing consultative and managerial expertise for asset management, disposal and/or return. The directorate is responsible for: custody and safeguarding seized and restrained assets; disposing of assets as mandated in forfeiture orders; returning non-forfeited assets; and, sharing the net proceeds of disposition of forfeited assets with involved jurisdictions.
- iv. Seized or restrained assets can take various forms including: real property; vehicles, boats and aircraft; hydroponic equipment and materials; businesses; livestock; small or high dollar value personal property such as furniture or jewellery; and other monetary instruments such as cash and currencies, investments, insurance, loans and mortgages.
- v. SPMD has designated warehouses in various regions across Canada to house certain moveable assets under custody. SPMD also contracts services from third parties and professionals to manage, maintain, safeguard, and dispose of moveable and non-moveable assets. Regional operations for SPMD are administratively centralized at headquarters located in Gatineau and decision making is centralized and segregated from the physical safeguard of assets in the regions.
- vi. Our internal audit focused on the regional control framework design adequacy and effectiveness as well as SPMD’s operational processes for seizure and restraint, management, disposal and/or return of moveable and non-moveable assets as mandated by management, forfeiture and return orders received. We also assessed the inherent and operational risks associated with the nature of SPMD’s activities against legislated requirements.
- vii. We examined assets located in regions across Canada, including those at SPMD’s regional warehouses and other third party sites where seized assets are held by non-government entities on behalf of SPMD. Our assessment included moveable and non-moveable assets located in selected regions. We did not examine monetary assets and other small valuable assets as these were reviewed in the original ‘Phase 1’ assessment and these items are not managed in regions.

## **Why it is important**

- viii. SPMD plays an important role in the criminal litigation process in Canada. Their role is ensuring that seized assets are safeguarded, maintained, and released or disposed of in compliance with governing court orders. The inherent risk relating to SPMD’s role is higher given the sensitive nature of the assets SPMD is entrusted to manage. It is important for SPMD to have a robust management control framework in place to protect the integrity of the process and to maintain the public’s trust.
- ix. SPMD provides advisory services prior to seizure, including: advising on the financial viability of managing targeted assets; identifying the best method to protect and maintain the value of assets; and coordinating services for seizure. SPMD also provides various consultative services to law enforcement agencies in relation to seized assets, to safeguard the assets, to dispose of the assets when the courts declare forfeiture, and to distribute the net proceeds of disposition with the provinces and foreign governments whose law enforcement agencies participated in the related investigation.
- x. As at March 31, 2012, the recorded value of moveable and non-moveable assets managed by SPMD across Canada was approximately \$368 million (consisting of \$255 million in real property, \$16 million in moveable assets, and \$97 million in cash and financial instruments). With the exception of cash, financial instruments and small valuable assets, the majority of moveable assets are held by SPMD and contracted third party suppliers located across major Canadian cities.
- xi. Control and decision making related to assets held in regions is largely held at headquarters. This demands an effective framework to maintain appropriate governance, controls, accountability and consistency across the regional activities. A centralized administrative framework must be balanced against the requirements of the region in the delivery of services and structured in a manner to provide appropriate support and guidance to the regions while allowing flexibility for the vast and differing regions across Canada.

## **What we found**

- xii. SPMD’s control framework for the management of seized moveable and non-moveable assets held in the selected regions is generally appropriate to comply with the legislated framework. Although the framework is considered appropriate, we identified opportunities to improve controls and processes, such as the oversight of regional locations by headquarters and evidence of appropriate segregation of duties. Additionally, the regional controls and processes, while consistent within each region, were not consistent across the regions.
- xiii. Policies and procedures were out of date and should be updated on a regular basis. The policies and procedures should be readily available and reinforced through training and other means to ensure that all SPMD staff is aware of, and comply with, applicable policies, procedures and legislative requirements. We observed inconsistencies across regions related to how each region interprets and complies with established SPMD procedures, as well as inconsistencies at headquarters related to required documentation and support maintained in case management files.
- xiv. Operational effectiveness could be improved with greater focus on proactive and standardized monitoring and oversight of case files and assets under management. We identified the absence of an

established risk and quality management framework incorporating regional and third party activities. The absence of an annual regional risk assessment and regular quality assessment procedures over key processes to assess operational issues and control weaknesses increases the likelihood that significant risks will not be prioritized and mitigated where appropriate. An annual risk assessment focused on the regional operational effectiveness of SPMD would support continuous improvement and prioritize individual and aggregate risks and opportunities for remediation.

- xv. Our examination resulted in three (3) overarching recommendations that should be addressed by the Assistant Deputy Minister, Acquisitions Branch. Our recommendations are primarily related to regional operational effectiveness and focus on: regular regional policy and procedure updates and training; improved asset tracking and reporting capability; and update of a consistent and effective risk and quality management framework.

## **Management Response**

Management has had the opportunity to review the Chief Audit and Evaluation Executive’s report, and agreed with the conclusions and recommendations found therein. Management also developed a Management Action Plan to address these recommendations.

## **Recommendations and Management Action Plan**

**Recommendation 1 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure that SPMD’s Operating Guidelines and Instructions be reviewed and updated immediately and on a regular basis thereafter. We recommend that the period chosen align with the *Seized Property Management Act* review period and when operational events and circumstances warrant updates. The updated guidelines and instructions should be provided to relevant SPMD staff and training should be provided, including but not limited to:

- 1.1 Regular SPMD employee awareness training on policies and procedures for all employees assigned to case files. Training should highlight the importance and required use of; standardized checklists, timely completion of condition reports, documentation of real property site visits and use of maintenance logs required to evidence adherence to contractual or legal obligations. A record of this training should be documented and maintained by headquarters.
- 1.2 Regular update of Operating Instructions for the consistent use of Delegations of Authority by SPMD staff and clarify the appropriate and consistent use of Disposal Approval Forms. The Operating Instructions should indicate an update period and be communicated to SPMD staff upon hire and after every update to ensure the requirements are clear.

### **Management Action Plan 1:**

*Immediate Measures* – Immediate changes will include updating the existing SPMD Operating Instruction on Delegations of Authority and standardizing the use of Disposal Approval Forms across the two Operating Divisions.

*Longer Term Measures* – A full review of the existing Operations and Financial Manuals and SPMD Operating Instructions will be undertaken. The existing training program will be updated and delivered by SPMD headquarters to all SPMD employees. Updates and reviews will occur when warranted.

**Management Action Plan 1.1:**

The existing training program will be updated to cover policies and procedures and will be delivered to all SPMD employees. The training will re-emphasize the use of standardized checklists; timely completion of condition reports, documentation of real property site visits; use of maintenance logs required to demonstrate adherence to contractual or legal obligations. A record of this training will be documented and maintained by SPMD headquarters.

**Management Action Plan 1.2:**

The existing Operating Instruction and training program on SPMD Delegated Authorities will be updated in consultation with key department contacts and delivered to all SPMD employees. The updated Operating Instruction will be approved by the Senior Director and communicated to employees by way of training and written communication. A consistent approach will be developed and implemented with the Directorate for the use of Disposal Approval Forms. Employees will be trained on the use of the form and will receive written notification. The standard use of the form will be monitored through the quality assurance review.

**Recommendation 2 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure that SPMD implement a consistent and updated warehouse tracking system that:

- 2.1 Directly populates the case management tracking system, Seized Property Management Information System (“SPMIS”) to facilitate tracking and managing inventory on a real-time basis (e.g. assets could be bar coded and scanned). Until such a system can be implemented; the manual inventory register provided by the regions should be reviewed and made consistent across the regions for mandatory information to be reported to headquarters on a monthly basis.
- 2.2 Requires staff in the regions to update their inventory register every time inventory is moved in the warehouse to ensure inventory location is up-to-date.
- 2.3 Establishes and communicates a standard process for assets received without governance documents which includes clear guidance on procedures and/or escalation required to ensure all documentation is received in a timely manner.

**Management Action Plan 2.1:**

*Immediate Measures* – Until a permanent system can be researched and implemented, a standard reporting tool will be developed to ensure consistency of operations at the SPMD warehouses across the regions; inventory reports will be provided to headquarters on a monthly basis.

*Longer Term Measures* – SPMD will research implementing a real-time inventory system (bar-code) at the SPMD warehouses that would directly update SPMIS. In the interim, the reporting tool will be standardized and implemented across the regions. The quality assurance team will sample the inventory on a quarterly basis and anomalies will be reported to the Management Team and addressed in a timely manner.

**Management Action Plan 2.2:**

Recommendation inventory register will be addressed by:

- a) New inventory procedures will be implemented for regional staff to ensure that the location is current.
- b) Contracting clauses will be added to 3<sup>rd</sup> party storage contracts to require service providers to provide SPMD with up-to-date storage locations monthly.

**Management Action Plan 2.3:**

New standard operating procedures will be developed and implemented on assets received without governance documents. The new procedures will be provided to all employees through the training program and in writing.

**Recommendation 3 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure regional monitoring and oversight is enhanced through a properly integrated and appropriately supported risk and quality management framework, including but not limited to:

- 3.1 Integration of regional activities to the risk management framework and periodical update to reflect risk tolerance and appetite and key risks identification, analysis, ranking and remediation. This should include strengthening governance to ensure policies and procedures are being consistently applied and followed across the regions.
- 3.2 Update of the quality assessment process to be carried out throughout the case file management lifecycle including key processes at head quarters, in regions, and for example a quarterly reconciliation of real property.
- 3.3 Implementation of a methodology that clearly evidences regional case officer review of all asset receipt, maintenance and disposal/return to support appropriate segregation of duties. This may include increased mandatory rotational periodic inventory counts of regional warehouses and third party service providers to validate asset location and condition, assessment of maintenance documentation and condition reports, and accuracy and completeness of records and case file documentation.
- 3.4 Analysis and enforcement of minimum physical security standards for all SPMD warehouses and third party sites. Standard contract wording should also be developed including an approval process for third party agents and subcontractors to ensure their physical security controls are maintained and meet SPMD standards.
- 3.5 Implementation of consistent and mandatory tracking logs for real property and other site visits and regular review of asset maintenance performed on moveable assets in the regional warehouses and by third parties.

**Management Action Plan 3.1:**

SPMD headquarters will update the existing SPMD Risk Management framework to include the regions across Canada. The existing Risk Management Framework will be updated to address risks with respect to asset management, warehousing and inventory management for the regional operations. Controls relating to the identified risks will be strengthened and monitored to ensure that policies and procedures are being consistently applied across regions. The framework will be reviewed on an annual basis and updated as appropriate.

**Management Action Plan 3.2:**

A quality assurance process to ensure adherence to SPMD Operating Instructions and Guidelines through the complete asset lifecycle will be incorporated into the existing SPMD quality assurance program. A quarterly reconciliation report of real property assets will be created by the Quality Assurance team and provided to the Management Team on a quarterly basis. Inconsistencies, which are identified, will be followed up and corrective action will be undertaken as required.

**Management Action Plan 3.3:**

The roles and responsibilities of Case Officers assigned to regions will be formalized and will include specific roles and responsibilities. These will require a review to confirm evidence of asset receipt, maintenance documentation and condition reports, and disposal/return of assets for warehouse and third party suppliers.

Contracts with third party suppliers will be updated to confirm the requirement to provide evidence of asset receipt, maintenance and disposal/return of assets on behalf of SPMD.

Quarterly reviews will be done on a rotational basis within the warehouses and the third party suppliers. Anomalies will be reported to SPMD management and follow-up will be done as appropriate.

**Management Action Plan 3.4:**

SPMD will establish and implement the minimum physical security standards for the warehouses managed by SPMD and third party sites. Contracts with third party suppliers will be updated accordingly.

**Management Action Plan 3.5:**

The headquarters SPMD quality assurance program will develop and implement mandatory tracking logs relating to the management of real property and maintenance standards to be performed on moveable assets. These will be implemented for warehouses and third party suppliers.



## **INTRODUCTION**

1. The authority for the conduct of this engagement comes from the 2012-2015 Multi-Year Risk-Based Audit and Evaluation Plan which was recommended for approval by the Audit and Evaluation Committee and approved by the Deputy Minister of Public Works and Government Services Canada (“PWGSC”).
2. Seized Property Management Directorate (“SPMD”) resides in the Commercial Acquisitions and Supply Management Sector of PWGSC’s Acquisitions Branch. SPMD was established in 1993 when the *Seized Property Management Act* came into effect. SPMD is the manager of assets seized or restrained under specific sections of the *Criminal Code*, Canada’s *Controlled Drugs and Substances Act* and the *Proceeds of Crime (Money-Laundering) and Terrorist Financing Act*.
3. The primary roles and objectives of SPMD are to: provide consultative services to law enforcement agencies related to assets seized or restrained; to safeguard and preserve the assets; to dispose of the assets when the Courts declare forfeiture or in other instances return the assets to the owners; and to share the net proceeds of disposition with the provinces and foreign governments whose police forces have participated in the investigations which led to the forfeiture of assets or the imposition of a fine-in-lieu. To manage and safeguard these assets, SPMD takes into account the specific requirements of each asset to preserve its value and condition and can engage professionals to help fulfill its duties throughout the process. In some cases, due to operational requirements or remote locations of certain assets, seized assets are being held and managed by third parties. SPMD ensures that assets involved are safeguarded, preserved, and are released of in compliance with governing court orders.
4. When law enforcement agencies complete their investigation, the police forces involved in criminal cases may submit a court application to order seizure or restraint of assets. Moveable assets are seized by a police force under a special search warrant or management order and real properties are restrained through court orders. These governing orders turn over the custody of assets to SPMD, who becomes responsible to manage, maintain and safeguard the assets until criminal legal proceedings are concluded. The inherent risk relating to SPMD’s responsibilities is higher given the nature of the assets SPMD is responsible to manage, requiring SPMD to have in place a robust management control framework for managing the assets. Accused sentencing may lead to forfeiture of assets or SPMD may be directed to return the assets to the owners. Following prescribed appeal periods, SPMD is ordered to proceed with the disposal of assets. Normally SPMD utilizes public sales and auctions to maximize revenue and ensure market value is obtained. Proceeds of disposal, net of all costs associated with the management and disposal of assets, are shared with the involved jurisdictions in accordance with the *Forfeited Property Sharing Regulations*.
5. SPMD therefore plays an important role in the criminal litigation process in Canada. It offers services at each of the three primary stages of criminal investigations and litigations, including pre-seizure, post-seizure and post-forfeiture of assets.
6. Seized or restrained assets could include assets acquired through proceeds of crime or objects used from committing a crime. These assets can take various forms: including real property; vehicles, boats and aircraft; hydroponic equipment and materials; businesses; livestock; small or high dollar value personal property such as furniture or jewellery; and other monetary instruments such as cash and currencies, investments, insurance, loans and mortgages.
7. SPMD’s activities are divided into four divisions: (i) Operations Eastern Canada Division, (ii) Operations Western and Northern Canada Division, (iii) Finance and Systems Division, and (iv) Business Management

Division. The Operational Divisions provides advice to law enforcement agencies and manages assets either within regions or at headquarters. The Finance and Systems Division manages the information technology requirements and is responsible for accounting and net proceeds sharing with law enforcement. The Business Management Division supports the directorate with tools and policies necessary for managing assets, including the quality assurance program, and human resources and training.

8. The Operational Divisions are responsible for SPMD managed warehouses and oversees third party warehouses where moveable assets are held and consists of headquarters and five (5) regions: Pacific, Western, Ontario, Quebec and Atlantic. Unmarked warehouses store assets which are managed by Case Officers or third parties located in the regions. Decision making for managed assets is centralized at SPMD headquarters and completed by Case Officers, supported by Case Assistants, and overseen by Team Leaders. At headquarters, Operations are divided into two divisions: (i) Eastern Canada and (ii) Western and Northern Canada. The Eastern division manages cases originating in Ontario, Quebec and the Atlantic regions, the Western and Northern division manages cases associated with the Pacific and Western regions. Cases are assigned based on the above geographical split, complexity of the case and workload balance. The IT system used by SPMD headquarters to record and to manage assets is the Seized Property Management Information System (“SPMIS”).
9. An independent review was completed to assess the adequacy and effectiveness of SPMD processes and controls including segregation of duties, at headquarters (“phase 1”). The review assessed receipts and disbursements of monetary assets and the management and safeguarding of small high dollar value moveable assets. The Audit and Evaluation Committee subsequently requested the Office of Audit and Evaluation (“OAE”) complete an internal audit related to other seized moveable and non-moveable assets in the regions. The OAE engaged Raymond Chabot Grant Thornton Consulting Inc. to perform this internal audit engagement.
10. As of March 31, 2012, the total recorded value of moveable and non-moveable assets that SPMD manages across Canada was approximately \$368 million (consisting of \$255 million in real property, \$16 million in moveable assets, and \$97 million in cash and financial instruments). Moveable assets forming part of the scope of this audit included assets held in both, SPMD warehouses (\$4 million) and third party locations (\$12 million) across major Canadian cities.

## **FOCUS OF THE INTERNAL AUDIT**

11. The objective of this internal audit was to provide assurance on the appropriateness of the SPMD processes and control framework related to the management of movable and non-moveable seized assets held and managed in regions across Canada.
12. The internal audit focused on key controls and processes related to the receipt, management, disposal or return of moveable and non-moveable assets held by SPMD in regions, including related segregation of duties, for the fiscal years ended March 31, 2011 and March 31, 2012.
13. The following categories of moveable and non-moveable assets held by SPMD in various regional locations were included in the scope of this engagement: real property; vehicles, and aircraft, hydroponics equipment and materials; and other personal property such as furniture. These assets included non-moveable assets estimated at \$255 million and moveable assets estimated at \$16 million. Cash, financial instruments, and

other small valuables (e.g. jewellery) held and managed by SPMD’s headquarters did not form part of the scope of the internal audit as they were covered in Phase 1.

14. Site visits were conducted at four of the seven regional SPMD warehouses and two other third party warehouses where seized assets are held by non-government entities on behalf of SPMD. These locations held approximately 35% of the total value of moveable assets at March 31, 2012, representing 64% of the value of moveable assets held at SPMD warehouses and 26% of assets held by third party storage facilities. There are approximately 177 third party storage facilities used by SPMD with about \$11.4 million worth of assets, therefore the approximate average value for third party storage facilities is \$65,000. The sample of two third party sites visited as part of this internal audit represented approximately \$3 million. For each of the SPMD warehouses and third party sites visited, we held discussions with regional representatives and conducted a walk through to validate processes and controls.
15. We reviewed regional processes and key controls and held discussions with SPMD employees and management. The adequacy and operating effectiveness of key controls was tested through site visits and documentary review, including walkthroughs, visual inspections of assets and warehouses and discussions with SPMD and other third party individuals located in selected regions in Canada. To assess oversight and segregation of duties we also reviewed documents and relevant policies and procedures at headquarters.
16. A representative sample of moveable assets was selected from SPMD’s inventory listing and traced to the assets located in the warehouses (sheet to floor), and a sample of assets was judgmentally selected on the floor to trace back to the current SPMD inventory listing and SPMIS, the online case management business system (floor to sheet). We also selected a sample of non-moveable real properties from SPMD’s inventory listing and conducted visual inspections. We selected approximately 30 moveable or non-moveable assets from each of the SPMD warehouses and third party sites visited. Information contained in case files and the online case management business system at headquarters was completed using a sample of 20 assets selected from each of the various categories of moveable and non-moveable assets, to test key controls including segregation of duties.
17. Additional information on the internal audit objective, scope, approach and criteria can be found in the section “About the Internal Audit” at the end of this report.

## **STATEMENT OF COMPLIANCE**

18. Our internal audit conforms with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. This internal audit was also conducted in accordance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* as well as in accordance with the *Standard Practices for Investigative and Forensic Accounting Engagements* established by the Chartered Accountants of Canada Alliance for Excellence in Investigative and Forensic Accounting.
19. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the findings and conclusions in this report and to provide an audit level of assurance. The findings and conclusions are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The findings and conclusion are only applicable to the entity examined and for the scope and time period covered by the audit.

## OBSERVATIONS

### APPROPRIATENESS OF CONTROL FRAMEWORK AND PROCESSES TO COMPLY WITH LEGISLATED FRAMEWORK

#### Control framework is generally appropriate, controls and processes need improvement

20. Appropriate control design is essential to good management and ensures key risks are adequately identified, assessed and mitigated. Control frameworks are comprised of interrelated components including, but not limited to: documented policies and procedures; standardized and accurate reporting; and, proper monitoring and oversight. An effective control framework incorporates controls that are appropriate for the benefits and risks of a given activity of the organization. As part of this internal audit, we expected to observe that SPMD had incorporated the above-noted components, to facilitate and support compliance with the legislated framework for asset receipt, management, disposal and/or return.
21. SPMD’s control framework consists of structures and measures put in place to help management oversee operations to ensure alignment of activities with the legislated framework and ensures the organization is operating effectively. In general, we noted that the control framework in place at SPMD is designed to ensure compliance with the legislated framework. We found appropriate controls within each region that supported the legislated framework.
22. We identified areas for improvement related to inconsistencies in the design of controls and segregation of duties across the regions. Notwithstanding, we observed that, in general, each region we assessed has appropriately designed and consistently applied their interpretation of appropriate and effective controls. Specifically, each region followed or developed their own controls to align with the receipt, management, and disposal or return of assets as required under the *Seized Property Management Act* and managed by SPMD headquarters.

#### Need to enhance the risk and quality management framework

23. We observed that each region has developed its own processes for identifying, assessing and responding to issues and risks identified in day to day operations. Issues identified were communicated to headquarters once they were resolved or if they required specific support or funding. We did not find evidence of a consistent and proactive approach to aggregate risk management and quality management practices for regional processes. In addition, we did not find evidence of a quality management framework to ensure consistent regional oversight and monitoring, adherence to regional policies and procedures or functioning of key regional controls. The framework needs to be updated to include specific key processes review across files, quarterly file reviews that cover the entire life cycle of the asset, and rotational periodic inventory counts or key controls review over assets managed in SPMD warehouses or third parties.

**Internal policies and procedures exist but are outdated**

24. We observed that formal written internal policies and documented procedures exist at SPMD<sup>1</sup> and align with the mandated framework. While the policies and procedures were outdated, they did set out clear expectations and requirements to follow in order for SPMD to meet the legislated framework throughout the process, from asset receipt through to management, and disposal or return of assets.
25. We observed outdated policies and procedures which made it more difficult to provide effective monitoring and oversight of case files and ensure consistency in processes followed by all regional staff. Written operating instructions have been issued over time and management indicated that checklists were in the process of being developed; however, this process is not updated on a regular interval or applied consistently.

**Outdated policies and procedures are generally followed by headquarters but inconsistencies in approach and documentation were found across case files**

26. The procedure manual, although outdated, was generally applied by headquarters. The files we selected included the work of six (6) different case officers. We noted inconsistencies in approach and documentation across files, depending on the Case Officer responsible for the file. Case Officers completed checklists and included appropriate audit evidence. In some cases, supporting documentation was kept outside of the case file (e.g. SPMIS).

**In the absence of standard manuals and checklists, regions have developed their own processes**

27. We observed that the procedures manual was not clearly communicated and was not required to be used by all regions (e.g. SPMD warehouses). In the absence of standard manuals and checklists for the regions, Case Officers assigned to the regions and third party managers have created their own practices which have resulted in inconsistencies in procedures across the regions. Two warehouses (Ontario and British Columbia) have developed their own procedures and tracking sheets for generating data reported to headquarters.

**Limited segregation of duties and reliance on key individuals in the regions**

28. We found appropriate design of operational controls at each regional location, however each region had only one individual who was primarily responsible for ensuring proper processes were in place to physically receive, safeguard, dispose of or return and track seized property. Compensating controls exist to minimize the lack of segregation of duties including: centralized decision making (i.e. decisions relating to the receipt, safeguarding, and disposal/return of assets are made by headquarters and the staff in the regions are assigned by them to carry out their orders and fulfill their requests as needed), asset tracking and documentation, asset disposal authorization and monthly reporting. Although these mitigating controls were in place, we note that improved oversight through management review would be appropriate given the nature of the assets.

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<sup>1</sup> Procedures manual include the Operating Division Reference Guide dated October 2009, various Operating Instructions, and draft checklists.

## **REGIONAL AUTHORITIES COMPLIANCE WITH ESTABLISHED PROCEDURES**

29. Regional authorities include Case Officers and other third parties located in various regions across Canada, with responsibilities over asset receipt, management and disposal or return. The following section identifies key observations of whether supporting controls and procedures are appropriate across the regions, and whether asset recording and reporting is accurate, timely and complete.

### ***Asset Receipt***

#### **Asset receipt controls were consistent within each region but inconsistent across regions**

30. In three (3) out of twenty (20) seized asset files reviewed at headquarters, we noted five (5) week to nine (9) month delays between court order issuance appointing SPMD (e.g. management, forfeiture) and receipt of orders at SPMD. This presents a risk that SPMD may be held responsible for assets without their knowledge which could result in non-compliance with court orders. However, the receipt of court orders and any related delays are outside of SPMD’s control.
31. We observed that, while asset receipt tracking sheets and the related procedures existed, they were not standardized across regions resulting in inconsistencies in business practices and reporting to headquarters. At one SPMD warehouse, the Case Officer in the region developed tracking sheets to monitor and track assets (incoming, movement within the warehouse, etc.). Similarly at another warehouse, the Case Officer in the region developed his own procedures document as a reference to be used by staff to monitor and track assets. We also observed that asset receipt and tagging practices differed from one region to the next, increasing risk of errors, misplacement, or difficulty locating assets.
32. We observed that condition reports for assets received were completed for real property and high dollar value items. The process and requirement for asset receipt condition reports was not consistently used across the regions or at third party sites. Condition reports were not always completed in a timely manner at the time of receipt. In some cases, regions provided photographs rather than written condition reports. Our review of third party agreements indicated that condition reports are always required when assets are received; however, a conflicting clause in the agreement notes that they are only required when requested from SPMD.
33. We observed some cases where there was receipt of assets for which no governing orders were provided. These items were accepted by Case Officers in regions and recorded under a police file number, either until the governing orders were received, or when the governing orders were received (some had not been received). We note that this observation is out of the control of SPMD however we found no requirement to follow up or escalate resolution for outstanding orders.

### ***Asset Management***

#### **Physical security of warehouses was inconsistent across the regions**

34. Security audits were performed in 2010/2011 by PWGSC for all SPMD facilities (excluding third parties) and provided recommendations for compliance with the Policy on Government Security. We observed that while appropriate physical security controls measures existed, they were not standardized across all SPMD warehouse sites and compounds security. We also observed lack of monitoring at third parties sites for physical security compliance to established requirements.

35. During one regional visit we observed that, although the location of SPMD warehouses is confidential, the fences were surrounded with storage containers with “SPMD” clearly marked on them and in plain view of the public.

**Maintenance of vehicles by third party service providers was inconsistent across the regions**

36. Third party contracts required tires to be maintained, engines to be started at least once per month and cars to be moved at least 0.5km. We inquired about maintenance logs to document that these checks are being performed but were informed that this was not required at SPMD warehouses or at third party locations. The processes for management and regular maintenance of vehicles also differed between SPMD warehouses and third party locations, with maintenance being performed more regularly at SPMD operated warehouses.
37. We observed some vehicles with flat tires, and higher value vehicles that were being stored outside at both SPMD warehouses and third parties. SPMD procedures require regular checks on vehicles to ensure that the asset value is properly maintained (e.g. regular inflation of tires, turning on engines and driving the vehicles, etc.).

**Maintenance of non-moveable assets was not easily confirmed**

38. Written logs of site visits to real property assets are not maintained to evidence proper oversight and monitoring of real property. Identified issues were recorded in case files, however there was no independent evidence that properties were visited on a regular basis if there were no issues to report. We noted that some Case Officers document real property visits by ensuring supporting documentation is maintained in the case file at headquarters but this was not consistent across Case Officers.
39. For one real property case sampled, file documentation was not available to evidence that all interested parties of the seized real property were contacted in a timely manner informing them of SPMD’s appointment, which may not be compliant with the legislated requirement to notify all parties of interest.

**Controls over expenditures were non-compliant prior to July 2011 and are currently unclear**

40. In the Quebec region, decision making for expenditures related to real property was performed by the Case Officer assigned to the region with no evidence of pre-approval from headquarters. This is inappropriate segregation of duties between the region and the case officer at headquarters. This lack of segregation of duties increases the risk for possible error or misappropriation of assets. The issue appears to be a result of limited oversight and immediate measures have been taken by SPMD to rectify the situation as a result of our assessment.
41. In four (4) out of five (5) asset files reviewed prior to July 2011, we observed that expenses related to asset safeguarding and maintenance incurred by Case Officers in regions did not respect section 32 of the *Financial Administration Act*. Specifically, we observed that a blanket section 32 approval for expenses commitment was used for acquisition card limits, and was not performed for individual transactions. SPMD advised that this compliance issue has since been addressed and has now been corrected.
42. We were informed through interviews that individuals still did not clearly understand the requirements and implications of delegated authorities and what they are permitted to sign for, therefore further clarification may be required. Without regular training and updates there is a risk that compliance with the *Financial Administration Act* may not be respected.

**Asset location, recording and reporting was not always timely, accurate, and complete**

43. We observed that each region could provide records and locate assets however there were limited controls across the regions, to verify that asset information in the warehouse is up to date and accurate. Asset location in the warehouses was sometimes difficult to determine because information had not been updated and staff occasionally relied on memory to trace the location of assets. Significant reliance is placed on the Case Officers in the regions to accurately track and relay information to headquarters on a timely basis using the inventory spreadsheet. In one instance we could not locate a test item in the Ontario SPMD warehouse. We note that SPMD employees make a reasonable effort to update their inventory spreadsheets however the manual process used can be inefficient and prone to error and inconsistencies.
44. The asset tracking and oversight for the regions is limited by the current structure and capability of SPMIS. Asset tracking is structured by case file and is held at headquarters creating a necessity for each region to develop its own tracking system for each location. In the absence of a current and standardized approach for asset management, each warehouse has developed its own system for managing inventory. This increases the risk of manual error, management override of controls, inconsistent and incomplete data and reduced operational effectiveness and efficiency.
45. We observed that some third party managers subcontract the storage of vehicles, and the exact location of some of the assets in one of the regions was difficult to determine. We noted that while subcontracting is permitted, not all subcontractor locations were noted in the contracts we reviewed and the contract specifically stated that no subcontracting is allowed without approval from SPMD. We found no evidence of amendments or approvals for subcontractors not originally noted in the contract. We also did not identify regular rotational periodic inventory counts or other processes to validate the accuracy of the assets to SPMIS.
46. Each regional SPMD warehouse maintains an inventory register of assets on hand, including details such as asset and case number, inventory tag or code assigned, asset description, warehouse floor location and space used, dates in and out, as well as other special notes. Although reconciled at headquarters monthly via the case management system (SPMIS), the register manually updated by the Case Officers in region introduces an increased risk for errors and inaccuracies. We did not identify regular rotational periodic inventory counts or other processes to validate the accuracy of the inventory register to SPMIS.
47. The real property inventory listing provided for one region was found to be inaccurate and out of date.
48. We noted inconsistencies across all regions inventory register in the level of detail, methods for tracking items on the floor, and inaccuracies on the floor location. In one region, the floor plan did not clearly document how to trace assets to the inventory sheet and not all assets were clearly itemized and identified, rendering tracking to the inventory sheet difficult. In one region, the warehouse had been reorganized and the inventory sheet was not immediately updated.
49. We observed that the moveable asset labeling method differs from region to region which made the audit trail for inventory identification and tracking difficult. Some assets are tracked with the name of the police file while others used a case number or asset number to identify the asset and warehouse floor plan location. For vehicles the Vehicle Identification Number was not easily linked to third party managers’ lists and SPMD’s inventory spreadsheets. Warehouse floor plan systems were not consistent between regional locations or documented for ease of asset tracing. In some cases warehouse staff did not have an SPMD number or were dealing so frequently with the police that it was deemed preferable to use the police file number.



### ***Asset Disposal/Return***

#### **Interpretation and use of Disposal Approval Forms is inconsistent between the Eastern and the Western and Northern divisions**

50. There is presently an inconsistent interpretation of approval requirements in relation to disposal or return of assets. SPMD employees informed us that disposal authority is not always clear and this has resulted in the regions using Disposal Approval Forms inconsistently. The Western and Northern division uses authorized Disposal Approval Forms for disposal of assets based on the value and type of asset. In the Eastern division, Disposal Approval Forms are being used for all assets with proper authorization by the Case Officer assigned to the region. In cases where assets are disposed of as donations for research and training purposes (e.g. college, universities, law enforcement training), the Disposal Approval Form was not always authorized by the appropriate authority. Additionally, within the Eastern division, Disposal Approval Forms were used inconsistently for real property (e.g. before listing a property vs. upon offer acceptance vs. at time of counter-offer, etc.). This increases the risk of non-compliance with appropriate internal oversight and approval.

#### **Confirmation of disposal is not consistently requested or recorded**

51. We observed that headquarters does not always obtain a confirmation from the Case Officer in the Region that assets have been disposed of or returned in accordance with court orders. We observed that occasionally, equipment is considered disposed, although remains physically on site. Headquarters requests written confirmation of disposal from the region however does not request supporting documentation.

#### **Maximization of sales value may not be achieved with third party service providers**

52. SPMD requires that 90% of the asset value be recovered 90% of the time for the sale value of assets. This is monitored by SPMD and any asset value adjustments require approval by Team Managers. We observed that, in some cases, management relied on third parties who were storing the assets to determine the minimum market value of the asset. We noted that there may be limited incentive for third parties to suggest a true market value as their monetary return was limited to 10% of the sales price. We also noted that the majority of the revenue stream for third parties was obtained from storage of the vehicles thus there is limited incentive to sell the assets. Also, the decision and justification for any adjustments to the minimum sale price were not fully documented in the file.

#### **Release condition reports are not consistently documented**

53. With the exception of real property, we observed that there was no requirement to complete a release condition report or other documented validation of the disposal or return condition of the asset held at SPMD warehouses. We noted inconsistencies in how condition reports at disposal were used between SPMD regional warehouses or at third party manager sites. Disposal or return reports were rarely completed unless specifically requested by the Case Manager at headquarters. Our review of third party agreements indicated that condition reports are always required prior to assets being disposed; however, a conflicting clause in the agreement notes that they are only required when requested by SPMD. In the absence of well documented condition reports, SPMD may find it difficult to evidence proper management and preservation of assets, and obtaining maximum value on forfeiture.

## **CONCLUSION**

54. SPMD’s control framework for the management of seized moveable and non-moveable assets held in the selected regions is generally appropriate to comply with the legislated framework. Although the framework is considered appropriate, given the nature of the seized property, we identified opportunities to improve controls and processes, such as the oversight of regional locations by headquarters and evidence of appropriate segregation of duties. Additionally, the regional controls and processes, while consistent within each region, were not consistent across the regions.
55. Policies and procedures were out of date and should be updated on a regular basis. The policies and procedures should be readily available and reinforced through training and other means to ensure that all SPMD staff is aware of, and comply with, applicable policies, procedures and legislative requirements. We observed inconsistencies across regions related to how each region interprets and complies with established SPMD procedures, as well as inconsistencies at headquarters related to required documentation and support maintained in case management files.
56. Operational effectiveness could be improved with greater focus on proactive and standardized monitoring and oversight of case files and assets under management. We identified the absence of an established risk and quality management framework incorporating regional and third party activities. The absence of an annual regional risk assessment and regular quality assessment procedures over key processes to assess operational issues and control weaknesses increases the likelihood that significant risks will not be prioritized and mitigated where appropriate. An annual risk assessment focused on the regional operational effectiveness of SPMD would support continuous improvement and prioritize individual and aggregate risks and opportunities for remediation.
57. Our examination resulted in three (3) overarching recommendations that should be addressed by the Assistant Deputy Minister, Acquisitions Branch. Our recommendations are primarily related to regional operational effectiveness and focus on: regular regional policy and procedure updates and training; improved asset tracking and reporting capability; and establishment of a consistent and effective risk and quality management framework.

## **MANAGEMENT RESPONSE**

Management has had the opportunity to review the Chief Audit and Evaluation Executive’s report, and agreed with the conclusions and recommendations found therein. Management also developed a Management Action Plan to address these recommendations.

## **RECOMMENDATIONS AND MANAGEMENT ACTION PLAN**

**Recommendation 1 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure that SPMD’s Operating Guidelines and Instructions be reviewed and updated immediately and on a regular basis thereafter. We recommend that the period chosen align with the *Seized Property Management Act* review period and when operational events and circumstances warrant updates. The updated guidelines and instructions should be provided to relevant SPMD staff and training should be provided, including but not limited to:

- 1.1 Regular SPMD employee awareness training on policies and procedures for all employees assigned to case files. Training should highlight the importance and required use of; standardized checklists, timely completion of condition reports, documentation of real property site visits and use of maintenance logs required to evidence adherence to contractual or legal obligations. A record of this training should be documented and maintained by headquarters.
- 1.2 Regular update of Operating Instructions for the consistent use of Delegations of Authority by SPMD staff and clarify the appropriate and consistent use of Disposal Approval Forms. The Operating Instructions should indicate an update period and be communicated to SPMD staff upon hire and after every update to ensure the requirements are clear.

### **Management Action Plan 1:**

*Immediate Measures* – Immediate changes will include updating the existing SPMD Operating Instruction on Delegations of Authority and standardizing the use of Disposal Approval Forms across the two Operating Divisions.

*Longer Term Measures* – A full review of the existing Operations and Financial Manuals and SPMD Operating Instructions will be undertaken. The existing training program will be updated and delivered by SPMD headquarters to all SPMD employees. Updates and reviews will occur when warranted.

### **Management Action Plan 1.1:**

The existing training program will be updated to cover policies and procedures and will be delivered to all SPMD employees. The training will re-emphasize the use of standardized checklists; timely completion of condition reports, documentation of real property site visits; use of maintenance logs required to demonstrate adherence to contractual or legal obligations. A record of this training will be documented and maintained by SPMD headquarters.

### **Management Action Plan 1.2:**

The existing Operating Instruction and training program on SPMD Delegated Authorities will be updated in consultation with key department contacts and delivered to all SPMD employees. The updated Operating Instruction will be approved by the Senior Director and communicated to employees by way of training and written communication. A consistent approach will be developed and implemented with the Directorate for the use of Disposal Approval Forms. Employees will be trained on the use of the form and will receive written notification. The standard use of the form will be monitored through the quality assurance review.

**Recommendation 2 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure that SPMD implement a consistent and updated warehouse tracking system that:

- 2.1 Directly populates the case management tracking system, Seized Property Management Information System (“SPMIS”) to facilitate tracking and managing inventory on a real-time basis (e.g. assets

could be bar coded and scanned). Until such a system can be implemented; the manual inventory register provided by the regions should be reviewed and made consistent across the regions for mandatory information to be reported to headquarters on a monthly basis.

- 2.2 Requires staff in the regions to update their inventory register every time inventory is moved in the warehouse to ensure inventory location is up-to-date.
- 2.3 Establishes and communicates a standard process for assets received without governance documents which includes clear guidance on procedures and/or escalation required to ensure all documentation is received in a timely manner.

**Management Action Plan 2.1:**

*Immediate Measures* – Until a permanent system can be researched and implemented, a standard reporting tool will be developed to ensure consistency of operations at the SPMD warehouses across the regions; inventory reports will be provided to headquarters on a monthly basis.

*Longer Term Measures* – SPMD will research implementing a real-time inventory system (bar-code) at the SPMD warehouses that would directly update SPMIS. In the interim, the reporting tool will be standardized and implemented across the regions. The quality assurance team will sample the inventory on a quarterly basis and anomalies will be reported to the Management Team and addressed in a timely manner.

**Management Action Plan 2.2:**

Recommendation inventory register will be addressed by:

- a) New inventory procedures will be implemented for regional staff to ensure that the location is current.
- b) Contracting clauses will be added to 3<sup>rd</sup> party storage contracts to require service providers to provide SPMD with up-to-date storage locations monthly.

**Management Action Plan 2.3:**

New standard operating procedures will be developed and implemented on assets received without governance documents. The new procedures will be provided to all employees through the training program and in writing.

**Recommendation 3 (implementation priority rating – high):** The Assistant Deputy Minister, Acquisitions Branch should ensure regional monitoring and oversight is enhanced through a properly integrated and appropriately supported risk and quality management framework, including but not limited to:

- 3.1 Integration of regional activities to the risk management framework including and periodical updates to reflect risk tolerance and appetite and key risks identification, analysis, ranking and remediation. This should include strengthening governance to ensure policies and procedures are being consistently applied and followed across the regions.
- 3.2 Update of the quality assessment process to be carried out throughout the case file management lifecycle including key processes at head quarters, in regions, and for example a quarterly reconciliation of real property.
- 3.3 Implementation of a methodology that clearly evidences regional case officer review of all asset receipt, maintenance and disposal/return to support appropriate segregation of duties. This may include increased mandatory rotational periodic inventory counts of regional warehouses and third party service providers to validate asset location and condition, assessment of maintenance

documentation and condition reports, and accuracy and completeness of records and case file documentation.

3.4 Analysis and enforcement of minimum physical security standards for all SPMD warehouses and third party sites. Standard contract wording should also be developed including an approval process for third party agents and subcontractors to ensure their physical security controls are maintained and meet SPMD standards.

3.5 Implementation of consistent and mandatory tracking logs for real property and other site visits and regular review of asset maintenance performed on moveable assets in the regional warehouses and by third parties.

**Management Action Plan 3.1:**

SPMD headquarters will update the existing SPMD Risk Management framework to include the regions across Canada. The existing Risk Management Framework will be updated to address risks with respect to asset management, warehousing and inventory management for the regional operations. Controls relating to the identified risks will be strengthened and monitored to ensure that policies and procedures are being consistently applied across regions. The framework will be reviewed on an annual basis and updated as appropriate.

**Management Action Plan 3.2:**

A quality assurance process to ensure adherence to SPMD Operating Instructions and Guidelines through the complete asset lifecycle will be incorporated into the existing SPMD quality assurance program. A quarterly reconciliation report of real property assets will be created by the Quality Assurance team and provided to the Management Team on a quarterly basis. Inconsistencies, which are identified, will be followed up and corrective action will be undertaken as required.

**Management Action Plan 3.3:**

The roles and responsibilities of Case Officers assigned to regions will be formalized and will include specific roles and responsibilities. These will require a review to confirm evidence of asset receipt, maintenance documentation and condition reports, and disposal/return of assets for warehouse and third party suppliers.

Contracts with third party suppliers will be updated to confirm the requirement to provide evidence of asset receipt, maintenance and disposal/return of assets on behalf of SPMD.

Quarterly reviews will be done on a rotational basis within the warehouses and the third party suppliers. Anomalies will be reported to SPMD management and follow-up will be done as appropriate.

**Management Action Plan 3.4:**

SPMD will establish and implement the minimum physical security standards for the warehouses managed by SPMD and third party sites. Contracts with third party suppliers will be updated accordingly.

**Management Action Plan 3.5:**

The headquarters SPMD quality assurance program will develop and implement mandatory tracking logs relating to the management of real property and maintenance standards to be performed on moveable assets. These will be implemented for warehouses and third party suppliers.

## **ABOUT THE INTERNAL AUDIT**

### **Authority**

The authority for the conduct of this engagement comes from the 2012-2015 Multi-Year Risk-Based Audit and Evaluation Plan which was recommended for approval by the Audit and Evaluation Committee and approved by the Deputy Minister of Public Works and Government Services Canada (“PWGSC”).

### **Objective**

The objective of this internal audit was to provide assurance on the adequacy and effectiveness of the SPMD processes and control framework related to the management of moveable and non-moveable seized assets held and managed in regions across Canada.

### **Scope and Approach**

The audit focused on key controls and processes related to the receipt, management, and disposal or return of moveable and non-moveable assets held or managed by SPMD in regions, including related segregation of duties, for the fiscal years ended March 31, 2011 and March 31, 2012.

The following categories of moveable and non-moveable assets held by SPMD in various regional locations were included in the scope of this engagement: real property; vehicles, and aircraft; hydroponics equipment and materials; and other personal property such as furniture; and real property. Non-movable assets had an estimated recorded value of \$255 million and moveable assets were estimated at \$16 million. Cash, financial instruments, and other small valuables (e.g. jewellery) held and managed by SPMD’s headquarters did not form part of the scope of the internal audit as they were covered in Phase 1.

The approach to this engagement primarily consisted of reviewing the framework and background documentation to understand processes, controls, and segregation of duties. This was conducted through interviews, walkthroughs, sample testing, and examination of supporting documentation.

Regional site visits were conducted at SPMD warehouses and other third party warehouses where seized assets are held by non-government entities on behalf of SPMD. Headquarters was assessed where appropriate to assess appropriate oversight and segregation of duties.

Site visits were conducted at four of the seven regional SPMD warehouses and two other third party warehouses where seized assets are held by non-government entities on behalf of SPMD. These locations held approximately 35% of the total value of moveable assets at March 31, 2012, representing 64% of the value of moveable assets held at SPMD warehouses and 26% of assets held by third party storage facilities. There are approximately 177 third party storage facilities used by SPMD with about \$11.4 million worth of assets, therefore the approximate average value for each third party storage facility is \$65,000. The sample of two third party sites visited as part of this internal audit represented approximately \$3 million. A representative sample of moveable assets was tested from a sample judgmentally selected from SPMD’s inventory listing and traced to the assets located in the warehouses, and a sample of assets was judgmentally selected on the floor to trace back to the current SPMD inventory listing and SPMIS. In each of the regions visited, we also selected a sample of non-moveable real properties from SPMD’s inventory listing. Our total sample size of assets for each region was approximately 30 moveable or non-moveable assets. Case files managed at headquarters were reviewed

using a sample of 20 assets selected from each of the various categories of moveable and non-moveable assets. The regional site visits and sample tests were carried out based on the results of a risk assessment.

This internal audit was conducted in accordance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* as well as in accordance with the *Standard Practices for Investigative and Forensic Accounting Engagements* established by the Chartered Accountants of Canada Alliance for Excellence in Investigative and Forensic Accounting.

## **Criteria**

Internal audit criteria, as accepted by the Acquisitions Branch, were derived from the results of the preliminary risk assessment, and the governing framework in effect for SPMD related to assets assigned to the directorate by court orders, and included:

- *Seized Property Management Act*
- *Forfeited Property Sharing Regulations of the Seized Property Management Act*
- *Seized Property Disposition Regulations*
- *Criminal Code* (Proceeds of Crime Section – Part XII.2)
- *Controlled Drugs and Substances Act*
- *Financial Administration Act* (s.32, s.34)
- SPMD Operations Division Reference Guide
- SPMD and Operating Instructions
- Treasury Board Policies, Directives, Standard as applicable

The criteria assessed during this internal audit are as follows:

1. Control framework and processes are appropriate to comply with legislated framework.
  - 1.1 Internal policies and procedures exist to ensure alignment with the legislated framework.
  - 1.2 Policies and procedures are updated periodically with appropriate approval.
2. Regional authorities comply with established procedures.
  - 2.1 Controls are adequately designed to ensure compliance with policies and procedures.
  - 2.2 Controls are operating effectively and consistently across regional locations under the various operating structures of asset management.
  - 2.3 Asset recording and reporting is timely, accurately, and complete.

## **Internal Audit Work Completed**

Fieldwork for this internal audit was substantially completed on February 11, 2013.

## **Internal Audit Team**

The internal audit was conducted by Raymond Chabot Grant Thornton Consulting Inc., overseen by the Director of Internal Audit and under the overall direction of the Chief Audit and Evaluation Executive. The internal audit was reviewed by the quality assessment function of Raymond Chabot Grant Thornton Consulting Inc.



## **APPENDIX A - IMPLEMENTATION PRIORITY RATING SCALE**

Our recommendations are classified according to their level of priority implementation using the following definitions:

<b>Findings Rating Scale</b>	
<b>Rating</b>	<b>Explanation</b>
<b>High</b>	<ul style="list-style-type: none"><li>• Must be addressed in the short term; and</li><li>• Findings could result in significant risk exposure or financial impact.</li></ul>
<b>Medium</b>	<ul style="list-style-type: none"><li>• Should be addressed; and</li><li>• Findings could result in moderate risk exposure or financial impact.</li></ul>
<b>Low</b>	<ul style="list-style-type: none"><li>• Changes are desirable but not essential; and</li><li>• Findings identify areas for improvement, which could result in minor risk exposure or financial impact.</li></ul>