

**AUDIT OF KEY FINANCIAL PROCESSES AT
COASTAL BC FIELD UNIT**

FINAL REPORT

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September 2005

Report tabled and approved by the A&E Committee

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Report tabled and approved at the A&E Committee meeting on December 19, 2005

EXECUTIVE SUMMARY

Parks Canada Agency (PCA) is conducting a series of cyclical audits of field units, service centres and the national office to review key financial, administrative and management practices. The audits focus on compliance with Treasury Board Secretariat (TBS) and PCA policies and practices. The audit of the Coastal BC Field Unit (CBCFU) was conducted as part of this cyclical audit program.

The objectives of this audit were to confirm whether due diligence is being exercised in key management processes and to provide assurance to senior management that processes and controls in place at the CBCFU are adequate to ensure compliance to TBS and PCA policies and practices.

The scope of this engagement included the review of the management control framework (MCF) over financial management and the following key financial process areas: Revenues; Contracting; Use of Acquisition Cards; Expenditures for Travel; Payments to Suppliers; High Risk Valuable Small Items; and Financial Coding. The period from April 1, 2004 to July 31, 2005 was covered in this audit.

The audit methodology included a review of relevant background documentation, interviews with CBCFU personnel and transaction testing in key financial process areas. The CBCFU was visited during the period August 22 to August 16, 2005.

In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this report.

Overall, we found that due diligence is being exercised in key management processes at the CBCFU and that systems and controls in place are adequate to ensure compliance to TBS and PCA policies and practices. We have identified opportunities to strengthen processes and controls in the key financial process areas examined to increase the level of compliance to TBS and PCA policies. We have outlined below our recommendations for consideration by the CBCFU Superintendent and Manager, Finance and Administration:

1. Back up procedures for information holdings should be reviewed and revised to include the storage of back up tapes in a secure offsite location.
2. Deposits should be made at different times of the day and where possible using different routes.
3. Contracting procedures and monitoring activities should be developed and performed to ensure that:
 - sole source contract files include an appropriately documented justification of the decision to sole source;
 - amendments to contracts are appropriately justified, documented, and authorized;
 - competitive contract files include sufficient documentation to provide evidence of a fair tendering, evaluation and award process; and,
 - payment terms on contracts be negotiated to ensure that PCA obtains all agreed deliverables before releasing final payment.
4. The role and responsibilities of the Acquisition Card Co-ordinator be formalized and that the binder of completed Acknowledgement and Application Forms be updated.
5. An Acknowledgement Form, as required by TBS Policy, is signed by both the staff member and the Responsibility Centre Manager upon the issuance of an acquisition card to a staff member.
6. Develop acquisition card procedures and perform monitoring activities to minimize the risk of:
 - cardholders signing their own statements;
 - acquisition cards being used for ineligible expenditures;
 - purchases being made by individuals other than the cardholder; and,
 - purchases exceeding the \$5,000 expenditure limit.

7. Acquisition card purchase register logs should be amended to provide for the identification of assets requiring identification numbers.
8. Travel Authority Forms are completed in advance of travel.
9. Financial commitments should be recorded in SAP upon contract initiation;
10. Formalized procedures related to monitoring of High Risk Valuable Small Items (including periodic physical inventory counts) and return of these items by individuals leaving the organization should be established.

1. BACKGROUND

PCA is conducting a series of cyclical audits of key financial, administrative and management practices for all field units, service centres and the national office. There are 32 field units and four service centres in the PCA. Field units are groupings of national parks, national historic sites and national marine conservation areas that are usually in proximity to one another. Their proximity allows them to share management and administrative resources. The service centres support the organization in a variety of professional and technical disciplines.

The Coastal BC Field Unit (CBCFU) comprises: Pacific Rim National Park Reserve; Gulf Islands National Park Reserve; Victoria Field Unit Office; and Fort Langley, Gulf of Georgia Cannery, Fisgard Lighthouse, Fort Rodd Hill Historic Sites. The CBCFU operates with a budget of approximately \$17.6 million.

The audit of the CBCFU was conducted by Paragon Review and Consulting Inc. on behalf of the Performance, Evaluation and Audit Group of PCA as part of this cyclical audit program.

2. OBJECTIVES AND SCOPE

The objectives of this audit were to confirm whether due diligence is being exercised in key management processes at the CBCFU and to provide assurance that systems and controls in place are adequate to ensure compliance to TBS and PCA policies and practices.

The scope of the audit included the review of the management control framework (MCF) over financial management and the following key financial process areas:

- Revenues;
- Contracting;
- Use of Acquisition Cards;
- Expenditures for Travel;
- Payments to Suppliers;
- High Risk Valuable Small Items; and
- Financial Coding.

Transactions incurred during the period from April 1, 2004 to July 31, 2005 were covered in this audit.

3. METHODOLOGY

The audit methodology included site visits to Pacific Rim National Park Reserve; Gulf Islands National Park Reserve; Victoria Field Unit Office; and Fort Langley, Gulf of Georgia Cannery, Fisgard Lighthouse, Fort Rodd Hill Historic Sites and included the following activities:

- Interviews with CBCFU management and personnel responsible for the key financial process areas;
- Review of relevant documentation including the CBCFU Sustainable Business Plan for 2004/2005 to 2008/2009, organization charts, finance and administration staff work descriptions, PCA delegated Signing Authorities Chart, policies that deal with the key financial process areas, management meeting minutes and records of decisions, samples of budgets and financial reports prepared by the Manager, Finance and Administration; and,
- Examination of a sample of transactions for each of the key financial process areas, where applicable.

After the field work was complete, a debriefing of our preliminary observations was provided to the CBCFU Superintendent and Manager of Finance and Administration.

Our observations and recommendations have been made in accordance with the Audit Reporting Rating System described below:

Audit Reporting Rating System		
Red	Unsatisfactory	Controls are not functioning and/or fraudulent activities have been detected which will or have a material impact on both the financial statements and operations of the Agency.
Orange	Significant Improvements Needed	The control environment is lacking and/or has degraded since the last audit and is a contributing factor to non-achievement of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
Yellow	Moderate Improvements Needed	Some controls are in place and functioning; however, several major issues were noted that could jeopardize the accomplishment of program/operational objectives.
Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
Green	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

4. ASSURANCE STATEMENT

In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this report

5. CONCLUSION

Overall, we found that due diligence is being exercised in key management processes at the CBCFU and that systems and controls in place are adequate to ensure compliance to TBS and PCA policies and practices. We did however identify opportunities to strengthen processes and controls in certain key financial process areas examined to further mitigate the risk of non-compliance to TBS and PCA policies. We have outlined our observations and our recommendations, where applicable, for the MCF over financial management and for each key financial process area examined in Section 6 of the report.

6. OBSERVATIONS AND RECOMMENDATIONS

6.1 Management Control Framework

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

Our work related to the MCF at the CBCFU included review of relevant documentation and interviews with the Superintendent, the Manager, Finance and Administration and the Finance Manager at each site visited.

We found that the MCF over financial management includes policies and procedures related to finance and administration activities that have been established and communicated to staff. These include direction and guidance with respect to financial coding, delegated financial authorities, and contracting and procurement. Roles and responsibilities of finance staff are clearly defined and documented.

An annual business planning and budgetary process exists where Field Unit priorities are identified and established by the management team and resources are allocated. Monitoring of financial performance against plans and budgets is ongoing. Site Finance Managers provide a challenge role to the financial results of operating managers at their respective locations and the Field Unit Finance

and Administration Manager, in turn, provides a challenge role on the financial results of the individual sites.

Training on financial policies, procedures, and practices is provided to managers and staff through on the job training, ongoing advice/communication from the Manager Finance and Administration and Site Finance Managers and through formal training sessions such as training on upgrades to the SAP System. The audit team observed that finance staff provides communication and support to managers and staff in regards to financial management and policy compliance.

The audit team found that there was variation in practice in the performance of back up of computer system data. This ranged from performing a daily back up and storing backup tapes in a secure offsite location to performing a weekly back up and storing the backup tapes on site. Back up procedures for information resources should be standardized to reduce the risk of loss of information.

Recommendation

1. The Field Unit Superintendent should ensure that back up procedures for information holdings are reviewed at all locations and revised to include the storage of back up tapes in a secure offsite location.

6.2 Revenues

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

A number of different types of revenues are received at the CBCFU including: Park Pass Fees Sold at Facilities, Park Use Machines, Camping Fees, Gift Store, Staff Housing, Permits and Licences, Reservation Fees, Historic Site Entrance Fees.

In the fiscal year ended March 31, 2005 total revenues amounted to approximately \$2,253,000. The majority (85%) of this revenue was earned through the Pacific Rim National Park / Reserve.

Detailed descriptions of the revenue processes and verification procedures followed at each location were provided to the audit team. A sample of transactions were tested and the audit team found that overall, processes and

controls related to revenue collection and recording were adequate and in effect during the audit period, and that personnel conducted their work with diligence.

During interviews with staff it was learned that the deposit of revenue at one location was performed each day at the same time and as such increases the risk of robbery which in turn increases the security risk to personnel.

Recommendation

2. The field Unit Superintendent should ensure that bank deposits are made at different times of the day and where possible using different routes.

6.2 Contracting

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

The CBCFU enters into contracts for the procurement of goods and services using a variety of instruments including Services Contracts, Call Ups Against Standing Offers, Local Purchase Orders, and Acquisition Cards (discussed in Section 6.4).

The audit team found that CBCFU personnel are provided with contracting advice and assistance through the Finance Office at each location, the Calgary Service Centre and the Contracting Procurement Officer in the Pacific Rim National Park / Reserve Office. In addition, the audit team found that training and contracting tools, such as contract templates and procurement guides, are made available to managers to assist them with contracting activities.

We selected 25 contract files for examination. The types of contracts examined are outlined below:

• Service Contracts	- Competitive	3
	- Sole Source	11
	- Standing Offer Call-up	1
• Goods Contracts	- Competitive	4
	- Sole Source	4
	- Standing Offer Call-up	2
Total Contracts		<u>25</u>

The audit team found that contracting policies were generally being respected. We did however identify some findings that indicate that compliance and file documentation could be strengthened. These findings include:

- 11 instances where no sole source justification was found on file;
- 3 instances where the expenditure limit of \$ 5,000 on an LPOA was exceeded;
- 2 instances where no justification was found on file to amend a contract;
- 1 instance where section 32 was not signed on an amendment to a contract;
- 1 instance where in a competitive tender service contract file the documentation did not provide evidence, such as an envelope or transmittal letter from the bidder, that the submitted tender letter was submitted by the company who was awarded the contract; and,
- 1 service contract for research where the consultant was paid for the total amount of the contract yet the final deliverable as stated in the contract is not to be provided to PCA until six months later.

The above findings increase the risk of a perception of unfairness in the contracting process, unauthorized purchases and not achieving best value for money spent.

Recommendation

3. The Field Unit Superintendent should develop contracting procedures and perform monitoring activities to ensure that:
 - sole source contract files include an appropriately documented justification of the decision to sole source;
 - amendments to contracts are appropriately justified, documented, and authorized;
 - competitive contract files include sufficient documentation to provide evidence of a fair tendering, evaluation and award process; and,
 - payment terms on contracts be negotiated to ensure that PCA obtains all agreed deliverables before releasing final payment.

6.3 Use of Acquisition Cards

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

There are 84 cardholders in the CBCFU. Acquisition cards are the preferred mechanism for procurement of goods and services for transactions less than \$5,000. The Executive Assistant to the Field Unit Superintendent is the Acquisition Card Co-ordinator for the CBCFU. The Acquisition Card Co-ordinator is the primary contact for the CBCFU with the Bank of Montreal and the PCA National Office Acquisition Card Co-ordinator. The Acquisition Card Co-ordinator disseminates information to the Finance Officer at each CBCFU site that is obtained from the bank and PCA headquarters. The role also encompasses facilitating applications for new cards on behalf of site Finance Offices and maintaining a binder of completed Acknowledgement and Application Forms. The audit team found that the binder was not up to date. No monitoring activities are performed by the Acquisition Card Co-ordinator. The Finance Office at each location monitors Acquisition Card usage by way of review of monthly Acquisition Card Purchase Register Logs and MasterCard Statements.

The audit team was advised that the Manager, Finance and Administration is currently reviewing the role and responsibilities of the Acquisition Card Co-ordinator including possible roll out of this function to CBCFU site Finance Offices.

TB policy requires that cardholders and their Responsibility Manager sign a written acknowledgement of responsibilities and obligations before receiving an acquisition card. Restrictions and obligations for the use of acquisition cards have been communicated in a document to CBCFU cardholders upon issue of the card. The audit team found that signed acknowledgement of responsibilities were not always on file. We also noted that the authorizations we examined were not signed by the PCA Responsibility Centre Manager as required by the TBS Acquisition Card Policy.

Mastercard files for 25 cardholders were examined. In total 35 monthly statements were examined for the 25 cardholders. The audit team found that monthly statements are reconciled to the Acquisition Card Purchase Log prepared by the cardholder and the supporting invoices are attached to the log.

We did however find the following instances of non-compliance to PCA and TB policy:

- Section 34 was signed by the cardholder in 2 of 35 statements examined;

- Non-eligible purchases were found in 3 of 35 statements examined;
- Purchases made by individuals other than the cardholder was found in 3 of 35 statements examined, and;
- Purchase which exceeded the \$5,000 expenditure limit for individual transactions in 1 of 35 statements examined.

From our review of acquisition card processes, we noted that the monthly acquisition card register log completed by cardholders does not specifically provide for the identification of asset purchases; as a result, this was dependent on the cardholder or manager being aware of the need to identify the assets. Providing for the identification of asset purchases on monthly acquisition card register logs would reduce the risk that attractive assets are not tracked.

Recommendation

4. The Field Unit Superintendent should ensure that the role and responsibilities of the Acquisition Card Co-ordinator be formalized and that the binder of completed Acknowledgement and Application Forms be updated.
5. The Field Unit Superintendent should ensure that upon the issuance of an acquisition card to a staff member an acknowledgement form is signed by both the staff member and the Responsibility Centre Manager.
6. The Field Unit Superintendent should develop acquisition card procedures and perform monitoring activities to minimize the risk of:
 - I. cardholders signing their own statements;
 - II. acquisition cards are being used for ineligible expenditures;
 - III. purchases being made by individuals other than the cardholder; and,
 - IV. Purchase which exceeded the \$5,000 expenditure limit
7. The Field Unit Superintendent should amend the monthly acquisition card purchase register logs to provide for the identification of assets requiring identification numbers.

6.5 Expenditures for Travel

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

Detailed descriptions of the revenue processes and verification procedures followed at each location were provided to the audit team. The audit team reviewed the processes for the authorization and processing of travel claims and selected a sample of 39 travel claims for examination. From our review, we found that travel claims generally comply with the TBS Travel Directive, and that expenditures are being verified for accuracy and eligibility and are properly certified. We did however find one instance where a Travel Authorization Form had not been prepared and approved/signed off in advance of travel and one instance where a cost estimate of the travel had not been completed on the Travel Authorization Form.

Recommendation

8. The Field Unit Superintendent should ensure that Travel Authority Forms are completed in advance of travel.

6.6 Payments to Suppliers

Blue	Minor Improvements Needed	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
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Observations

We conducted interviews with finance personnel and tested a sample of 51 payment files for expenditures made using contracts, Call Ups Against Standing Offers and LPOAs. Our testing of payment files found that payments made are properly recorded in the financial accounting system and that invoice verification and approval procedures are being followed. We did however identify the following area where financial management and compliance can be strengthened.

The audit team found that commitments for contracts greater than \$5,000 are entered into the financial accounting system at the initiation of the contract. For contracts valued at less than \$5,000 commitments are generally entered and committed in the financial accounting system after the invoice is received rather than at time of initiation of the contract.

This practise impairs the accuracy and usefulness of freebalance reporting information generated from the financial accounting system and weakens financial management control.

Recommendation

9. The Field Unit Superintendent should ensure that financial commitments be recorded in SAP upon contract initiation.

6.7 Safeguarding of High Risk Valuable Small Items

Yellow	Moderate Improvements Needed	Some controls are in place and functioning; however, several major issues were noted that could jeopardize the accomplishment of program/operational objectives.
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Observations

Through interviews with finance personnel and review of documentation provided, the audit team found that:

- High Risk Valuable (attractive) items such as computer equipment, laptops, digital cameras, GPS equipment and binoculars are generally entrusted to the managers who purchase them;
- The Finance office at each location maintains a listing of items with a value of less than \$10,000. Goods are given an asset number and marked with a sticker by Finance personnel;
- No formalized procedures have been established for staff dealing with periodic monitoring. An inventory count is conducted at only one location;
- No formal guidelines and procedures are in place for ensuring items are returned to PCA when people leave the organization.

The controls in place at the CBCFU for the management and safeguarding of attractive items can be strengthened by establishing formalized procedures related to monitoring (including periodic physical inventory counts) and return of items by individuals leaving the organization.

Recommendation

10. The Field Unit Superintendent should ensure that formalized procedures related to monitoring of High Risk Valuable Small Items (including periodic physical inventory counts) and return of these items by individuals leaving the organization are established.

6.8 Financial Coding

Green	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.
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Observations

PCA managers are responsible for coding their transactions. The audit team found that:

- Financial coding reference information is available to managers on the PCA intranet;
- Financial Coding Binders were provided to managers to be used as a resource in coding transactions;
- Ongoing guidance and training of managers with respect to financial coding is provided by finance personnel;
- Coding of transactions is reviewed as part of account verification procedures by finance staff; and,
- Finance personnel also provide a high level review of financial coding through the performance of periodic cost center internal order reconciliations.

The audit team examined the coding of 76 transactions and found two coding errors. The transaction was charged to the wrong general ledger account in both cases.

The audit team concludes that due diligence is exercised in the management of financial coding at the CBCFU.

Recommendation

No recommendation deemed necessary.

MANAGEMENT RESPONSE

Management Control Framework

1. The Field Unit Superintendent should ensure that back up procedures for information holdings are reviewed at all locations and revised to include the storage of back up tapes in a secure offsite location.

Agree: Back up procedures has been reviewed and all Sites have been advised to store back up tapes off site and action has been taken.

Revenues

2. The Field Unit Superintendent should ensure that bank deposits are made at different times of the day and where possible using different routes.

Agree: All Sites are now delivering bank deposits at different times of the day and where possible using different routes.

Contracting

3. The Field Unit Superintendent should develop contracting procedures and perform monitoring activities to ensure that:
 - sole source contract files include an appropriately documented justification of the decision to sole source;
 - amendments to contracts are appropriately justified, documented, and authorized;
 - competitive contract files include sufficient documentation to provide evidence of a fair tendering, evaluation and award process; and,
 - payment terms on contracts be negotiated to ensure that PCA obtains all agreed deliverables before releasing final payment.

Agree: Contracting procedures will be developed in the Spring of 2006 but monitoring of contracts is already started.

-On going training will be offered each year to all new staff with contracting authority along with refresher training for other staff. In the past contract training for the field unit has been provided by the Western Canada Service Centre but due to the lack of staff in WCSC the training has been difficult to obtain.

-All managers have been notified to ensure that sole source contracts must have justification for sole source, amendments are documented, contracts are competitive and fair and payments are released according to the terms of the contract.

Use of Acquisition Cards

4. The Field Unit Superintendent should ensure that the role and responsibilities of the Acquisition Card Co-ordinator be formalized and that the binder of completed Acknowledgement and Application Forms be updated.

Agree: Recommendation has been actioned.

Due to the number of sites within the field unit, one coordinator is responsible for issuing all acquisition cards and maintaining a register for the field unit. Each site also has an acquisition card holder register which is maintained by a site sub coordinator who is responsible for researching problems with delinquent cards, address changes, card control, payment etc.

5. The Field Unit Superintendent should ensure that upon the issuance of an acquisition card to a staff member an acknowledgement form is signed by both the staff member and the Responsibility Centre Manager.

Agree: All cardholders and the Responsibility Centre Manager will sign an acknowledgement form when the acquisition card is issued.

6. The Field Unit Superintendent should develop acquisition card procedures and perform monitoring activities to minimize the risk of:

- cardholders signing their own statements;
- acquisition cards being used for ineligible expenditures;
- purchases being made by individuals other than the cardholder;
- and,
- purchase which exceeded the \$5,000 expenditure limit.

Agree: Training will be provided to new card holders and follow up training for existing card holders to ensure expenditure limit compliance for eligible purchases and confirm that only the card holder has authority to utilize the card. All cardholders have been notified that they must obtain their managers approval for payment under section 34.

7. The Field Unit Superintendent should amend the monthly acquisition card purchase register logs to provide the identification of assets requiring identification numbers.

Agree: The acquisition register log has been modified to include identification for assets.

Expenditures for Travel

8. The Field Unit Superintendent should ensure that Travel Authority Forms are completed in advance of travel.

Agree: All travellers have been reminded that travel authority must be approved in advance of travel. The majority of the managers have blanket authority.

Payments to Suppliers

9. The Field Unit Superintendent should ensure that financial commitments be recorded in SAP upon contract initiation.

Agree: All managers have been informed that all contracts must be recorded in SAP upon initiation. The contract coordinator in each Site will ensure this practice is followed.

Safeguarding of High Risk Valuable Small Items

10. The Field Unit Superintendent should ensure that formalized procedures related to monitoring of High Risk Valuable Small Items (including periodic physical inventory counts) and return of these items by individuals leaving the organization are established.

Agree: An inventory log has been set up in each site and periodic physical inventory counts will be carried out. An exit check list has been initiated for staff leaving the organization and managers are responsible for retrieving keys, laptops, cell phones, cameras etc.