

AUDIT OF STRATEGIC INITIATIVE PROJECTS:

GWAII HAANAS

DEVELOPMENT PROJECT

FINAL REPORT

Prepared by:

PARAGON Review and Consulting Inc.

March 31, 2001

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
1. BACKGROUND	1
2. OBJECTIVES AND SCOPE	3
3. METHODOLOGY	4
4. OBSERVATIONS AND CONCLUSIONS	6
4.1 Management Control Framework of Gwaii Haanas Development Fund ...	6
4.2 Expenditures Charged To The Gwaii Haanas Development Fund	9
4.3 Fairness and Value for Money in Contracting	12
 APPENDIX A - The Gwaii Haanas Field Unit Development Fund	
Expenditure and Planned Spending Report By Service Line	

EXECUTIVE SUMMARY

Background

The audit of the Gwaii Haanas National Park Reserve Development Fund Project has been conducted as part of the Executive Board Finance Committee's monitoring and controlling activities of the Strategic Initiatives Portfolio.

Objectives and Scope

The objectives of this audit were to provide an independent assessment to senior management on:

- < whether allocated funds were spent as intended,
- < the fairness and value for money in contracting; and,
- < the effectiveness of the management control framework over the Gwaii Haanas National Park Reserve Development Fund strategic initiative project.

The scope of this engagement covered the activities and expenditures incurred in the fiscal years ended March 31, 2000 and March 31, 2001. Testing of transactions in fiscal 2001 was selected from expenditures recorded to February 15, 2001.

Methodology

The audit methodology included the following activities:

- < Interviews with key management and staff at both National Headquarters and at the Field Unit;
- < Review of relevant documentation including business plans, charter documents, financial accounting records and reports, project management files, and minutes of key management committees;
- < Examination of contracts and invoices from suppliers.

General Assessment

- T The overall management control framework of the Gwaii Haanas Development Fund was adequate; however, documentation of sub-project objectives and expected outcomes and linkage to the overall development plan should be improved.

- T Expenditures charged to the development fund were appropriate with the exception of the four projects which have been identified for A-Base increases and the Mainland Historic Sites. Criteria should be developed to identify and link sub-projects and related expenditures to the development initiative.

- T Some projects receiving funding from the development fund are ongoing in nature and should be funded through increased A-Base funding as requested by Field Unit Management; and

- T There was fairness and value for money in the contracting process and compliance to contracting policies and financial authorities.

1. BACKGROUND

Parks Canada Agency (PCA) maintains a funding reserve controlled by the Finance Committee of the Executive Board of the PCA for use in funding major program commitments, national program initiatives, expansion of the systems of national parks and national historic sites, as well as projects that field managers wish to initiate that are beyond the capacity of their A-base budgets. The Strategic Initiatives Portfolio is managed at the Executive Board level in order to balance PCA's efforts in the above areas. In the 2000/01 fiscal year, there were 65 strategic initiative projects with approved and allocated funding of approximately \$49M.

Currently, funds are accessed by applying to the Finance Committee of the Executive Board with a business case. All proposals must be sponsored by one of the five PCA Directors General. If the project is to take place over multiple fiscal years, approval is often for one year with a requirement to obtain approval for each of the subsequent years of the project. Strategic initiative funds must be spent on the project for which they were allocated. All surpluses in strategic initiatives are required to be returned to the Finance Committee of the Executive Board for reallocation to other projects or for reduction of overprogramming.

The audit of the Gwaii Haanas Development Project has been conducted as part of the Executive Board Finance Committee's monitoring and controlling activities of the Strategic Initiatives Portfolio. The Gwaii Haanas Development Project is the responsibility of the Field Unit Manager -Gwaii.Haanas Field Unit.

As part of the Canada/British Columbia South Moresby Agreement (1988), park establishment funding levels of \$20 million capital and \$12 million operating were identified for the creation of the national park reserve. This funding was intended to support the costs of a fully operational organization and associated infrastructure as well as planning/management needs. The Council of the Haida Nation (CHN) and the Government of Canada established the Archipelago Management Board (AMB) to co-manage the National Park Reserve which has representation from both PCA and the CHN. The operating portion of the funding has been expended and an A-base has been established. The development funding is being used to fund:

- < development of park reserve infrastructure;
- < ongoing operational costs based on projects/infrastructure which have been and which are still being established;

- < participation of the Council of the Haida Nation on the AMB as well as AMB participation on all interview boards;
- < Haida training program as directed by the Canada/Haida Agreement (1993); and,
- < National Historic Sites which are the responsibilities of the Field Unit.

It is anticipated that the development phase of the terrestrial park reserve will be complete within two years. Since the signing of the Canada/British Columbia South Moresby Agreement in 1988, costs charged to this project have totalled \$ 17,246,695.

2. OBJECTIVES AND SCOPE

The objectives of this audit were to provide an independent assessment to senior management on:

- < whether allocated funds were spent as intended;
- < the fairness and value for money in contracting; and
- < the effectiveness of the management control framework (MCF) over the Gwaii Haanas Development Fund strategic initiative project.

The scope of this engagement covered the activities and expenditures incurred in the fiscal years ended March 31, 2000 and March 31, 2001. The work was carried out at PCA Corporate Finance Branch in Ottawa as well as at the Gwaii Haanas Field Office.

3. METHODOLOGY

The methodology included the following activities:

- , Interviews with key management and staff at both National Headquarters and at the Field Site Unit including two representatives of the AMB to identify management activities which occurred during the audit period as well as to identify processes and controls in place during the audit period for capturing, monitoring and reporting of eligible costs.
- , Review of relevant documentation including:
 - < Minutes of PCA Finance Committee of the Executive Board meetings for the fiscal years ended March 31, 2000 and March 31, 2001;
 - < Gwaii Haanas Vision Document;
 - < Treasury Board Submissions related to the establishment of the South Moresby National Park and National Marine Park in the Queen Charlotte Islands of British Columbia including the Memorandum of Understanding Between the Government Of Canada and The Province of British Columbia (July 1987) and Memorandum of Agreement Between The Government of Canada and The Government of British Columbia (Draft - April 1988);
 - < Gwaii Haanas National Park Reserve & Haida Heritage Site Strategic Management Plan for the Terrestrial Area;
 - < The Gwaii Haanas Agreement Between the Government of Canada and The Council of the Haida Nation (January 1993);
 - < Gwaii Haanas Training and Staffing Policy For The Haida People (July 1993);
 - < Review of AMB Issues Summary July 1993 - December 2000 which identifies and tracks the issues managed by the AMB;
 - < Business Plans for the Gwaii Haanas Field Unit for the period 1997 to 2002;
 - < Gwaii Haanas Field Unit Quarterly Reports for Fiscals Years 1999/2000 and 2000/2001;

- < Gwaii Haanas Development Project Summary (July 24, 2000);
- < Mid Year Financial Reports Western/Northern Canada 2000/01 and 1999/2001; and
- < Gwaii Haanas Field Unit Quarterly Reports for Fiscals Years 1999/2000 and 2000/2001.

, Examination of contracts files and invoices from suppliers on a test basis.

4. OBSERVATIONS AND CONCLUSIONS

4.1 Management Control Framework of Gwaii Haanas Development Fund

Observations

To assess the MCF of the Gwaii Haanas Development Fund, we reviewed the management practices in place at the Field Unit as well as the project management activities related to specific development fund projects. We have outlined our observations as follows:

Field Unit Level

We observed that:

- < There were clearly defined roles and responsibilities for staff and managers;
- < There were business plans and financial budgets and forecasts with good financial control and monitoring. Internal orders are set up for specific development projects and budgets are loaded and actual spending is tracked and reported against budgets. Strategic Initiative development projects are rolled up quarterly and reported to the Field Unit Management Team and the Director General Western/Northern Canada. The \$ 20 million development fund is being tracked via a spreadsheet report maintained by the field unit Finance & Administration Manager;
- < Internal Order budget adjustments are negotiated with the management team;
- < Finance & Administration Manager at the field unit was very knowledgeable of the various contracting rules and financial authorities and provides ongoing advice and assistance to field unit managers on these matters;
- < Management meetings were held throughout the period. Development projects are distributed among managers and as such they are accountable for ensuring projects are completed. Project spending is monitored by the management team.
- < The criteria used by the site management team for determining what constitutes a development fund initiative is unclear and as such can result in possible differences in interpretation. During the period that was subject to audit, management had agreed to fund four projects using development funds; however, they are currently requesting an A-Base increase to fund similar projects in future

years. In addition, funding of mainland historic sites has been made through the development fund during the period subject to audit. We were told that in fiscal 2002, funding for historic sites would not be from the development fund. These findings are clearly identified by the reports prepared by the Finance and Administration Manager and have been openly reported to Regional Management and Headquarters;

- < Documentation examined provided evidence that surpluses identified by the site management team for specific development projects had been returned to the Director General Western/Northern Canada who in turn requested and received approval from the Finance Committee of the Executive Board to carryforward the money to the next fiscal year; and
- < The AMB meets monthly and provides guidance and direction to PCA for the use and conservation of the land and marine areas. The AMB Co-Chairs indicated that the relationship with PCA Field Unit staff and management was positive. The AMB does not get involved in work plan setting, budgeting, and financial monitoring. Reliance and trust is placed on the PCA Field Unit Management Team.

Gwaii Haanas Development Fund Project Level

We observed that:

- < Development project activities are planned as part of annual business planning activities based upon funding levels, priorities; and service lines;
- < Development projects are distributed among managers who are responsible for achieving expected results and value for money;
- < Development fund sub-project objectives and expected outcomes, including the linkage to the overall strategic development fund initiative, were for the most part undocumented. A number of the sub-projects were A-Base in nature or related to the funding of Mainland Historic Sites. Consequently, the lack of documentation could result in a challenge that some expenditures are not linked to the development fund objectives and expected outcomes;
- < Specific contracts with suppliers for goods and services charged to various project internal orders were well documented and had clearly defined deliverables and statements of work;

- < Documentation was available to provide evidence of ongoing project management of contractors and staff regarding attainment of contract deliverables;
- < Monitoring and financial reporting on development projects spending was ongoing and managers are kept informed by the Finance & Administration Manager of spending variances; and
- < Budget adjustments are negotiated with the management team.

Conclusion:

- T The overall MCF of the Gwaii Haanas Development Fund was adequate; however, documentation of sub-project objectives and expected outcomes and linkage to the overall development plan should be improved.

4.2 Expenditures Charged To The Gwaii Haanas Development Fund

Observations

The Gwaii Haanas Development Fund expenditures for the fiscal years ended March 31, 2000 and March 31, 2001 were \$ 606,175 and \$ 464,694 respectively. The Gwaii Haanas Field Unit Development Fund Project Expenditures and Planned Spending Report By Service Line in Appendix A identifies the sub-projects and spending incurred in each since inception of the development project.

Our audit testing of transactions provided overall coverage for the two fiscal years of 45.4 % of the expenditures. Outlined below is the audit coverage achieved in each year by category.

2000/2001

Financial Coverage:

Total Costs Charged to Development Fund During Period April 1, 2000 to February 15, 2001	\$ 341,497
Total Costs Charged to Development Fund During the Fiscal Period	\$ 464,694
Total Costs Examined	\$ 278,068
% Audit Coverage for Period April 1, 2000 to February 15, 2001	81.4 %
% Audit Coverage for Total Fiscal Year	59.8 %

Transactions Coverage:

Total Number Of Transactions in Internal Orders During The Period April 1, 2000 to February 15, 2001	205
Total Number Of Entries Examined	41
% Audit Coverage	20 %

1999/2000***Financial***

Total Costs Charged to Development Fund During the Fiscal Period	\$ 606,175
Total Costs Examined	\$ 207,826
Audit Coverage	34.3 %

Transactions

Total Number Of Transactions in Internal Order During The Fiscal Period	904
Total Number Of Entries Examined	50
% Audit Coverage	5.5 %

Our detailed transaction testing included examining contracts and related invoices from suppliers and/or other supporting documentation such as journal entries as well as interviews with field unit staff to assess the appropriateness of the charge to the development fund. In addition, we agreed the development projects identified to the Field Unit Business Plan and assessed the type of development project against the initial development projects and activities which were identified in

the Federal/Provincial Development Agreement with the Finance and Administration Manager. The BC/Canada MOA had initially identified the nature of projects to be undertaken as part of the development process.

As discussed in section 4.1 above, the criteria used by the site management in determining what constitutes a development fund initiative is not clearly defined and as such can result in possible differences in interpretation. During the period of audit, management has funded four projects using development funds and have requested an A-Base increase to fund similar projects in future years. The total cost of these projects was \$80,577 during the 2001 fiscal year and was \$118,763 during the 2000 fiscal year. These projects are identified in Appendix A. In addition, Mainland Historic Sites which are unrelated to the original establishment agreement were funded using the development funds during the period of audit. The total cost of these projects was \$7,279 during the 2001 fiscal year and was \$9,979 during the 2000 fiscal year. Field unit management has told us that the costs associated with these historic sites will also not be funded in future years by the development fund.

In general, except for the four projects which have been identified for A-Base increases and the Mainland Historic Sites, we found expenditures charged to the development fund to be appropriate and that there was compliance to contracting policies and financial authorities. We did however identify some instances where documentation to support compliance to financial authorities was not obtained. This weakness has been addressed by Field Unit Finance & Administration Manager through increased communication with managers and staff through newsletter articles outlining the financial policies and controls that must be adhered to and through communicating observations of the audit.

Conclusion

- T Expenditures charged to the development fund were appropriate with the exception of the four projects which have been identified for A-Base increases and the Mainland Historic Sites. Criteria should be developed to identify and link sub-projects and related expenditures to the development initiative.
- T Some projects receiving funding from the development fund are ongoing in nature and should be funded through increased A-Base funding as requested by Field Unit Management.

4.3 Fairness and Value for Money in Contracting

Observations

In order to assess fairness in the contracting processes, we reviewed contract file documentation including local purchase orders, travel request authorizations, service contracts and project management files maintained by staff to confirm the type of contract (competitive or sole source) used and to assess compliance to the contracting policies and delegated financial authorities. In addition, our transaction testing also involved the review of invoices from suppliers and contractors and the compliance of these invoices to the terms and conditions of the contract documentation.

In general, we observed that contracts had clear terms of reference, terms and conditions, deliverables and an appropriate basis of payment. Documentation reviewed and discussions with staff provided evidence of ongoing contract administration and contractor performance monitoring by field unit staff. We did encounter some instances where no contract documentation existed or where documentation was not signed by the appropriate manager.

Payments to contractors were generally supported by certifications that goods and services were received; however, there were instances where payments were processed without Section 34 certification that goods and services were received. This observation has been discussed in section 4.2 above.

Conclusions

T In general, there was fairness and value for money in the contracting process and compliance to contracting policies and financial authorities.

MANAGEMENT RESPONSE TO AUDIT OF DEVELOPMENT PROJECT GWAII HAANAS

The Audit made four observations. These and the management response to each are shown below.

1. The overall management control framework of Gwaii Haanas Development Fund was adequate; however, documentation of sub-project objectives and expected outcomes and linkage to the overall development plan should be improved.

Response:

It is felt that the “adequate” rating is a reflection of some spending from the Development Project which was required due to the Field unit not having appropriate A-Base in place. The Field Unit has made no secret in this regard and yet requests for A-Base increases or other Strategic Initiative funding to rectify this situation continue to be rejected as Parks Canada as a whole is not in a position to provide this. We feel this has deflected from the “good” (in our opinion) management control framework in place which is certainly eluded to by the auditor in all his other observations.

2. Expenditures charged to the development fund appropriate with the exception of the four projects which have been identified for A-Base increases and the Mainland Historic Sites. Criteria should be developed to identify and link sub-projects and related expenditures to the development initiative.

Response:

It will not be difficult for the field unit to develop criteria to identify and link the remaining sub-projects to the development initiative. While a formal set of criteria has not been documented in the past, the field unit finds the link between the remaining sub-projects and the original agreement obvious.

3. Some projects receiving funding from the development fund are ongoing in nature and should be funded through increased A-Base funding as requested by Field Unit Management.

Response:

We are pleased that the auditor has confirmed our concerns and agrees with a requirement for a A-Base increase.

4. There was fairness and value for money in the contracting process and compliance to contracting policies and financial authorities.

Response:

Again we are pleased with the assessment and the field unit has already taken action on the few anomalies the auditor found during his review.