

AUDIT OF STRATEGIC INITIATIVE PROJECTS:

**SAP INTEGRATED FINANCIAL
MANAGEMENT SYSTEM (IFMS) PROJECT**

FINAL REPORT

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EXECUTIVE SUMMARY

Background

The IFMS project deals with the implementation of the infrastructure and technical support capabilities of SAP, the Financial Information Strategy (FIS), and financial/accounting support. Parks Canada (PCA) entered into an Memorandum of Understanding with the Department of Heritage (PCH) to provide these services on a cost sharing basis. The audit of the SAP Integrated Financial Management System (IFMS) 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 (MCF) over the IFMS 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.

Methodology

The audit methodology included:

- < interviews with key management personnel at both the Parks Canada Agency (PCA) and the Department of Heritage (PCH);
- < Review of relevant documentation including memorandums of understanding, financial reports, reconciliations of recoveries to financial accounting records, project management files, and minutes of key management committees; and,
- < Examination of contracts and invoices from suppliers.

General Assessment

- T Expenditures were appropriately charged to the IFMS project and the effective rate of PCA's sharing of IFMS project expenditures was less than 58%;
- T There was fairness and value for money in the PCH contracting processes;
- T The MCF over the IFMS project was adequate.

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 2000-01, 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 over-programming.

The audit of the SAP Integrated Financial Management System (IFMS) project has been conducted as part of the Executive Finance Committee's monitoring and controlling activities of the Strategic Initiatives Portfolio.

The IFMS strategic initiative project is the responsibility of the Director of Finance in National Headquarters. The IFMS project deals with the implementation of the infrastructure and technical support capabilities of SAP, the Financial Information Strategy (FIS), and financial/accounting support. PCA entered into a Memorandum of Understanding (MOU) with the Department of Canadian Heritage (PCH) to have PCH provide SAP information management, FIS implementation, and technical and financial/accounting support. In addition, PCA has entered an agreement with Agriculture and Agri-Food Canada (AAFC) for hardware and technical support services. These MOU's define in detail: the services that will be provided; financial terms and conditions; governance principles and decision making structure for addressing issues related to the arrangements. The MOU's outline a cost sharing formula for qualifying expenditures with PCA's percentage share identified.

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 IFMS 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 as well as at PCH Accounting Operations Financial Policy and Systems/ Financial Management Branch at PCH.

3. METHODOLOGY

The methodology included the following activities:

- < Review of minutes of meetings of the PCA Finance Committee of the Executive Board for the fiscal years ended March 31, 2000 and March 31, 2001;
- < Review of MOU between Parks Canada and PCH related to IFMS;
- < Review of MOU between AAFC, CIDA, PCA, and PCH related to SAP Technical Landscape Services;
- < Review of IFMS Review Report (April 16, 2001) produced by IT/Net;
- < Interviews with key management and staff in the PCH and PCA Finance Branches to identify the project management activities which occurred during the project as well as to identify processes and controls in place during the project for capturing, monitoring and reporting of eligible costs and determining amounts for PCH's cost recovery from PCA;
- < Detailed reviews with management in the PCH and PCA Finance Branches to review the costs incurred and the appropriateness of PCH's recovery from PCA;
- < Review of project financial reports and notes from meetings held between PCA Director of Finance and PCH IFMS Project Manager;
- < Review of minutes of PCH IFMS Project Team meetings;
- < Review of PCH IFMS project management files including financial reports, budgets, commitment control schedules, SAP implementation contract and amendments;
- < Examination of PCH invoices and interdepartmental settlements for recovery of PCA share of costs including reconciliation of amounts recovered to PCH Free Balance By Cost Element Reports and Salary Management System (SMS).
- < Examination of contracts and invoices from key suppliers on a test basis.

4. OBSERVATIONS AND CONCLUSIONS

4.1 Expenditures Charged to IFMS Project

Observations

Based on our examination of the books and records of PCA, we identified the following payments that were made related to expenditures attributable to the IFMS project for the fiscal years ended March 31, 2000 and March 31, 2001:

Payee	2000/2001	1999/2000
PCH - Recoverable Expenses	\$ 1,930,551	\$ 2,416,229
Salary - PCA (4) Staff on Project	215,000	238,000
Total Funding By PCA	\$ 2,145,551	\$ 2,654,229

The payments for recoverable expenses were pursuant to the MOU between PCH and PCA for the provision of SAP information management, FIS implementation, and technical and financial/accounting support. The MOU defines key cost components of the IFMS project and the method of allocating these costs between PCH and PCA as follows:

Key Cost Component	Method of Sharing
Project Management	50%:50%
Module Maintenance	Best fit scenario that takes into consideration the number of users, transaction volume, and number of full time equivalents in each organization
Receiver General Interfaces	50%:50%
Client Services	Based on the number of users
License Related Activities	SAP License costs are based on the number of FTE's therefore costs related to these activities will be shared as follows: PCA 58%; PCH 42%
Hardware Purchase and Maintenance	Transaction volume basis
Security and Coding	Based on the number of users

Based on interviews with PCH and PCA financial officers and an examination of financial documentation supporting the cost recoveries, PCH and PCA agreed to have PCA fund 58% of all costs that were attributable to the IFMS project instead of adhering to the above cost sharing formula. This decision was made for simplicity purposes. It was agreed by PCH and PCA that it would have been too onerous to collect and track the volume and user metrics that are required by the formula. The MOU document was not amended to reflect this change. This will be addressed in section 4.3 below.

The salary costs for the provision of PCA staff to work on the IFMS project is also subject to the 58%/42% cost allocation.

We reconciled the recoveries from PCA to the PCH SAP financial accounting system and the salary management system (SMS) for the two fiscal years. Factoring in the salary cost of the PCA staff, the following calculations indicate that the effective rate of PCA's sharing of IFMS project expenses was 56.0% over the two year period.

	2000/2001	1999/2000	TOTAL
Operating Costs	\$ 1,477,000	\$ 3,759,873	\$ 5,236,873
Salary Costs	1,265,265	1,111,391	2,376,656
Hardware Costs - per AAFC MOU	500,000		500,000
Total expenditures paid by PCH	3,242,265	4,871,264	8,113,529
Salary costs of PCA Staff (4) paid by PCA	215,000	238,000	453,000
Total IFMS Project Expenditures (Including FIS)	3,457,265	5,109,264	8,566,529
Calculated PCA funding at 58%	2,005,514	2,963,373	4,968,887
Actual PCA Funding	2,145,551	2,654,229	4,799,780
PCA Funding (Excess) Shortfall	(140,337)	309,144	168,807
Effective Rate of PCA Funding	62.1 %	51.9 %	56.0 %

A sample of IFMS project operating and hardware expenditures was drawn and supporting documentation, including contracts and supplier invoices, was reviewed. Our sample covered 33% of the total operating and hardware expenditures over the two fiscal years. We found that the operating and hardware expenditures examined were appropriately charged to the IFMS project.

Salary expenditures were reviewed with PCA and PCH financial officers to confirm the appropriateness of allocating the salary costs of the identified employees to the IFMS project expenditures. We found that the salary expenditures examined were appropriately charged to the IFMS project.

Conclusions

- T Expenditures were appropriately charged to the IFMS project.
- T The effective rate of PCA's sharing of IFMS project expenditures was less than 58%.

4.2 Fairness and Value for Money in Contracting

Observations

We examined the original professional services contract to provide SAP implementation services, subsequent contract amendments and related documentation which were contained in contracting files maintained by PCH. This contract, with the amendments, represented a substantial portion of the IFMS project expenditures.

In order to assess fairness in the PCH contracting processes, we reviewed the contract documentation to assess that there was an open and competitive process. The contract was tendered through PWGSC and was subject to a competitive process. Two firms submitted proposals and the contract evaluation documents clearly showed the winning bid as superior.

In order to assess value for money in the PCH contracting processes, we reviewed the contract and related documentation to assess that:

- < there were clear terms of references, terms and conditions and deliverables to permit effective project management;
- < there were justifications for contract amendments;
- < invoices for services rendered were in accordance with contract terms and conditions; and
- < there was evidence of ongoing project management and contract administration.

We observed that:

- < the SAP implementation contract and subsequent amendments had clear terms of references, terms and conditions and deliverables;
- < contract amendments were justified by the PCH IFMS project manager;
- < invoices were in accordance with the contract terms and conditions; and
- < there was evidence of project management and contract administration, which included minutes of project committee meetings and reconciliation of contract amounts to forecasts, commitments and actual expenditures.

Conclusions

< There was fairness and value for money in the PCH contracting processes.

4.3 Management Control Framework of IFMS Project

Observations

In order to assess the effectiveness of the MCF of the IFMS project, we conducted meetings with PCH and PCA management, reviewed the MOU between PCH and PCA, and reviewed relevant contracting and related project management file documentation.

We used the following criteria to assess the effectiveness of the IFMS project MCF:

- < establishment of roles and responsibilities, and reporting relationships between PCH and PCA management;
- C strategic project planning;
- C establishment of project manager;
- C establishment of project committees;
- C annual project budgets and forecasts;
- C periodic meetings of project committees and work teams;
- C periodic reporting of actual and forecasted expenditures and comparison to budgets;
- C periodic progress reporting of project performance against deliverables stipulated in the contract; and
- C periodic reconciliation of contract amounts to forecasts, commitments and actual expenditures.

Overall, we found the MCF over the IFMS project to be adequate. We found evidence that the project was well planned and that project expenditures and deliverables were being monitored. More specifically, we observed that:

- < periodic meetings were held between PCH and PCA management to review project expenditures and progress, where PCA management executed a challenge role on project decisions and expenditure requirements;
- < a project team (Tactical Operating Committee) was established and periodic meetings were held, with minutes prepared and approved; and
- < project expenditures were reviewed and analysed in comparison with annual budgets, forecasts and commitments.

However, we did note that the MOU provided for the establishment of a Strategic Management Committee and a FIS Management Board, all with defined PCH and PCA representation and with a defined mandate, roles and responsibilities as part of the governance structure for the IFMS project. The FIS Management Board was established and three meetings were held. The Strategic Management Committee was not established. Further, as identified in Section 4.1 above, the cost allocation formula provided for in the MOU was not adhered to. Amendments to the formula were agreed to but the MOU document was never changed.

We were also told that decisions between PCH and PCA management were being made verbally and written documentation signed by both parties as evidence of the agreement was not prepared.

Conclusions

- T Overall, we found the MCF over the IFMS project to be adequate.
- T The MOU document was not amended to reflect significant changes to the funding formula and to the governance structure of the project.

MANAGEMENT RESPONSE TO SAP INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS) AUDIT

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

1. The cost allocation formula provided for in the MOU was not adhered to. Amendments to the formula were agreed to but the MOU document was never changed.

Response:

We are in the process of re-negotiating the MOU with PCH and will address the funding formula as part of this process to insure that the MOU accurately reflects the negotiated rate.

2. We were also told that decisions between PCH and PCA management were being made verbally and written documentation signed by both parties as evidence of the agreement was not prepared.

Response:

Records of decision will be prepared for any major decisions that are taken that involve the Financial Systems or that reflect any deviation from the MOU.