

**AUDIT OF KEY FINANCIAL PROCESSES AT
THE NEW BRUNSWICK SOUTH FIELD UNIT**

FINAL REPORT

Prepared By

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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 New Brunswick South Field Unit (NBSFU) 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 NBSFU are adequate to mitigate the risk of non-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; and Stores Inventory and Safeguarding of High Risk Valuable Small Items. The period from April 2003 to June 2004 was covered in this audit. The NBSFU was visited during the period June 21 to June 25, 2004. Audit work focussed on processes and transactions at the FNP and included the review of relevant documentation, interviews with NBSFU personnel, and transaction testing in key financial process areas.

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 NBSFU and that systems and controls in place are adequate to minimize the risk of non compliance to TBS and PCA policies and practices. We have identified opportunities to strengthen processes and controls to further mitigate the risk of non-compliance to TBS and PCA policies and to augment the best practices evidenced. Our recommendations for consideration by the Field Unit Superintendent are as follows.

1. Ensure that key procedures and descriptions of roles and responsibilities related to the management and financial administration of the NBSFU are updated and documented.
2. Consider increasing the frequency of internal financial reporting, requiring that the first internal financial reports are provided at the end of the first quarter rather than at midyear.

3. Ensure that contracts are signed only by individuals with delegated contracting authority.
4. Review acquisition card usage to identify opportunities for increased card use where justified, and cancel cards for low volume users.
5. Amend the monthly acquisition card purchase log to provide for the identification of assets requiring identification numbers.
6. Ensure that travel authorizations and dates of authorization are completed for all Travel Authority and Expense Forms. Travel authorizations covered by a Blanket Travel Authority should be identified as such on the forms.

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. 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 audit of the NBSFU was conducted as part of this cyclical audit program.

The NBSFU was established in 1996 and includes Fundy National Park (FNP); The Carleton Martello Tower National Historic Site; St. Andrews Blockhouse National Historic Site; and 87 Historic Sites and Monuments Board of Canada (HSMBC) designations commemorating places, people and events of national historic significance. The NBSFU operated with a budget of \$7.4 million in 2003-2004 including approximately \$2.1 million for special projects. For 2004-2005, the budget is approximately \$ 5.1 million.

NBSFU operations consist mainly of the activities related to the FNP. The Field Unit management team consists of the superintendent and six functional managers.

The administrative and management activities are centralized and performed at the Field Unit's headquarters within the park, at Alma, New Brunswick. The Field Unit employs a full-time staff of less than 100 and the Business Services Function consists of five full-time employees including the Manager, Business and Human Resources Services, who reports directly to the Field Unit Superintendent.

2. OBJECTIVES AND SCOPE

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 NBSFU are adequate to mitigate the risk of non-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; and,

- Stores Inventory and Safeguarding of High Risk Valuable Small Items.

The scope of the audit covered processes in place and transactions entered into between April 1, 2003 and June 6, 2004. The audit focussed on processes and transactions at the FNP whose operations comprised a substantial majority of those of the NBSFU.

3. METHODOLOGY

The methodology included a visit to FNP and comprised the following activities:

- Interviews with the NBSFU management and personnel involved in financial management;
- Review of relevant documentation including the NBSFU Sustainable Business Plan for 2004-2009, The FNP Park Management Plan, Organization Charts, PCA delegated Signing Authorities Chart, policies that deal with the key financial process areas, and financial reports prepared by the Manager, Finance and Human Resources; and
- Examination of a sample of transactions for each of the key financial process areas, where applicable.

Upon completion of the field work, a debriefing of our preliminary observations was provided to the Field Unit Superintendent and the Manager, Finance and Human Resources Services.

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 NBSFU 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

Observations

Our work related to the MCF at the NBSFU included review of relevant documentation and an interview with the Manager, Business and Human Resources Services. We found that the MCF over financial management includes an annual business planning and budgetary process, through which Field Unit priorities are identified and established by the management team, and funds are allocated accordingly. Best practices and effective controls in this process that we identified include:

- detailed budgets for each functional manager, as well as for projects within each management function.
- exceeding and/or amending budgets require a formal request and justification to be provided by the manager and approved by the Field Unit Superintendent.
- documented 'Project Charters', including project description, budget, key deliverables and milestone dates as well as key issues and risks, are prepared for each project and are also approved by the Field Unit Superintendent.
- overall risk management has been incorporated in the business planning process and is discussed at management team meetings, as required.
- the computer system's data is backed up on a nightly, weekly and monthly basis and is stored in the fire proof safe.

The MCF has been implemented in a manner reflecting the centralized organization of the Field Unit and the limited number of staff. We found that although Headquarter and local policies and procedures are well communicated and are understood, a description of finance related roles and responsibilities and detailed desk procedures for staff have not been formalized. We note the existence of informal procedures, frequent communication among the management team and the minimal turnover of knowledgeable staff. Having formally documented roles and responsibilities and desk procedures would enhance the transfer of finance knowledge in the case of employee

turnover, and, reduce the risk of non-compliance to TBS and PCA policies and practices. It was noted that management has commenced documenting Field Unit policies related to financial processes and has made a commitment to document detailed desk procedures and update related role and responsibility documents.

We found that mid year and final reports are provided to the Superintendent and to the Regional Director General indicating actual and budgeted figures, updated projections, and a variance analysis. Internally, subsequent to the mid year report, similar reports are provided monthly to the Superintendent for each functional management area. The management team convenes to revise priorities and projects where significant variances from budgeted amounts arise. During the audit team's debriefing with the Superintendent, it was agreed that there is a need for internal reporting prior to the first report currently provided at midyear. This would enhance management's ability to identify risks such as project delays and/or cost overruns, and to take corrective actions or revise priorities and budgets in a more timely manner.

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| | 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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Recommendations

1. The Superintendent should ensure that key procedures and descriptions of roles and responsibilities related to the management and financial administration of the NBSFU are updated and documented.
2. The Superintendent should consider increasing the frequency of internal financial reporting, requiring that the first internal financial reports are provided at the end of the first quarter rather than at midyear.

6.2 Revenues

Observations

The NBSFU collects revenues from a variety of sources. The vast majority of revenues, (more than 98%), relate to activities at FNP. Entry fees to the Carleton Martello Tower and St. Andrews Blockhouse account for the remaining 2% of the Field Unit revenues.

Limited work was performed on these revenues due to their immateriality. Our audit work focused on the Park related revenues.

Interviews were conducted with the Finance Office staff and with the Visitor Facilities Supervisor, responsible for overseeing the computerized Point Of Sale (POS) system, which captures and codes the majority of revenues. In addition, a sample of transactions were tested to ensure funds received were appropriately recorded in the financial system, were deposited in the Bank, and to verify processes and controls operated during the audit period.

Testing of a sample of transactions confirmed 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.

The following controls and best practices related to the management of Park revenues were evidenced:

- The majority of revenues, (over 70%), related to park, campground and swimming pool entry fees, are captured and coded by the POS system. The system is effectively implemented and monitored and incorporates many built-in controls, including: automatic coding of revenues, controlled individual access, currency conversion and audit report capabilities.
- POS sales reports and deposit information is reviewed daily by Finance staff. Bank deposits are reconciled regularly to daily sales and deposit reports.
- Golf course fees account for approximately 12% of all revenues and are closely controlled through the issuance and monitoring of sequentially numbered permits by park staff.
- Staff housing rental rates are pursuant to Treasury Board's *'Living Accommodations Charges Directive'* and agreed to by the employees, as evidenced in signed agreements on file. For permanent employees rent is collected through payroll deductions. For summer students, rent is invoiced, with their final paycheque withheld until payment has been received.
- Rental revenue for land, chalets and the golf course restaurant are governed by leases which call for third party prepared financial statements of the lessees operations where required.

- Adequate segregation of duties exists between revenue collection, data entry, cash deposits and bank reconciliation.
- Cash is deposited daily by bonded courier.

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| | Controlled | Controls are functioning as intended and no additional actions are necessary at this time. |
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Recommendation

None

6.3 Contracting**Observations**

The NBSFU 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).

During the period of audit, FNP entered into 49 Services Contracts with a total value of \$332,574. Of the total, one contract was valued at over \$25,000 and three contracts were valued between \$20,000 and \$25,000.

We selected 12 contracts on a judgmental basis which were representative across different contract value thresholds as shown in the following table:

| Contract Amount | Population | | Sample Size and Selections | |
|----------------------|------------------|---------------------------|----------------------------|---------------------------|
| | No. of Contracts | Total Amount of Contracts | No. of Contracts | Total Amount of Contracts |
| \$1 to \$500 | 3 | \$ 942 | | \$ - |
| \$500 to \$2,500 | 13 | 19,790 | 2 | 3,540 |
| \$2,500 to \$5,000 | 15 | 61,234 | 3 | 12,775 |
| \$5,000 to \$20,000 | 14 | 141,708 | 3 | 37,500 |
| \$20,000 to \$25,000 | 3 | 68,900 | 3 | 68,900 |
| over \$25,000 | 1 | 40,000 | 1 | 40,000 |
| TOTAL | 49 | \$ 332,574 | 12 | \$ 162,715 |

We also randomly selected four Call Ups Against Standing Offers and eight Local Purchase Orders.

Overall, we found that contracting policies were being respected with the exception of some contracts being signed by the Materiel Management and Contracting Officer who does not have the contracting authority. From our review of contract documentation, we noted that sole source justifications were well prepared and were approved by a two-person board for contracts exceeding \$5,000.

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| | 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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Recommendation

3. The Superintendent should ensure that contracts are signed only by individuals with delegated contracting authority.

6.4 Use of Acquisition Cards

Observations

Currently, there are 16 cardholders in the NBSFU. Acquisition Card use is monitored by a regional Acquisition Card Coordinator for the Atlantic region located at the Service Centre in Halifax. A list of cardholders is also maintained and monitored by finance staff at Park Administration Headquarters.

From our discussions with finance staff and a review of cardholder files, we found that cardholders are low volume, low dollar users, with the exception of the Materiel Management and Contracting Officer and her assistant. The high volume usage of the cards for these individuals simplifies the purchasing process given the remoteness of the Park and has improved the efficiency and economy of the management of the administration of purchases and payments.

The low volume, low dollar usage of the other cardholders is an indicator that either the cards are not being used in instances where they could be, or that cards are not required by certain holders. An excessive number of cardholders increases the risk of the loss or misuse of cards.

Our detailed review of acquisition card purchases covered transactions for 12 different months among seven cardholders. This review revealed that acquisition card policies were respected during the period of audit. We noted that the completion and reconciliation of acquisition card purchase logs and Section 34 certification were performed, without exception, by an individual other than the cardholder.

Where 'attractive' assets were purchased with acquisition cards, our review revealed that identification numbers were assigned to them and they were logged in the financial system. However, we noted that the monthly acquisition card 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 logs would reduce the risk that attractive assets are not tracked.

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| | 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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Recommendation

4. The Superintendent should review acquisition card usage to identify opportunities for increased card use where justified, and cancel cards for low volume users.
5. The Superintendent should amend the monthly acquisition card purchase log to provide for the identification of assets requiring identification numbers.

6.5 Expenditures for Travel

Observations

We reviewed the processes for the authorization and processing of travel claims and we selected a sample of nine travel claims with total expenditures of \$12,840 during the period of audit. 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 properly certified.

However, we noted that the TBS Travel Directive provides that travel must be authorized in writing and in advance. The current process consists of having both travel

authorizations and travel claims on the same form, and this form is not forwarded to Accounts Payable, Finance until the travel claim is completed, i.e. until that time, it is retained by travellers or their supervisors. Commitments are entered into SAP at the time of travel authorization. Our review revealed that for travel that is not covered by a Blanket Travel Authority, there is some risk of travel not being authorized in advance. One of the travel claims reviewed as part of our sample was not covered by the Blanket Travel Authority and there was no evidence of the travel authorization on the form. We note that this risk is low given the high number of Blanket Travel Authorizations.

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| | 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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Recommendation

6. The Superintendent should ensure that travel authorizations and dates of authorization are completed for all Travel Authority and Expense Forms. Travel authorizations covered by a Blanket Travel Authority should be identified as such on the forms.

6.6 Payments to Suppliers

Observations

We conducted interviews with finance personnel and tested a sample of 18 payment files for expenditures made using contracts, purchase orders and acquisition cards. Our testing of payment files revealed that payments made are properly recorded in the financial accounting system and that invoice verification and approval procedures are being followed. In particular, we noted that adequate segregation of duties exists between the Section 34 function, input of the information in the financial system and payment of the invoice.

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| | Controlled | Controls are functioning as intended and no additional actions are necessary at this time. |
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Recommendation

None.

6.7 Stores Inventory

Observations

There is approximately \$15,000 of stores inventory on hand at the NBSFU comprising a variety of items such as cleaning and safety supplies, lumber, repairs and maintenance supplies, and fuel. We reviewed the practices and controls related to this inventory with the Materiel Management and Contracting Officer. In our opinion, the processes and controls in place are adequate to mitigate risks related to the management of the stores inventory at the NBSFU.

Best practices and controls evidenced include:

- inventory is located in a locked 'stores building' within a fenced and locked compound. Access to the building is limited and controlled.
- inventory is maintained on, and monitored through a perpetual computerized inventory system called SIS (Stores Inventory System).
- inventory is issued through 'issue' forms generated by SIS.
- Responsibility Centre (RC) managers review 'issue' forms and signs Section 34 on all inventory charged to their Responsibility Centre.

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| | Controlled | Controls are functioning as intended and no additional actions are necessary at this time. |
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Recommendation

None

6.8 Safeguarding of High Risk Valuable Small Items

Observations

We interviewed the Manager, Business and Human Resources Services and the Materiel Management and Contracting Officer to review practices and controls related to high risk valuable (attractive) items such as laptops, projection and other electronic equipment and tools.

In our opinion, the processes and controls in place are adequate to mitigate risks related to the administration and safeguarding of attractive items at NBSFU, with the

exception of the opportunity to strengthen the identification process of asset purchases through acquisition cards already discussed in Section 6.4 of the report.

Best practices evidenced include:

- Assets of value between \$1,000 and \$10,000 and ‘attractive’ assets worth less than \$1,000 are bar coded and tracked through the MIU (Material In Use) computerized system.
- MIU forms are used to record the request, issuance, transfer and disposal of assets and attractive items.
- Individual employee ‘Inventory’ cards are also maintained by the store staff that record all items issued to and in the custody of the individual including all assets and various supplies such as blankets, flashlights, minor tools, etc.
- Administration and Finance staff periodically conduct a physical inventory count of all MIU items. We were told that to date, no significant discrepancies between MIU records and physical inventory have been found to exist. The next physical count is scheduled for the fall of 2005.

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| | Controlled | Controls are functioning as intended and no additional actions are necessary at this time. |
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Recommendation

Refer to recommendation 5 in Section 6.4 of the report

| Audit Reporting Rating System | | |
|--------------------------------------|---------------------------------|---|
| | 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. |
| | 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. |
| | 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. |
| | 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. |
| | Controlled | Controls are functioning as intended and no additional actions are necessary at this time. |

7. MANAGEMENT RESPONSE

Recommendation 1:

Ensure that key procedures and descriptions of roles and responsibilities related to the management and financial administration of the NBSFU are updated and documented.

AGREE: Manager required that all job duties/procedures be documented by functional responsibilities (e.g. Accounts payable, accounts receivable, contracts, disposals, etc.). Upon receipt of information, one document will be produced which outlines full field unit responsibilities for management and financial administration. Due date for completed document: February 1, 2005.

Recommendation 2:

Consider increasing the frequency of internal financial reporting, requiring that the first internal financial reports are provided at the end of the first quarter rather than at midyear.

AGREE: Manager requires that internal financial reports be provided at the end of the first quarter, with monthly updates required thereafter. All cost centre managers to report variances as per direction in the Field Unit Variance Reporting Procedures Directive NBS-13.

Recommendation 3:

Ensure that contracts are signed only by individuals with delegated contracting authority.

AGREE: Delegation of Signing Authorities was verified and all managers were informed of their responsibilities. Persons signing contracts without the delegated signing authority were informed of their responsibilities and the process of individuals signing without delegated signing authority has ceased.

Recommendation 4:

Review acquisition card usage to identify opportunities for increased card use where justified, and cancel cards for low volume users.

AGREE WITH RESERVATION: Acquisition card usage will be reviewed on an on-going basis and the low volume users will be cancelled with the exception of those acquisition cards required for operational reasons.

Recommendation 5:

Amend the monthly acquisition card purchase log to provide for the identification of assets requiring identification numbers.

AGREE: Form has been modified to include the identification of assets and attractive items. Training is scheduled for all acquisition card users to address responsibility of the user to ensure compliance to "Material In Use".

Recommendation 6:

Ensure that travel authorizations and dates of authorization are completed for all Travel Authority and Expense Forms. Travel authorizations covered by a Blanket Travel Authority should be identified as such on the forms.

AGREE: Manager requires that a two-hour training session be developed by Finance and Admin to address the roles and responsibilities of travelers/supervisors. All blanket authorities have been confirmed. All non-blanket travel and conference attendance must be pre-approved in writing on a Travel Authority Form and a Travel Authority Number will be issued. A Field Unit Directive on Travel is being developed.