

**AUDIT OF KEY FINANCIAL PROCESSES
AT RIDING MOUNTAIN
NATIONAL PARK FIELD UNIT**

FINAL REPORT

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1. EXECUTIVE SUMMARY

Background

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 Riding Mountain Field Unit (RMFU) was conducted as part of this cyclical audit program.

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 RMFU are adequate to ensure compliance to TBS and PCA policies and practices.

The scope of this engagement covered the following key financial process areas: Management Control Framework, Revenues; Contracting; Use of Acquisition Cards; Expenditures for Travel; Payments to Suppliers; and Stores Inventory and High Risk Valuable Small Items. The period covered in this audit was eighteen months from April 1, 2002 to September 30, 2003.

Methodology

The audit methodology included a review of relevant background documentation, interviews with RMFU personnel and transaction testing in key financial process areas. The RMFU was visited during the period January 5 to January 9, 2004.

Statement of Assurance

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

Conclusions

Overall, the management control framework and the seven key financial process areas were adequately maintained and operated by the RMFU. During our audit work, we noted instances where procedures were not always carried out in accordance with the policies in place; accordingly, certain processes and controls could be strengthened to improve compliance with TBS and PCA policies.

Outlined below is a summary of the recommendations for consideration by the Field Unit Superintendent of Riding Mountain.

Recommendations

1. Document and formalize the Disaster Recovery Plan to ensure the continued operations of the field unit in case of a disaster.
2. Review the segregation of duties within the finance group to avoid the situation where the two Accounts Receivable clerks are the same people that open the mail and prepare the daily cash received summary ("cash blotter").
3. Introduce a process that formally monitors the call-ups against the standing offers to ensure that the standing offer totals are not exceeded.
4. Re-examine the Purchase Order (PO) process and take corrective steps to avoid, where applicable, the use of the same PO for different call-ups on the standing offers. In particular, different group of services should be contracted through different POs.
5. Ensure that the staff issue a PO in accordance with standard policy, before the purchase of the goods or services to ensure commitment of funds as well as proper authorization to spend the funds. A training session should be held to remind the staff of the appropriate procedures.
6. Arrange for the weekly cheque payment runs to be signed by the Finance Officer as evidence of review for large or unusual payments.
7. Continue to ensure that the individual cardholders do not have Section 34 authority for their own acquisition card purchases.
8. Review, on a periodic basis, the usage records of the cards and take corrective action for people that have exceeded their limits, and make suitable adjustments to the credit limits or cancel the card for low activity levels.
9. Continue to remind all the staff of the TBS requirement to have travel authorized in advance and to have this approval in writing.
10. Pursue the initiatives at RMFU with regards to periodic physical counts of the materials held and the subsequent update of the database and the SAP capital assets module, as well as populating cost information for new material into the databases.

2. BACKGROUND

Parks Canada Agency (PCA) is conducting cyclical audits of key financial, administrative and management practices a series of cyclical audits of field units, service centres and the national office.

There are thirty-two field units and four service centres in the PCA. Field Units are groupings of national parks, national historical sites and national marine conservation areas that are usually in proximity to one another. Their proximity allows them to share management and administration resources. The service centres support the organization in a variety of professional and technical disciplines. Directors of the service centres and field units are responsible for ensuring that the policies, directives and guidelines issued by the TBS and PCA are being followed.

The audit of the RMFU was conducted by PricewaterhouseCoopers LLP as part of this cyclical audit program.

3. 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 RMFU are adequate to ensure compliance to TBS and PCA policies and practices.

The scope of this engagement covered the following key financial process areas:

- Management Control Framework;
- Revenues;
- Contracting;
- Payments to Suppliers;
- Use of Acquisition Cards;
- Expenditures for Travel; and
- Stores Inventory and High Risk Valuable Small Items.

Transactions incurred during the period from April 1, 2002 to September 30, 2003 were covered in this audit.

4. METHODOLOGY

The methodology included a site visit to the RMFU in Manitoba and included the following activities:

- Interviews with RMFU management and personnel responsible for the key financial process areas;
- Review of relevant documentation including RMFU Sustainable Business Plan Fiscal year 2004-08, organization chart, PCA Delegated Signing Authorities Chart, policies that deal with the above key process areas, and various financial reports; and
- Examination of a sample of transactions in each of the key financial process areas, except for inventory.

After the fieldwork was complete, a debriefing of our preliminary observations was made to the RMFU Superintendent, Manager, Finance and Administration and Finance Officer.

5. CONCLUSIONS

Overall, the management control framework and the seven key financial process areas were adequately maintained and operated by the RMFU. During our audit work, we noted certain instances where procedures were not always carried out in accordance with the policies in place, accordingly, certain processes and controls could be strengthened to improve compliance with TBS and PCA policies.

Outlined below in Section 6 is a summary of the observations and recommendations for consideration at the RMFU to address these areas.

6. OBSERVATIONS AND RECOMMENDATIONS

6.1 Management Control Framework

(i) Observations

As part of the audit of the RMFU, an investigation and examination of the financial management control framework was carried out to ensure that adequate processes were in place in the field unit. The management control framework includes policies, procedures, structures, systems and practices that management has at its disposal to help ensure the achievement of objectives. These audit tests were satisfactorily completed and the RMFU has adequate controls in this key financial process area.

During the review of the control framework, we did note that the RMFU does not have an established and documented Disaster Recovery Plan for financial data in case of a disaster, such as a fire. This would be useful to management so that in case of an incident at the RMFU, operations could be re-established in the

shortest time possible. It would also be advisable that a back-up of data be stored on a periodic basis away from the RMFU (e.g. Winnipeg), as fire damage could destroy all the documents kept locally.

It is also noted that there are two locations (main administration office and maintenance compound) with separate servers which could be used in case of a disaster. There are regular back-ups of the servers kept in a vault on site and the SAP system is backed up in Ottawa reducing the risk of loss of financial data. Information outside of the SAP system, which is stored on servers and hard drives are at most risk in case of a disaster affecting the RMFU.

(ii) Risks

- Irrecoverable loss of critical data;
- Inability to effectively and efficiently resume Field Unit Operations following an incident.

(iii) Recommendations

1. The Manager, Finance and Administration should document and formalize the Disaster Recovery Plan to ensure the continued operations of the field unit in case of a disaster.

6.2 Revenues

(i) Observations

RMFU reported approximately \$ 2 million in revenue during the period under review. There are two Accounts Receivable clerks presently responsible for opening the mail and preparing the daily cash received summary ("cash blotter"). The cash blotter is the listing of cash received in the mail and is prepared daily showing information about the payment such as the amount and source. With this process, there is insufficient segregation of duties between the receipt of cash and the accounts receivable duties. For internal control purposes, these two functions should be separate.

This current situation is considered to be temporary as there is usually a different individual (independent from the accounts receivable function) responsible for opening the mail and preparing the cash blotter, however, this person is presently absent from the office. The two accounts receivable clerks perform the same functions and report to the Manager, Finance and Administration.

Also during the testing, we identified one missing receipt for a rent collection. The receipt should have been created by the individual at the front desk from the cash register system once the cheque received had been matched to the related

invoice. The cash blotter total agreed to the amount deposited at the bank but the receipt from the cash register was missing. No similar exceptions were noted in the other transactions sampled.

(ii) Risks

- Loss of revenues;

(iii) Recommendations

2. The Manager, Finance and Administration should review the segregation of duties within the finance group to avoid the present situation where the two Accounts Receivable clerks are the same people that open the mail and prepare the daily cash received summary ("cash blotter").

6.3 Contracting

(i) Observations

For fiscal year 2002 –2003, the RMFU made approximately \$2.8 million in payments to suppliers. Purchases of goods and services are made through "standing orders", whereby suppliers are pre-qualified to provide the specific goods or services up to a certain dollar value. To request a purchase under a standing offer, a purchase order or "call-up" is placed under the authority of the standing order. It was noted that there is no formal monitoring of call-ups against standing offers, so it is not always possible to know whether the standing offer dollar limits have been exceeded, or if they should be raised.

In addition, the field unit issues a purchase order (PO) for a call-up on the standing offer, however, it was noted that subsequent purchases were added onto the original PO instead of raising a new PO. For control purposes, each purchase should have a separate PO, especially for standing offers covering a wide range of services that require different project managers' approval.

(ii) Risk

- Exceeded standing offer dollar limits resulting in failure to ensure value for money for goods and/or services;
- Unauthorized transactions resulting in failure to ensure value for money.

(iii) Recommendation

3. The Manager, Finance and Administration should introduce a process that formally monitors the call-ups against the standing offers to ensure that the standing offer totals are not exceeded.
4. The Manager, Finance and Administration should re-examine the Purchase Order (PO) process and take corrective steps to avoid, where applicable, the use of the same PO for different call-ups on the standing offers. In particular, different group of services should be contracted through different POs.

6.4 Payment to Suppliers**(i) Observations**

According to TBS and PCA guidelines, purchase orders are required for significant purchases of goods or services to ensure the proper approval of the commitment of funds by the project manager with the appropriate authority. From the selected sample of contract related payments, we noted several exceptions of purchase orders prepared after or concurrent to the receipt of the invoices (five out of seven contracts tested). These purchase orders did not have prior approval by the project managers with the appropriate authority and the funds were not committed in SAP.

For some of the purchases tested (in a sample of twelve transactions), we also found that the supporting documentation to be insufficient and not in accordance with established policies. Specifically:

- Two payments were missing the Section 34 approvals;
- A contract amendment was missing for one of the items selected for testing; and
- The date stamp was not entered on all the invoices paid (missing for two invoices out of twelve sampled).

Also, it was noted that the bi-weekly computer cheque print-out is reviewed by the Finance Officer to scrutinize the report for large or unusual items and to check the accuracy of the data entry for the dollar amounts and the vendor information, however, this report is not signed as evidence of this control procedure taking place.

(ii) Risks

- Misappropriation;
- Non-compliance with the Financial Administration Act (FAA).

(iii) Recommendations

5. The Manager, Finance and Administration should ensure that the staff issue a PO in accordance with standard policy, before the purchase of the goods or services, to ensure commitment of funds as well as proper authorization to spend the funds. A training session should be held to remind the staff of the appropriate procedures.
6. The Manager, Finance and Administration should arrange for the weekly cheque payment runs to be signed by the Finance Officer as evidence of review for large or unusual payments.

6.5 Use of Acquisition Cards**(i) Observations**

In the sample examined, the applicants for three out of the eleven items tested had performed the Section 34 approval for their own transactions, which is not the proper procedure for this process. These exceptions were transactions that occurred within fiscal year 2002-2003 and, through discussion with the finance personnel, we understand that a stronger application of the approval procedure has been enforced in fiscal year 2003-2004, which is consistent with the results from our testing.

In addition, as part of our sample of transactions, one receipt was missing to support the expenses on the acquisition card monthly statement. No other similar exceptions were noted in the remaining transactions sampled.

The acquisition card provider offers on-line reporting of utilization by cardholder. There are approximately 35 cardholders at RMFU and their utilization is monitored by the Contracting and Material Management officer. There has not been a systematic review established of the utilization of the acquisition cards with regards to their respective credit limits.

(ii) Risks

- Misappropriation;
- Operational inefficiencies resulting from inadequate credit card limits;
- Non-compliance with the Financial Administration Act (FAA).

(iii) Recommendations

7. The Manager, Finance and Administration should continue to ensure that the individual cardholders do not exercise the Section 34 authority for their own acquisition card purchases.

8. The Contracting, Material Management officer should review, on a periodic basis, the usage records of the cards and take corrective action for people that have exceeded their limits. Also the officer should make suitable adjustments to the credit limits or cancel the card for low activity levels.

6.6 Expenditures for Travel

(i) Observations

The TBS travel policy requires authorization of traveling in advance of such travel, however, from our audit examination of travel activities, we found one-half of our sample tested (i.e. four out of eight) did not have an approved travel authorization form or blanket authorization form completed.

The transactions without pre-authorization related to travel occurred in fiscal year 2002-2003. We understand that stronger application of the policy has been enforced in the fiscal year 2003-2004 in order to ensure proper advance approval of travel, which is consistent with the results from our testing.

(ii) Risks

- Unauthorized travel resulting in failure to ensure value for money .

(iii) Recommendations

9. The Manager, Finance and Administration should continue to remind all the staff of the TBS requirement to have travel authorized in advance and to have this approval in writing.

6.7 Stores Inventory and High Risk Valuable Small Items

(i) Observations

Four to five years ago, a large stores area was maintained but this is no longer the situation. The RMFU does not maintain an inventory of items, as items are ordered on an "actual usage basis", so in effect all items are used immediately and not placed in inventory.

Lotus Notes Databases are used to monitor the following types of equipment:

- (i) Informatics Equipment (mostly hardware), and
- (ii) Material with cost between \$1,000 and \$10,000 and attractive items with cost under \$1,000.

The databases present detailed information about each item including cost (new items only - items purchased over 3 years ago might not have a cost assigned),

user, location, description, type of item and barcode. A unique number is assigned to the equipment based on the labels received from the Service Centre in Winnipeg (labels put on the equipment that can be scanned and show description of the equipment). The databases permit the filter of information by user, location, type of inventory. A partial physical count of the items (i) and (ii) above was performed in the summer of 2003 under the supervision of the Manager, Finance and Administration and the databases were updated.

The RMFU follows the "Parks Canada Agency Policy and Accounting for Capital Assets" guide which gives guidelines on such things as the depreciation rates and differences between a capital expense and a repair/maintenance expense. Any capital assets over \$10,000 are entered into the SAP accounting system under a unique identification number. An inventory count of these items was carried out in the summer of 2003, together with a reconciliation to the SAP system.

(iii) Recommendations

10. The finance personnel along with the Contracts, Material Management officer should pursue their initiatives with regards to periodic physical counts of the materials held and the subsequent updates of the databases and SAP capital assets module, as well as populating cost information for new material into the databases.

7. Management Response

The Field Unit Superintendent will ensure the following:

1. Management Control Framework

Recommendation: Document and formalize the Disaster Recovery Plan in order to ensure the continued operations of the field unit in case of a disaster.

Accepted. The Field Unit Superintendent will ensure that a Disaster Recovery Plan to ensure the continued operations of the field unit in case of a disaster will be completed by the end of March 2005.

2. Revenues

Recommendation: Review the segregation of duties within the finance group in order to avoid the situation where the two Accounts Receivable clerks are the same people that open the mail and prepare the daily cash received summary ("cash blotter").

Accepted and remediated. As of April 2004, the Finance and Administration Assistant position has been filled eliminating the need for the accounts receivable clerks to backfill the mail and preparation of cash blotter sheets. 90% of the revenue is processed between April and October of each year. The risk of loss of revenue and fraud for the park is minimal during the months of November to March.

3. Contracting

Recommendation: Introduce a process that formally monitors the call-ups against the standing offers to ensure that the standing offer totals are not exceeded.

Accepted and remediated. A formal process is now in place to keep a running total of call-ups to standing offers.

4. Contracting

Recommendation: Re-examine the Purchase Order (PO) process and take corrective steps to avoid, where applicable, the use of the same PO for different call-ups on the standing offers. In particular, different group of services should be contracted through different POs.

Accepted and remediated. Different PO's are being used for each different call-ups on the standing offers.

5. Payment to suppliers

Recommendation: Ensure that the staff issue a PO in accordance with standard policy, before the purchase of the goods or services, to ensure commitment of funds as well as proper authorization to spend the funds. A training session should be held to remind the staff of the appropriate procedures.

Accepted. Training is an on-going process with individuals as issues with invoices or PO are being raised. A formal training session was held in March of 2002. Additional training sessions will be delivered in the future.

6. Payment to suppliers

Recommendation: Arrange for the weekly cheque payment runs to be signed by the Finance Officer as evidence of review for large or unusual payments.

Accepted and remediated. Cheque payment runs are now signed by the Finance Officer as evidence of review for large or unusual payments.

7. Use of Acquisition Cards

Recommendation: Continue to ensure that the individual cardholders do not have Section 34 authority for their own acquisition card purchases.

Accepted and remediated. The Field Unit Superintendent will ensure that individual cardholders do not exercise the Section 34 authority for their own acquisition card purchases.

8. Use of Acquisition Cards

Recommendation: Review, on a periodic basis, the usage records of the cards and take corrective action for people that have exceeded their limits, and to make suitable adjustments to the credit limits or cancel the card for low activity levels.

Accepted and remediated. All credit cards (Mastercard and Amex) have been reviewed and adjusted for credit limits where necessary. Cards with no activity have been cancelled. The Field Unit Superintendent will ensure that this review will be done yearly.

9. Expenditures for Travel

Recommendation: Continue to remind all the staff of the TBS requirement to have travel authorized in advance and to have this approval in writing.

Accepted. Staff have, and will continuously be reminded to have travel authorized in advance and in writing.

10. **Stores Inventory and High Risk Valuable Small Items**

Recommendation: Pursue the initiatives at RMFU with regards to periodic physical counts of the materials held and the subsequent update of the database and the SAP capital assets module, as well as populating cost information for new material into the databases.

Accepted. The Field Unit Superintendent will ensure that maintenance of the inventories in SAP as well as items less than \$10,000 and attractive items inventory is on-going.