

**AUDIT OF KEY FINANCIAL PROCESSES AT
WATERTON LAKES NATIONAL PARK FIELD UNIT**

FINAL REPORT

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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 Waterton Lakes Field Unit (WLFU) 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 WLFU are adequate to ensure compliance to TBS and PCA policies and practices.

The scope of this engagement covered the following key financial process areas: Revenues; Contracting; Use of Acquisition Cards; Expenditures for Travel; Payments to Suppliers; Inventory. The period from April 1, 2001 to March 31, 2003 was covered in this audit.

Methodology

The audit methodology included a review of relevant background documentation, interviews with WLFU personnel and transaction testing in key financial process areas. The WLFU was visited during the period May 12 to May 16, 2003.

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.

Conclusion

Overall, we found that due diligence is being exercised in key management processes at the WLFU 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 WLFU Superintendent and Manager, Finance and Administration:

Recommendations

1. Provide training and develop procedures to ensure that the delegation of authority and the requirement for a sole source justification are respected for all contracts.
2. Ensure that the procurement of goods is not initiated using services contracts.
3. Ensure that the \$5,000 authority limit for using LPOAs is respected.
4. Amend the monthly acquisition card log to identify assets requiring an ADA Number.
5. Ensure that all cardholders are continually reminded of the requirement to identify assets requiring an ADA Number, and the quality assurance review of monthly acquisition card statements performed by Finance and Administration includes identifying assets requiring an ADA Number.
6. Related to payments made to vendors:
 - Finance Officers must obtain all supporting contract documentation including contract amendment documentation and Section 34 Certifications from PCA Managers;
 - PCA Managers must verify invoice pricing when performing Section 34 Certification;
 - Finance Officers be instructed not to process payment of invoices unless the PCA Manager authorizing Section 34 has the appropriate delegated authority limit;
 - Finance Officers conduct price verification of overhead items which are paid out of the Finance and Administration budget; and,
 - Finance Officers verify prices charged for goods and services procured via the terms

and conditions of the Standing Offer.

- 7.** PCA Managers must notify the Contracts Administration and Procurement Officer and/or the Informatics Officer of the purchase of high-risk valuable small items.
- 8.** Finance and Administration should conduct periodic inventory counts of non-informatics high-risk valuable small items.
- 9.** Two doors in the Finance and Administration Building must be repaired to restrict unauthorized access to the building.
- 10.** The implementation of an alarm system in the Finance and Administration Building and the Townsite Administration Office should be investigated to enhance after hours security of these buildings.

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. 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 followed.

Paragon Review and Consulting Inc conducted the audit of the WLFU as part of this cyclical audit program.

The Waterton Lakes National Park (WLNP) is located in Southern Alberta adjacent to the B.C. and U.S. borders and is joined with the Glacier National Park in Montana. The WLNP is 525 sq. km. in size and includes the town site of Waterton. In addition to the WLNP, the WLFU is responsible for the Bar U Ranch, a National Historic Site.

OBJECTIVES AND SCOPE

The objectives of this audit were to confirm whether due diligence is being exercised in key management processes at the WLFU 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 this engagement covered the following key financial process areas:

- Revenues;
- Contracting;
- Use of Acquisition Cards;
- Expenditures for Travel;
- Payments to Suppliers; and
- Inventory.

Transactions incurred during the period from April 1, 2001 to March 31, 2003 were covered in this audit.

METHODOLOGY

The methodology included a visit to the WLFU and included the following activities:

- Interviews with WLFU management and personnel responsible for the key financial process areas;
- Review of relevant documentation including WLFU Sustainable Operating Business Plan 2002-2007, Organization Chart, WLFU Financial Principles - 2003 Fiscal Year, Minutes of Executive Committee Meetings, Work Descriptions for WLFU Staff, PCA Delegated Signing Authorities Chart, Finance and Administration training materials, policies that deal with the above key financial process areas, and various financial reports prepared by the Manager, Finance and Administration; and
- Examination of a sample of transactions in each of the key financial process areas.

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

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.

CONCLUSION

Overall, we found that due diligence is being exercised in key management processes at the WLFU 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 in Section 5 our observations and recommendations.

OBSERVATIONS AND RECOMMENDATIONS

Revenues

Observations

The WLFU collects revenues from a variety of sources including:

- activities within and associated with the town site;
- businesses operating within the park;
- the Bar-U Ranch;
- the Visitor Centre;
- the park entrance gate; and,
- campsites.

The Finance and Administration office at the WLFU handles the revenue collection relating to the town site operations and businesses operating within the park. In addition, the Finance and Administration office prepares invoices, collects accounts, prepares bank deposits for revenue taken in at the office, reconciles the bank account monthly to daily sales reports, reviews and checks daily sales reports and deposits information received from gates, campgrounds, the Visitor Centre, the Bar-U Ranch, and record information into the financial system. Bank deposits from revenues generated in the park and town site are taken to the bank in Pincher Creek by a bonded courier. Revenues from the Bar-U Ranch are deposited to the bank in High River by BAR-U staff.

Interviews were conducted with the Finance Office Staff and with the Campground/Gate Supervisor.

Detailed descriptions of the revenue processes and verification procedures followed were provided to the audit team. In addition, a sample of transactions were tested to ensure funds received were deposited to the Bank of Canada and to verify processes and controls operated during the audit period.

The audit team found that the processes and controls related to revenue were adequate and personnel conducted their work with diligence.

Recommendation

None

Contracting**Observations**

The WLFU enters into contracts for goods, services or real property/construction related services using one of the following methods:

- Service Contract;
- Local Purchase Order Authority (LPOA); or
- Acquisition Card (this is discussed in Section 5.3 below).

During the period of audit, the WLFU entered into 13 Service/Construction related contracts all of which were greater than \$ 5,000 with a total value of \$ 283,847. Three contracts were valued at greater than \$ 25,000. Three of the 13 contracts were awarded on a sole source basis, the remainder on a competitive basis.

We examined 100% of the 13 contracts and found that the contracting rules were respected with the exception that:

- one contract valued at \$ 92,000 representing 32.4% of the contract dollars audited was signed by an individual who did not have signing authority; and
- the three sole source contracts did not include a sole source justification on file.

A clearly written sole source justification, regardless of the contract value, reduces the risk of a perception of impaired value for money and fairness in the contracting process.

In our examination of the above contracts, we also found two contracts (both in excess of \$ 5,000 in value) valued at \$ 47,165 representing 16.6% of the contract dollars audited that were processed as services contracts. These contracts involved the supply and delivery of goods and had both a goods and services component. In our opinion, one of these contracts should have been handled as a goods contract, and the other could have been interpreted as either a goods or services contract. The WLNPN has authority up to \$5,000 to enter into a contract for goods. Contracts for goods exceeding

\$5,000 must be processed through Public Works and Government Services Canada (PWGSC).

As part of the transaction testing for payments to suppliers in Section 5.5 below, we identified three payments made to one supplier using an LPOA where the amount of each purchase exceeded \$5,000. One payment was for the purchase of equipment, and two of the payments were for repairs to equipment. WLFU has a \$5,000 authority to use LPOAs. A goods contract processed through PWGSC should be used to initiate the payment for the purchase of the equipment. A service contract should be used to initiate the payment for the payments for repairs.

Recommendations

1. The Manager, Finance and Administration should provide training and develop procedures to ensure that the delegation of authority and the requirement for a sole source justification are respected for all contracts.
2. The Manager, Finance and Administration should ensure that the procurement of goods is not initiated using services contracts.
3. The Manager, Finance and Administration should ensure that the \$5,000 authority for using LPOAs is respected.

Use of Acquisition Cards

Observations

Currently, there are approximately 38 cardholders in the WLFU. We reviewed cardholder files and found that during the period of audit almost all cardholders had authorization to certify invoices under Section 34 under the Financial Administration Act. Even though PCA policy permits this practice, the Section 34 Certification by an individual other than the cardholders is an important financial control that is required by TBS Acquisition Card Policy and that minimizes the risk of an unauthorized or ineligible purchase. We noted that the WLFU has addressed this issue and effective March 2003 requires that Section 34 Certifications be provided by an individual senior to the cardholder for the payment of monthly acquisition card statements.

We performed a detailed review of acquisition card purchases for a sample of two months for 10 of the 38 cardholders (26.3%). We found that acquisition card policies were generally respected during the period of audit with the following exceptions:

- Supporting receipts were missing for one cardholder;
- Three low dollar ineligible purchases were made (food, vehicle fuel and wash); and
- Three purchases of assets that were not assigned an ADA Number (inventory number).

We also found that during the period of audit, acquisition card purchases were not being monitored or subject to a quality assurance review by either Finance and Administration or the Acquisition Card Coordinator. We noted that the WLFU has addressed this issue and effective March 2003 requires that Finance and Administration perform a quality assurance review of all monthly acquisition card statements. This review minimizes the risk of acquisition card policies not being respected.

We also noted that the monthly acquisition card log completed by cardholders does not specifically seek the identification of purchases of assets requiring an ADA Number.

Recommendations

4. The Manager, Finance and Administration should amend the monthly acquisition card log to identify assets requiring an ADA Number.
5. The Manager, Finance and Administration should ensure that
 - all cardholders are continually reminded of the requirement to identify assets requiring an ADA Number, and
 - the quality assurance review of monthly acquisition card statements by Finance and Administration includes identifying assets requiring an ADA Number.

Expenditures for Travel

Observations

From our review of travel expenditure processes and discussions with Finance and Administration Officers, we found that processes and controls in place for the preparation, review, and payment of travel claims are communicated, understood and respected.

Recommendation

None.

Payments to Suppliers**Observations**

Through our interviews with finance personnel and our testing of a sample of supplier payment files for expenditures made using the different types of contracts identified in Section 5.2 above, we found that payments made are properly recorded in the financial accounting system and that invoice verification and approval procedures could be strengthened.

More specifically, we found:

- payments were made without a contract or LPOA. Four out of the twenty-one items examined in our sample representing \$9,583 or 7.6 % of the total value of the sample were purchases made without a contract or LPOA;
- a payment was made without a contract amendment. The original value of the contract was \$30,000. An additional payment of \$100 was made to cover the cost of contractors business licence. No contract amendment was prepared to authorize the additional payment of \$ 100.
- GST (\$ 707) was added to an invoice and paid with no GST number provided by the contractor. No contract amendment was prepared to authorize the additional payment;
- invoices were paid without having been approved pursuant to Section 34 by the PCA manager with delegated authority. This occurred in two out of twenty-one purchases examined;
- invoice pricing was not verified by the PCA manager with Section 34 authorization or by Finance officers. This occurred in one instance where a standing offer was used to purchase an item and no price verification was performed. In addition, price verification was not performed on three invoices for the rental of office equipment;
- Finance and Administration maintains the budget for overhead costs for the field unit, such as telephone data lines, utilities, office equipment rental and maintenance, postage, and courier. The payments for these invoices are approved by Finance and Administration for payment. The audit team found that Finance and Administration staff are not conducting price verification of these invoices before making payment; and,
- Price verification of purchases made using Standing Offers are not performed by Finance and Administration staff before payments are made.

Recommendations

6. The Manager, Finance and Administration should ensure that:

- Finance Officers obtain all supporting contract documentation including amendment documentation and Section 34 Certifications from PCA Managers before payments are made;
- PCA Managers verify invoice pricing when performing Section 34 Certification;
- Finance Officers be instructed not to process payment of invoices unless the PCA Manager authorizing Section 34 has the appropriate delegated authority limit;
- Finance Officers conduct price verification of overhead items which are paid out of the Finance and Administration budget; and,
- Finance Officers verify prices charged for goods and services procured via the terms and conditions of the Standing Offer.

Stores Inventory and High Risk Valuable Small Items

Observations

Stores inventory

Store inventory is made up of a variety of items such as automotive parts and supplies, cleaning supplies, office supplies, lumber, fuel, gravel, and safety supplies. The inventory is located at the Finance and Administration Building. PCA Managers are responsible for the items bulk purchased on their behalf. The Contracting and Procurement Officer does the purchasing on behalf of the PCA Managers. Items are charged to the applicable PCA Managers budget when purchased.

Bulk purchased items are warehoused and used by the PCA staff as required. Periodically, the Contracting and Procurement Officer replenishes the supply. No stores inventory system is maintained except for fuel. Fuel inventory is maintained on spreadsheet. Fuel use is controlled via the use of an access fuel key that is identified to a Manager. Reports on fuel usage are generated for each Manager and the cost is charged to their respective budgets.

Expenditures for bulk purchases and stores inventory are managed by the PCA Manager and Manager, Finance and Administration by way of budget variance analysis. PCA Manager=s must explain variances to Field Unit Executive Committee.

Annually, at year-end physical inventories are performed by PCA Managers and provided to the Manager, Finance and Administration. We were told the value of stores inventory items at year end is approximately \$ 170 K.

High Risk Valuable Small Items

We interviewed the Contracts Administration and Procurement Officer, Townsite Asset Manager, and the Informatics Officer to review practices and controls related to high risk valuable items such as laptops, photographic equipment and tools.

The Contracts Administration and Procurement Officer and the Informatics Officer are responsible for attaching ADA number to assets that are purchased. PCA Mangers buy high value small items with their credit cards and are required to advise the Contracts Administration and Procurement Officer so that an ADA number is issued and the asset is tagged. ADA number and asset descriptions are listed in a “black book” maintained by the Contracts Administration and Procurement Officer. Issuance of an ADA number and the labelling of the assets are performed only if the Contracts Administration and Procurement Officer and the Informatics Officer are aware of the purchase of the asset by the PCA Managers.

The Informatics Officer tracks computer equipment and digital cameras in a spreadsheet and conducts an annual physical inventory of these assets. In addition, throughout the year the Informatics Officer conducts spot audits as he is upgrading or “evergreening” computer assets. The audit team found that no physical inventory of non-computer and photographic equipment is conducted by Finance and Administration.

We understand that the Finance and Administration Manager is currently revisiting Field Unit policies, procedures and controls of high risk valuable items and that the Field Unit Superintendent has put in place a moratorium on expenditures of this nature until enhancement to controls are established.

We believe that the controls and/or processes for high-risk valuable items could be strengthened.

Recommendations

The Manager, Finance and Administration should ensure that all PCA Managers provide notification to the Contracts Administration and Procurement Officer and/or the Informatics Officer of the purchase of high-risk valuable small items.

8. The Manager, Finance and Administration should ensure that the Contracts Administration and Procurement Officer conducts periodic inventory counts of non-informatics high-risk valuable small items.

Physical Security - Finance and Administration Building / Townsite Administration Office**Observations**

We learned that the Finance and Administration Building has two doors that were damaged and could not be locked. In addition, we found that Finance and Administration Building as well as the Townsite Administration Office do not have a security system. These conditions increase the risk of loss of both assets and information. We understand that Field Unit management is aware of these matters and is taking corrective.

Recommendation

9. The Manager, Finance and Administration must have the two doors in the Finance and Administration Building repaired to restrict unauthorized access to the building.
10. The Manager, Finance and Administration should investigate the implementation of an alarm system for the Finance and Administration Building and the Townsite Administration Office to enhance after hours security of these buildings.

MANAGEMENT RESPONSE

Following is the management response to each of the recommendations made in the Audit.

1. Provide training and develop procedures to ensure that the delegation of authority and the requirement for a sole source justification are respected for all contracts.
Response: A half-day training course is being developed by Finance & Administration to address this and other concerns. The developmental phase should be completed in mid-January. We are planning on two one-half sessions in the Field Unit in late January for the staff on strength during winter months and two mid-summer one half day session for our summer staff. This will cover 100% of all staff delegated signing authorities and 100% of those who act on a temporary basis for delegated staff.
2. Ensure that the procurement of goods is not initiated using services contracts.
Response : See Response # 1 above.
3. Ensure that the \$5,000 authority limit for using LPOAs is respected.
Response : Will be covered in the training course noted above. After training has been completed, all purchases that exceed limit will be returned to the Manager for action.
4. Amend the monthly acquisition card log to identify assets requiring an ADA Number.
Response: Already implemented.
5. Ensure that all cardholders are continually reminded of the requirement to identify assets requiring an ADA Number, and the quality assurance review of monthly acquisition card statements performed by Finance and Administration includes identifying assets requiring an ADA Number.
Response: Procedures will be covered in training identified in response # 1. There is also a reminder now printed on the Credit card log.
6. Related to payments made to vendors:
 - Finance Officers must obtain all supporting contract documentation including contract amendment documentation and Section 34 Certifications from PCA Managers;
Response: No payments will be made without supporting documentation,

unsupported invoices will be returned to Managers for documentation inclusion. Managers have been reminded that we do NOT pay for business licences for the supplier (will also be covered in 2 day training).

- PCA Managers must verify invoice pricing when performing Section 34 Certification; **Response: No payments will be made without the Section 34 certification. Invoices will be returned to Managers for proper certification.**
 - Finance Officers be instructed not to process payment of invoices unless the PCA Manager authorizing Section 34 has the appropriate delegated authority limit; **Response: Finance will not process payments without the appropriate Section 34 authority. Invoices will be returned to Managers with the delegated authority, for certification.**
 - Finance Officers conduct price verification of overhead items which are paid out of the Finance and Administration budget; and, **Response : 100% verification is now being done on all overhead items.**
 - Finance Officers verify prices charged for goods and services procured the terms and conditions of the Standing Offer. **Response: 100% price and condition verification is now being performed on all purchases made from Standing Offers.**
7. PCA Managers must notify the Contracts Administration and Procurement Officer and/or the Informatics Officer of the purchase of high risk valuable small items.
Response: Will be included in Training identified in Response # 1.
8. Finance and Administration should conduct periodic inventory counts of non-informatics high-risk valuable small items.
Responses: Annual random checks will be conducted during low use months (December-February).
9. Two doors in the Finance and Administration Building must be repaired to restrict unauthorized access to the building.
Response: Door locks fixed, electronic key system installed.

- 10.** The implementation of an alarm system in the Finance and Administration Building and the Townsite Administration Office should be investigated to enhance after hours security of these buildings. **Response: An electronic key system has been installed at the Operations Building. We have identified a capital project next fiscal year to design and install a security system for all revenue generating and holding facilities with the exception of the Admin building. Until future plans are decided on the retention or disposal of the Admin. Building, nothing is planned for a security system. The risk is minimum as no revenues are held overnight at this facility.**

Additional Comments:

Management and auditors did not reach an agreement on how the two contracts, valued at \$47,165 and mentioned in the report, should be addressed (either services or goods contract). There is no clear policy that defines what type of contract should be entered into when deliverables involve both goods and service.