

STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

CORRECTIONAL SERVICE CANADA

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2014, and all information contained in these statements rests with the management of the Correctional Service Canada (CSC). These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of CSC's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the *CSC's Departmental Performance Report*, is consistent with these consolidated financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout CSC and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2014 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of CSC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of CSC's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the consolidated financial statements to the Commissioner.

The consolidated financial statements of CSC have not been audited.

Signed by: _____

Don Head, Commissioner
Ottawa, Canada
August 28, 2014

Signed by: _____

Denis Bombardier, CPA, CGA
A/Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE CANADA

As at March 31
(in thousands of dollars)

	2014	2013
Liabilities		
Accounts payable and accrued liabilities (note 4)	217,158	218,217
Vacation pay and compensatory leave	59,991	60,020
Deferred revenue (note 5)	249	597
Employee future benefits (note 6b)	147,364	184,302
Inmate trust fund (note 7)	18,248	18,462
<i>Total net liabilities</i>	443,010	481,598
Assets		
Financial assets		
Due from Consolidated Revenue Fund	180,481	192,056
Accounts receivable, advances and loans (note 8)	13,545	39,055
Inventory held for resale (note 9)	10,895	12,655
<i>Total gross financial assets</i>	204,921	243,766
Financial assets held on behalf of Government		
Accounts receivable, advances and loans (note 8)	(1,999)	(1,612)
<i>Total financial assets held on behalf of Government</i>	(1,999)	(1,612)
<i>Total net financial assets</i>	202,922	242,154
Organizational net debt	240,088	239,444
Non-financial assets		
Prepaid expenses	66	76
Inventory not for resale (note 9)	33,168	36,100
Tangible capital assets (note 10)	2,103,028	1,849,933
<i>Total non-financial assets</i>	2,136,262	1,886,109
Organizational net financial position	1,896,174	1,646,665

Contingent liabilities (note 11)
Contractual obligations (note 12)

The accompanying notes form an integral part of these consolidated financial statements.

Signed by: _____

Don Head, Commissioner
Ottawa, Canada
August 28, 2014

Signed by: _____

Denis Bombardier, CPA, CGA
A/Chief Financial Officer

CONSOLIDATED STATEMENT OF OPERATIONS AND ORGANIZATIONAL NET FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31
(in thousands of dollars)

	2014 Planned Results	2014	2013 <i>Restated</i> (note 15)
Expenses			
Custody	1,471,261	1,622,423	1,503,727
Correctional Interventions	619,763	531,187	521,466
Community Supervision	128,426	134,404	121,942
Internal Services	410,891	352,389	339,767
Expenses incurred on behalf of Government	(61)	(120)	84
Total expenses	2,630,280	2,640,283	2,486,986
Revenues			
Sales of goods and services	57,304	40,153	44,191
Miscellaneous revenues	4,100	2,828	2,844
Revenues earned on behalf of Government	(4,100)	(2,847)	(3,432)
Total revenues	57,304	40,134	43,603
Net cost of operations before government funding and transfers	2,572,976	2,600,149	2,443,383
Government funding and transfers			
Net cash provided by Government	2,771,818	2,706,300	2,654,436
Change in due from Consolidated Revenue Fund	(32,658)	(11,575)	(10,806)
Services provided without charge by other government departments (note 13a)	131,039	154,931	151,398
Transfers of assets and liabilities from other government departments	-	2	1,325
Net cost of operations after government funding and transfers	(297,223)	(249,509)	(352,970)
Organizational net financial position – Beginning of year	1,609,416	1,646,665	1,293,695
Organizational net financial position – End of year	1,906,639	1,896,174	1,646,665

Segmented information (note 14)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN ORGANIZATIONAL NET DEBT (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

(in thousands of dollars)

	2014 Planned results	2014	2013
Net cost of operations after government funding and transfers	(297,223)	(249,509)	(352,970)
Change due to tangible capital assets			
Acquisition of tangible capital assets	296,287	342,999	375,600
Amortization of tangible capital assets	(154,269)	(95,458)	(93,947)
Proceeds from disposal of tangible capital assets	-	(774)	(1,272)
Net loss on disposal of tangible capital assets including adjustments	-	6,326	3,208
Transfer from other government departments	-	2	1,325
Total change due to tangible capital assets	142,018	253,095	284,914
Change due to inventories not for resale	525	(2,932)	(433)
Change due to prepaid expenses	20	(10)	(4)
Net increase (decrease) in organizational net debt	(154,660)	644	(68,493)
Organizational net debt – Beginning of year	290,107	239,444	307,937
Organizational net debt – End of year	135,447	240,088	239,444

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

(in thousands of dollars)

	2014	2013
Operating activities		
Net cost of operations before government funding and transfers	2,600,149	2,443,383
Non-cash items		
Amortization of tangible capital assets	(95,458)	(93,947)
Net loss on disposal of tangible capital assets	(2,122)	(42)
Tangible capital assets adjustments	8,448	3,250
Services provided without charge by other government departments (note 13a)	(154,931)	(151,398)
Variations in Consolidated Statement of Financial Position		
Decrease in accounts payable and accrued liabilities	1,059	49,884
Decrease in deferred revenue	348	163
Decrease in vacation pay and compensatory leave	29	3,548
Decrease in employee future benefits	36,938	18,954
Decrease (increase) in Inmate Trust Fund	214	(842)
(Decrease) increase in accounts receivable, advances and loans	(25,897)	6,581
Decrease in prepaid expenses	(10)	(4)
(Decrease) increase in inventory	(4,692)	578
Cash used in operating activities	2,364,075	2,280,108
Capital investing activities		
Acquisitions of tangible capital assets (note 10)	342,999	375,600
Proceeds from disposal of tangible capital assets	(774)	(1,272)
Cash used in capital investing activities	342,225	374,328
Net cash provided by Government of Canada	2,706,300	2,654,436

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

1. Authority and Objectives

The constitutional and legislative framework that guides the Correctional Service Canada (CSC) is set out by the *Constitution Act 1982* and the *Corrections and Conditional Release Act* (CCRA).

The purpose of the federal correctional system, as defined by law, is to contribute to the maintenance of a just, peaceful and safe society by carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and by assisting the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community (*Corrections and Conditional Release Act*, s.3). It delivers its mandate under four major programs:

Custody: This program ensures that offenders are provided with reasonable, safe, secure and humane custody while serving their sentence. This program provides much of the day-to-day needs for offenders in custody including a wide range of activities that address health and safety issues (such as providing food, clothing, mental health services, and physical health care). It also includes security measures within institutions including drug interdiction, and appropriate control practices to prevent security incidents;

Correctional Interventions: This program occurs in both institutions and communities, and is necessary to help bring positive changes in behaviour and to successfully reintegrate offenders. This program aims to address problems that are directly related to offenders' criminal behaviour and that interfere with their ability to function as law-abiding members of society. This program also includes CORCAN, a Special Operating Agency of Correctional Service Canada, that employs federal offenders as its workforce and, in doing so, provides them with working skills and working habits necessary to compete in the workforce once released from federal custody;

Community Supervision: This program ensures eligible offenders are safely reintegrated into communities through the provision of housing and health services where required, and staff supervision for the duration of the offenders sentence. The expected results for this program are offenders who are reintegrated into the community as law-abiding citizens while maintaining a level of supervision, which contributes to public safety; and

Internal Services: Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of the organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that are not provided specifically to a program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

CSC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CSC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Consolidated Statement of Operations and Organizational Net Financial Position and in the Consolidated Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Consolidated Statement of Operations and Organizational Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2013-14 Report on Plans and Priorities.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity that are under the control of the organization. The accounts of CORCAN Revolving Fund have been consolidated with those of the organization and all inter-organizational balances and transactions have been eliminated.

c) Net Cash Provided by Government

CSC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by CSC is deposited to the CRF and all cash disbursements made by CSC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

d) Due from the Consolidated Revenue Fund (CRF)

Amounts due from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that CSC is entitled to draw from the CRF without further authorities to discharge its liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

e) Revenues

- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the services are rendered or goods are sold.
- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds that have been received are recorded as deferred revenue, provided the organization has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge CSC's liabilities. While the Commissioner is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

f) Expenses

Expenses are recorded on the accrual basis:

- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, employer contribution to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

g) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government. CSC's contributions to the Plan are charged to expenses in the year incurred and represent the total organizational obligation to the Plan. CSC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

h) Accounts and loans receivable from external parties

Accounts and loans receivables are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

i) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future event(s) occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

j) Environmental liabilities

Environmental liabilities consist of estimated costs related to the remediation of environmentally contaminated sites as well as estimated costs related to obligations associated with future asset restoration.

- Remediation liabilities are recorded as accrued liabilities to recognize the estimated costs related to the management and remediation of contaminated sites where CSC is obligated, or likely to be obligated, to remediate the sites. If the responsibility to remediate is undeterminable, the amount is disclosed as a contingent liability. If the responsibility to remediate is undeterminable and a reasonable estimate cannot be made, the nature, source and extent of contamination is disclosed as a contingent liability.
- Future Asset Restoration Obligations are recorded as accrued liabilities to recognize the estimated costs related to the restoration of tangible capital assets. These costs are usually capitalized and amortized over the asset's estimated useful life based on an obligation imposed by legislation, regulation or contractual agreement where CSC is obligated, or likely to be obligated, to restore the tangible capital asset. If the obligation to restore the tangible capital asset is undeterminable and an estimate cannot be made, the nature and source of the potential obligation is disclosed as a contingent liability.

k) Inventories

- Inventory held for resale include raw materials, finished goods and work-in-progress. They belong to the CORCAN revolving fund and are valued at the lower of cost or net realizable value. The organization makes provisions for excess and obsolete inventory;
- Inventory not for resale consist of materials and supplies held for future program delivery and is valued at cost. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

1) *Tangible capital assets*

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. CSC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian reserves and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset Class	Sub-Asset Class	Amortization Period
Buildings	Buildings	25 to 40 years
Works and infrastructure	Works and infrastructure	20 to 25 years
Machinery and equipment	Machinery and equipment	10 years
	Informatics hardware	3 to 4 years
	Informatics software	3 to 10 years
	Arms and weapons for defence	10 years
	Other equipment	10 years
Vehicles	Motor vehicles (non-military)	5 years
	Other vehicles	5 to 10 years
Leasehold improvements	Leasehold improvements	Term of lease

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

m) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. At the time of preparation of these consolidated statements, management believes the estimates and assumptions to be reasonable. The most significant areas where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

3. Parliamentary Authorities

CSC receives most of its funding through annual Parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Organizational Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, CSC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year authorities used

	2014	2013
<i>(in thousands of dollars)</i>		
Net cost of operations before government funding and transfers	2,600,149	2,443,383
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets	(95,458)	(93,947)
Net loss on disposal of tangible capital assets	(2,122)	(42)
Services provided without charge by other government departments (note 13a)	(154,931)	(151,398)
Decrease in vacation pay and compensatory leave	29	3,548
Decrease in obligation for termination benefits (note 4)	13,968	37,676
Decrease in employee future benefits	36,938	18,954
(Increase) decrease in environmental liabilities and other provisions	(27)	1,825
Refund of prior years' expenditures	4,094	2,964
Other	9,355	3,862
	(188,154)	(176,558)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets (note 10)	342,999	375,600
(Decrease) increase in inventory	(4,692)	578
Decrease in prepaid expenses	(10)	(4)
	338,297	376,174
Current year authorities used	2,750,292	2,642,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

	2014	2013
<i>(in thousands of dollars)</i>		
Vote 25 – Operating expenditures	2,204,206	2,415,408
Vote 30 – Capital expenditures	456,921	547,554
Statutory amounts	261,904	243,483
	2,923,031	3,206,445
Less:		
Authorities available for future years	6,000	6,755
Lapsed authorities: Operating	88,190	446,696
Lapsed authorities: Capital	78,549	109,818
Lapsed authorities: Spending of Crown Assets	-	177
Current year authorities used	2,750,292	2,642,999

4. Accounts Payable and Accrued Liabilities

The following table presents details of CSC's accounts payable and accrued liabilities:

	2014	2013
<i>(in thousands of dollars)</i>		
Accounts payable - Other government departments and agencies	58,535	53,733
Accounts payable - External parties	80,079	84,941
	138,614	138,674
Accrued liabilities	78,544	79,543
Total accounts payable and accrued liabilities	217,158	218,217

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, CSC has recorded at March 31, 2014, an obligation for termination benefits for an amount of \$3,505,193 (\$17,473,155 in 2012-2013) as part of accrued liabilities to reflect the estimated workforce adjustment costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

5. Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted to fund the expenditures related to specific projects, and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	2014	2013
<i>(in thousands of dollars)</i>		
Opening balance	597	760
Amounts received	24,118	29,327
Revenue recognized	(24,466)	(29,490)
Ending balance	249	597

6. Employee Future Benefits

a) Pension Benefits

CSC's employees participate in the Public Service Pension Plan (the "Plan"), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and CSC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to *Canada's Economic Action Plan 2012*, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate. CSC employees involved in operational service (work performed within a correctional institution) pay the same contribution rates as Group 1 members whether they joined the Plan before or after January 1, 2013.

The 2013-2014 expense amounts to \$182,568,938 (\$170,895,973 in 2012-2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 in 2012-2013) the employee contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the employee contributions.

CSC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the consolidated financial statements of the Government of Canada, as the Plan's sponsor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

6. Employee Future Benefits (continued)

b) Severance benefits

CSC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

	2014	2013
<i>(in thousands of dollars)</i>		
Accrued benefit obligation, opening balance	184,302	203,256
Expenses for the year	10,381	13,017
Benefits paid during the year	(47,319)	(31,971)
Accrued benefit obligation, closing balance	147,364	184,302

7. Inmate Trust Fund

Pursuant to section 111 of the Corrections and Conditional Release Regulations, this account is credited with all moneys brought into the institution by an inmate on admission or readmission, and all moneys that are received on the inmate's behalf while in custody, including, monetary gifts from a third party, payments for program participation, pay earned while on work release or conditional release in the community, moneys received from a third party for work performed in an institution or a CSC approved inmate operated business enterprise, sale of hobby craft or custom work, a payment, allowance or income paid by either a private or government source. Deductions may be made from this account for issues such as debts to the Crown, the Inmate Welfare Fund, canteen expenditures, telephone calls, payments to assist in the reformation and rehabilitation of the inmate, and any other payments for which the inmate is liable.

	2014	2013
<i>(in thousands of dollars)</i>		
Opening balance	18,462	17,620
Receipts	47,361	45,858
Disbursements	(47,575)	(45,016)
Closing balance	18,248	18,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

8. Accounts Receivable, Advances and Loans

The following table presents details of accounts receivable, advances and loans:

	2014	2013
<i>(in thousands of dollars)</i>		
Receivables - Other government departments and agencies	6,855	33,237
Receivables - External parties	7,949	7,117
Employee advances	325	343
Parolee loans and advances to individuals other than employees	112	117
	15,241	40,814
Allowance for doubtful accounts on receivables from external parties and parolee loans	(1,696)	(1,759)
Gross accounts receivable and advances	13,545	39,055
Accounts receivable held on behalf of Government	(1,999)	(1,612)
Net accounts receivable and advances	11,546	37,443

9. Inventory

The following table presents details of the inventory, measured at the lower of cost or net realizable value:

	2014	2013
<i>(in thousands of dollars)</i>		
Inventory held for resale		
Raw materials	5,559	5,577
Work in progress	348	384
Finished goods	5,336	7,724
	11,243	13,685
Provision for obsolete inventory	(348)	(1,030)
Total inventory held for resale	10,895	12,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

9. Inventory (continued)

	2014	2013
<i>(in thousands of dollars)</i>		
Inventory not for resale		
Supplies	14,010	15,979
Clothing	9,910	10,244
Building materials	4,357	4,525
Utilities	1,590	1,388
Other	3,301	3,964
Total inventory not for resale	33,168	36,100
Total	44,063	48,755

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Organizational Net Financial Position is \$110,675,986 in 2013-2014 (\$106,601,544 in 2012-2013).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

10. Tangible Capital Assets

(in thousands of dollars)

Capital Asset Class	Cost					Accumulated Amortization					Net Book Value	
	Opening balance	Acquisitions	Disposals and Write-Offs	Adjustments (1)	Closing balance	Opening balance	Amortization	Disposals and Write-Offs	Adjustments (1)	Closing balance	2014	2013
Land	14,824	-	(394)	-	14,430	-	-	-	-	-	14,430	14,824
Buildings	1,730,844	-	(5,528)	328,502	2,053,818	826,016	55,667	(1,662)	(2)	880,019	1,173,799	904,828
Works and infrastructure	553,814	-	(148)	32,693	586,359	361,953	20,094	(99)	3	381,951	204,408	191,861
Machinery and equipment	196,170	3,991	(3,426)	4,214	200,949	110,102	10,766	(3,135)	63	117,796	83,153	86,068
Vehicles	57,144	5,044	(3,043)	4	59,149	32,193	6,453	(2,417)	3	36,232	22,917	24,951
Leasehold improvements	18,657	-	-	1,672	20,329	7,704	2,478	-	-	10,182	10,147	10,953
Assets under construction	616,448	333,964	-	(356,238)	594,174	-	-	-	-	-	594,174	616,448
Total	3,187,901	342,999	(12,539)	10,847	3,529,208	1,337,968	95,458	(7,313)	67	1,426,180	2,103,028	1,849,933

In April 2012, the Government of Canada announced it would close three institutions (Kingston Penitentiary, Ontario Regional Treatment Centre (ORTC), Leclerc Institution). The closures were completed in September 2013 as planned.

As of September 2013, the Kingston Penitentiary and ORTC were closed and will remain as tangible capital assets of CSC until such time a decision as to their future use or decommissioning is made. Kingston Penitentiary's net book value for 2013-2014 is \$35,319,811 (\$36,527,428 in 2012-2013). ORTC's net book value for 2013-2014 is \$4,548,479 (\$4,676,071 in 2012-2013). Should a change in the Kingston Penitentiary's or ORTC's net book values become known, any applicable write-down(s) will be recorded at that time.

Leclerc Institution remains a tangible capital asset of CSC and has been leased under a long-term operating agreement with the Province of Quebec.

(1) This column includes assets under construction of \$356,237,883 (\$250,691,045 in 2012-2013) that were transferred to the other categories upon completion of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

11. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories as follows:

a) *Environmental Liabilities*

CSC has identified approximately 40 sites (40 sites in 2012-2013) where CSC is obligated or likely to be obligated, to remediate for which a remediation liability of \$3,963,650 (\$3,697,562 in 2012-2013) has been recorded in accrued liabilities. CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments of existing sites. These liabilities will be accrued by CSC in the year in which they become likely and can be reasonably estimated.

b) *Claims and litigations*

Claims have been made against CSC in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. CSC has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable but for which a reasonable estimate can be made by management amount to approximately \$1,032,000 (\$1,062,000 in 2012-2013) as at March 31, 2014.

12. Contractual Obligations

The nature of the CSC's activities can result in some large multi-year contracts and obligations whereby the organization will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2015	2016	2017	2018	2019 and thereafter	Total
<i>(in thousands of dollars)</i>						
Acquisition of goods and services	74,962	4,672	-	-	-	79,634

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CORRECTIONAL SERVICE CANADA

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13. Related Party Transactions

CSC is related as a result of common ownership to all government departments, agencies, and Crown corporations. CSC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, CSC received common services which were obtained without charge from other government departments as disclosed below.

a) Common services provided without charge by other government departments

During the year, CSC received services without charge from certain common services organizations related to accommodation, legal services, the employer's contribution to the health and dental insurance plans, and worker's compensation coverage. These services without charge have been recorded in CSC's Consolidated Statement of Operations and Organizational Net Financial Position as follows:

	2014	2013
<i>(in thousands of dollars)</i>		
Employer's contribution to the health and dental insurance plans	129,293	127,033
Accommodation	18,479	17,982
Workers' compensation	5,690	4,786
Legal services	1,469	1,597
Total	154,931	151,398

The Government has centralized some of its administrative activities for efficient, cost-effective, and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included in CSC's Consolidated Statement of Operations and Organizational Net Financial Position.

b) Other transactions with related parties

	2014	2013
<i>(in thousands of dollars)</i>		
Accounts receivable – Other government departments and agencies	6,855	33,237
Accounts payable – Other government departments and agencies	58,535	53,733
Expenses – Other government departments and agencies	344,652	354,172
Revenues – Other government departments and agencies	32,902	37,069

Expenses and revenues disclosed in *b)* exclude common services provided without charge, which are already disclosed in *a)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

14. Segmented Information

Presentation by segment is based on the Organization's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major objects of expense and by major types of revenue. The segment results for the period are as follows:

	2014				2013 <i>Restated (note 15)</i>	
<i>(in thousands of dollars)</i>						
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
Transfer payments						
Non-profit organizations	-	-	103	-	103	638
Individuals	242	-	-	-	242	206
Total transfer payments	242	-	103	-	345	844
Operating expenses						
Salaries and employee benefits	1,202,697	423,539	21,757	268,547	1,916,540	1,757,200
Professional and special services	101,847	62,630	100,482	36,809	301,768	293,497
Utilities, materials and supplies	118,559	1,044	2,040	9,341	130,984	122,126
Amortization of tangible capital assets	93,603	1,855	-	-	95,458	93,947
Repairs and maintenance	37,819	555	9	1,137	39,520	59,328
Machinery and equipment	13,589	2,078	57	5,448	21,172	27,151
Travel	7,314	5,093	541	7,417	20,365	19,911
Payment in lieu of taxes	30,164	-	-	-	30,164	28,757
Inmate pay	-	18,402	-	-	18,402	22,335
Cost of goods sold	-	10,470	-	-	10,470	10,840
Accommodation	-	-	9,340	9,139	18,479	17,982
Telecommunications	235	36	-	92	363	387
Rentals	12,853	1,566	39	7,550	22,008	19,709
Relocation	1,348	453	15	5,769	7,585	5,883
Net loss on disposal of tangible capital assets	1,716	323	-	83	2,122	42
Other	437	3,143	21	1,057	4,658	6,963
Total operating expenses	1,622,181	531,187	134,301	352,389	2,640,058	2,486,058
Sub-Total Expenses	1,622,423	531,187	134,404	352,389	2,640,403	2,486,902
Expenses incurred on behalf of Government	(1)	-	-	(119)	(120)	84
Total Expenses	1,622,422	531,187	134,404	352,270	2,640,283	2,486,986
Revenue						
Sales of goods and services	19	40,134	-	-	40,153	44,191
Miscellaneous revenues	2,215	568	(1)	46	2,828	2,844
Revenues earned on behalf of Government	(2,234)	(568)	1	(46)	(2,847)	(3,432)
Total Revenues	-	40,134	-	-	40,134	43,603
Net cost of operations before government funding and transfers	1,622,422	491,053	134,404	352,270	2,600,149	2,443,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

15. Accounting changes

Correction of an error relating to prior period financial statements

CSC identified an error in the methodology of consolidating CORCAN's financial statement in accordance with Canadian public sector accounting standards. The correction represents a decrease in expenses and a corresponding decrease in revenues of \$17,721 in 2012-2013. Consequently, the comparative consolidated financial statements presented for the year ended March 31, 2013 have been restated.

<i>(in thousands of dollars)</i>	2013 As previously stated	Effect of change	2013 Restated
Consolidated Statement of Operations and Organizational Net Financial Position (unaudited)			
Custody	1,498,543	5,184	1,503,727
Correctional Interventions	545,735	(24,269)	521,466
Community Supervision	121,934	8	121,942
Internal Services	338,411	1,356	339,767
Total expenses	2,504,707	(17,721)	2,486,986
Sales of goods and services	61,912	(17,721)	44,191
Total Revenues	61,324	(17,721)	43,603
Segmented Information (note 14)			
Salaries and employee benefits	1,775,700	(18,500)	1,757,200
Professional and special services	281,732	11,765	293,497
Utilities, materials and supplies	128,793	(6,667)	122,126
Repairs and maintenance	57,728	1,600	59,328
Machinery and equipment	24,329	2,822	27,151
Travel	20,157	(246)	19,911
Rental	20,287	(578)	19,709
Other	6,841	122	6,963
Total operating expenses	2,503,779	(17,721)	2,486,058
Sales of goods and services	61,912	(17,721)	44,191
Total Revenues	61,324	(17,721)	43,603

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2013-2014 AND THE ACTION PLAN OF CORRECTIONAL SERVICE CANADA

1. INTRODUCTION

This document provides summary information on the measures taken by Correctional Service Canada (CSC) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management and assessment results and related action plans.

Detailed information on Correctional Service Canada's authority, mandate, and program can be found in the [Departmental Performance Report](#) and the [Report on Plans and Priorities](#).

2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING

CSC recognizes the importance of setting the tone from the top to ensure that employees throughout the organization understand their roles and responsibilities in maintaining an effective system of ICFR.

2.1 Internal Control Management

CSC has a well-established governance and accountability structure to support organizational assessment efforts and oversight of its system of internal control. CSC's *Financial Management Framework* clearly defines the expectations, the requirements and the roles and responsibilities for internal controls.

This *Framework*, approved by the Commissioner in September 2013, includes the following elements in support of sound stewardship of public resources and reliable financial reporting:

- Key responsibilities and requirements of the Commissioner as Accounting Officer, the Chief Financial Officer, Senior Departmental Managers, Departmental Managers, Financial Officers and separately the Departmental Audit Committee (DAC) for effective financial resource management, investment planning, financial information and reporting, internal control and oversight;
- Values and ethics; and
- The context for sound financial management and internal control across the organization which are consistent with the *Financial Administration Act (FAA)*, and Treasury Board policy instruments.

CSC's *Financial Management Framework* also requires the Commissioner to engage with the DAC on risk-based assessment plans and associated results related to the effectiveness of CSC's system of ICFR.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

Since 2006, CSC has had a dedicated team within the Comptroller's Branch responsible for overseeing the design and maintenance of an effective and integrated system of internal control over financial reporting. The Internal Financial Control Group supports the Commissioner in his role as Accounting Officer by providing reasonable assurance that the effectiveness of the system of internal control is monitored across CSC and that weaknesses are identified and addressed. The group assists management in proactively improving processes by evaluating the internal financial controls within significant processes and sub-processes.

Established in 2006, CSC's DAC is comprised of three external members and the Commissioner. External members are jointly selected by the Commissioner and the Comptroller General and are approved by Treasury Board. At least one external member is a financial expert who possesses a professional accounting designation. The DAC meets in person a minimum of twice a year, with authority to convene additional meetings as required. In 2013-14, the DAC met on a quarterly basis, focusing on such matters as risk management, financial reporting, internal audit and internal control issues.

2.2 Service Arrangements relevant to financial statements

CSC relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services, as per CSC's Delegation of Authority and provides accommodation services;
- Treasury Board Secretariat provides CSC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to CSC;
- Shared Services Canada (SSC) provides IT infrastructure services to CSC in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between SSC and CSC; and
- Employment and Social Development Canada provides Worker's Compensation assessment services.

3. CSC's assessment results during fiscal year 2013-2014

During 2013-14, CSC completed all remaining design effectiveness testing (with the exception of the Inmate Trust Fund due to the implementation of a new Inmate Accounting System in April 2014) and most of its operating effectiveness testing of key control areas. On-going monitoring was implemented according to plan.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

3.1 Design effectiveness testing of key controls

Information technology general controls (ITGCs)

In 2013-14, CSC completed the assessment of the ITGCs for its Integrated Financial and Material Management System (IFMMS) which is CSC's primary Enterprise Resource Planning (ERP) and central departmental financial system of record and the only system deemed a high priority during a scoping exercise completed in 2012-13.

As a result of design effectiveness testing, CSC identified the following opportunities for improvement:

- Strengthening controls to avoid unauthorized access; and
- Reviewing system access to ensure proper segregation of duties.

Work has also advanced with the design and operating effectiveness testing of the following three systems, deemed medium risk during the ITGC scoping exercise: the Regional Pay System (accesses only), the Salary Management System and the Human Resources Management System.

Business process controls

CSC continues to maintain and update a multi-year work plan that contains the timelines for the ICFR assessments for its business processes (see Section 4.2) where the priority is set in accordance with the results of CSC's annual risk assessment. During 2013-14, CSC completed the design effectiveness testing for the following business processes:

- Payables/Payments
- Inventory
- Other Tangible Capital Assets
- Interdepartmental Settlements (also completed the operational effectiveness testing)
- Financial Statement Close/ Reconciliations and GL adjustments
- Procurement/Contracting (also completed the operational effectiveness testing)
- Real Property Assets
- Sales/Receivables/Receipts
- Contingent Liabilities
- Environmental Liabilities
- Planning, Budgeting and Forecasting

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

As a result of design effectiveness testing, CSC identified the following opportunities for improvement:

- Centralization of the function of recording/modifying capital assets in the fixed assets module within the Corporate Finance group where the expertise to appropriately perform this function resides;
- Performing biannual reconciliations of the Work-In-Progress accounts;
- Creating a framework for the annual risk assessment and review of the customer database;
- Separating the entry of receipts and the deposit functions;
- Improving and communicating national procedures for the reception and the verification of receipts of money; and
- Developing and communicating national inventory count procedures.

Management action plans have been developed to implement changes by the end of the 2014-15 and 2015-16 fiscal years.

3.2 Operating effectiveness testing of key controls

Entity-level controls

Design and operating effectiveness testing were completed in 2013-14. Of the 75 control objectives identified and tested, 62 were found to be effective and 13 presented opportunities for improvement. Remediation action plans have been developed by each business process owner and remediations are to be completed by the end of 2014-15.

Business process controls

In 2013-14, CSC performed operating effectiveness testing via the internal audit of the Contracting and Procurement Processes and the internal audit of Core Management Controls, which covered principal key controls in the following significant business processes:

- Accounts Payables/Invoice Processing
- Acquisition Cards Management
- Vendor Master Data
- Tangible Capital Assets – including Assets Under Construction
- Amortization
- Interdepartmental Settlements
- Sales/Receivables
- Inventory

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

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As a result of these audits, CSC identified the following opportunities for improvement:

- Procurement/Contracting: administrative procedures to support contract planning, initiation, administration and payments by implementing consistent documentation requirements, including those supporting the Contract Review Board (CRB) decision-making process, to ensure files contain a complete audit trail to support contract administration, including the timely signing of contracts;
- Core Management Controls: In specific key control areas for post-payment verification, acquisition card management, vendor master data management and inventory counts, full process implementation or enhancements to documentation practices are required to consistently demonstrate the effective operation and consistent application of key controls; and
- Core Management Controls: Regarding the key control area for capital assets, additional work is required in both process implementation and documentation in order to ensure that capital assets are reported accurately, and according to applicable policies and directives.

For the Procurement/Contracting process, the following remediations have been implemented:

- Re-establishment of regular communications between Contracting Material Services (CMS) managers at National Headquarters (NHQ) and the Regional CMS to support the application of policies, enhance opportunities for problem solving and information sharing and ensure the consistent application of good contracting practices across CSC; and
- The consolidation of current monitoring and reporting mechanisms to increase the efficiency in the reporting of contracting activities at CSC.

3.3 On-going monitoring of key controls

In the current year, CSC completed planned on-going monitoring of the key controls within the salary and travel processes.

For the salary process, CSC completed its assessment and remediation was required in the following areas:

- Staffing and Compensation forms and letters are to indicate where FAA signature authorities are required;
- A formal process to be put in place for the timely removal of accesses to the Regional Pay System;
- Physical security enhancements surrounding the access to employee hardcopy files; and
- The requirement for a quality assurance program that would include a regular review of sample pay transactions by the Compensation group.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

An assessment of CSC's Travel process was completed in 2013-14. The documentation for the Travel process was updated in 2013-14 to reflect the changes due to the introduction of an automated system to manage travel more efficiently. Testing was performed on all key financial controls identified within the process. As a result of on-going monitoring, CSC identified remediation required in the following areas:

- Improvements in the documentation and maintenance of specimen signature cards and more specifically the Temporary Delegation of Signing Authority forms during acting assignments;
- Improvements in the documentation and communication regarding the processing of manual claims (including risk level of these transactions and level of pre/post payment verification required);
- Develop a process for the creation of approvers in the Shared Travel Solutions (STS); and
- Document and communicate a procedure to ensure all expenses charged to the Designated Responsibility Centre Travel Card (DRCTC) are approved under section 34 of the FAA.

Remediation of key control deficiencies is substantially advanced and will be completed by the end of fiscal year 2014-15.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

4. CSC's Action Plan

4.1 Progress during fiscal year 2013-2014

During 2013-14, CSC has continued to make significant progress in assessing and improving its key controls. Below is a summary of the main progress made by CSC based on the plans identified in the previous fiscal year's annex:

Element in previous year's action plan	Status
Entity-level controls – design and operating effectiveness testing	Design and operating effectiveness testing completed for entity-level controls. Deficiencies noted have been shared with business process owners and remediation action plans with target dates have been developed for each weakness noted.
Budgeting and Forecasting – design effectiveness testing	Design effectiveness completed and management action plans with target dates have been developed.
IT General Controls – design effectiveness testing	Assessment of the Integrated Financial and Material Management System (IFMMS) completed by the end of 2013-14 with the development of remediation action plans and dates. Commenced work on the design and operating effectiveness testing of the Regional Pay System, Human Resources Management System and the Salary Management System.
Salary – on-going monitoring	Assessment completed and remediation completed on several deficiencies and others remaining will be completed in 2014-15.
Travel – on-going monitoring	Documentation was updated to reflect new travel system and assessment of key financial controls was completed. Remediation will be completed in 2014-2015.
Interdepartmental Settlements – design and operational effectiveness testing	Design and operating effectiveness testing completed with all remediation of deficiencies noted completed in 2013-14.
Procurement/Contracting – design and operational effectiveness testing	Design and operating effectiveness completed. Remediation advanced and will be completed in 2014-15.
Payables/Payments – design and operational effectiveness testing	Design effectiveness completed and operational effectiveness testing substantially advanced. Remediation will be completed in 2014-2015.
Real Property Assets – design and operational effectiveness testing	Design effectiveness testing completed and operational effectiveness testing substantially advanced. Remediation will be completed in 2014-15.
Other Tangible Capital Assets – design and operational effectiveness testing	Design effectiveness testing completed and operational effectiveness testing substantially advanced. Remediation will be completed in 2014-15.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

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Element in previous year's action plan	Status
Amortization – design and operational effectiveness testing	Design effectiveness testing completed operational effectiveness testing substantially advanced with no items noted for remediation.
Financial Statement Close – design effectiveness testing	Design effectiveness testing completed. Remediation advanced in 2013-14 and will be completed in 2014-15.
Inventory – design and operational effectiveness testing	Design effectiveness testing completed and operational effectiveness testing substantially advanced. Remediation to be completed in 2014-15.
Reconciliations/GL Adjustments – design effectiveness testing	Design effectiveness testing completed. Remediation advanced in 2013-14 and will be completed in 2014-15.
Sales/Receivables/Receipts – design and operational effectiveness testing	Design effectiveness testing completed and operational effectiveness testing substantially advanced. Remediation to be completed in 2014-15.
Contingent Liabilities – design effectiveness testing	Design effectiveness testing completed, report to be completed and presented. Remediation to be completed in 2014-15.
Environmental Liabilities – design effectiveness testing	Design effectiveness testing completed, report to be completed and presented. Remediation to be completed in 2014-15.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

4.2 Status and action plan for the next fiscal year and subsequent years

Building on progress to date, CSC is positioned to substantially complete the assessment of the operating effectiveness testing for all of its significant business processes and sub-processes, including Entity Level Controls and ITGCs by the end of 2014-15. The timelines are contingent on the level of effort required to address any gaps that will be identified in future design and operating effectiveness testing. CSC will continue to apply its rotational on-going monitoring plan to reassess control performance on a risk basis across all control areas. The status and action plan for the completion of the identified control areas for the next and subsequent fiscal years is as follows:

Key Control Areas	Assessment elements		
	Design effectiveness testing and remediation plan	Operational effectiveness testing and remediation plan	On-going monitoring rotation ⁱ
Entity-Level Controls	Complete	Complete	2016-17
Budgeting and Forecasting	Complete	2014-15	Future Years
IT General Controls	Complete	2014-15	Future Years
Salary	Complete	Complete	2014-15
Travel	Complete	Complete	2015-16
Hospitality	Complete	Complete	2014-15
CSC/CORCAN Intradepartmental Transactions	Complete	2014-15	Future Years
Departmental Bank Accounts	Complete	Complete	ii
Interdepartmental Settlements	Complete	Complete	Future Years
Procurement/Contracting	Complete	Complete	2014-15
Payables/Payments	Complete	2014-15	Future Years
Real Property Asset	Complete	2014-15	2015-16
Other Tangible Capital Assets	Complete	2014-15	2015-16
Amortization	Complete	Complete	Future Years
Financial Statement Close	Complete	2014-15	2015-16
Inmate Trust Fund	2014-15	2015-16	Future Years
Inventory	Complete	2014-15	Future Years
Reconciliations/GL Adjustments	Complete	2014-15	2015-16
Sales/Receivables/Receipts	Complete	2014-15	Future Years
Allowance for Doubtful Accounts	Complete	Complete	Future Years
Contingent Liabilities	Complete	2014-15	Future Years
Environmental Liabilities	Complete	2014-15	Future Years

ⁱ The frequency of the on-going monitoring of key control areas is risk-based and may occur over a multi-year cycle.

ⁱⁱ The Departmental Bank Accounts (DBA) were no longer in use as of December 31st, 2013. Additional Priority Print Sites (PPS) were implemented throughout CSC to replace the DBAs as a method for processing payments. PPS are assessed as a sub-process in the Payables/Payment process.