

# Financial Audit of eManifest Project

Canada Border Services  
Agency

**Final Report – March 28, 2018**

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## 1.0 Restrictions and Limitations

The Canada Border Services Agency (CBSA or the Agency) has engaged Raymond Chabot Grant Thornton (RCGT) to conduct a financial audit of the CBSA eManifest Project.

This report was prepared for the CBSA only based on information and representations that were provided to us by CBSA management. This report is not to be used for any other purpose, and RCGT specifically disclaims any responsibility for losses or damages incurred through the use of this report for a purpose other than as described in this paragraph. It should not be reproduced in whole or in part without RCGT's expressed written permission, other than as required by the CBSA in relation to the above noted intent.

This report, and the supporting work performed by RCGT, does not serve as an affirmation that financial processes and controls are without defect and, in particular, does not guarantee that such financial processes and controls are immune from fraud, abuse, or misstatement. None of the work performed by RCGT or the contents of this report constitute any legal opinion or advice.

RCGT reserves the right, but will be under no obligation, to review and/or revise the contents of this report in light of information which becomes known to us after the date of this report.

## 2.0 Introduction

### 2.1 Engagement background

Electronic Manifest for international trade (eManifest) is a highly transformative Government of Canada initiative and a key commitment to modernizing Canada's borders. It is a part of the measures put in place to enhance the safety and security of Canadians and international trade while streamlining cross-border processes. The eManifest project involves the development and deployment of multiple program and information technology components intended to ensure that 100% of commercial goods coming into Canada are risk-assessed in advance of their arrival. The eManifest requires carriers, freight forwards and importers in all modes of transportation to electronically transmit commercial information to the CBSA within prescribed mode-specific time frames. The collection and risk assessment of pre-arrival data improve the Agency's ability to detect high risk shipments before they arrive at the border. At the same time, low risk and legitimate trade will be able to cross the border more efficiently. A main goal of eManifest is to:

- Enable a paperless process that starts before shipments reach the border;
- Detect high-risk shipments, prior to arrival, in electronic format allowing for improved efficiency of low-risk shipments; and
- Improve security and compatibility with North American and International Standards.

The project scope and funding were approved by Treasury Board in fiscal year 2005–2006 with a proposed development budget of \$415,109,252<sup>1</sup>. Several key events and project changes have occurred over the duration of the project that have impacted financial budgeting and reporting, including: the re-allocation of project funds to operations to address operational pressures, changes to coding structures in the financial system (CAS), a reallocation of project funds (from development to maintenance) and a re-baselining of the overall project, including a new deliverable strategy. An overall timeline of the project, capturing these key changes (and others) is illustrated in the timeline below:

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<sup>1</sup> Per Treasury Board Submission Effective Project Approval (EPA) 2007-2008

Table 1: eManifest Timeline of Key Milestones

Fiscal Year	Key Milestones/Changes to the eManifest Project
2006–2007	<ul style="list-style-type: none"> <li>▪ Preliminary Project Approval received from Treasury Board (TB) for \$414.8M in development funding.</li> </ul>
2007–2008	<ul style="list-style-type: none"> <li>▪ Effective Project Approval (EPA) received from TB for \$415.1M in development funding. This TB Sub was required in order to stay compliant with the TB Project Approval Policy (rescinded in 2012).</li> </ul>
2008–2009	<ul style="list-style-type: none"> <li>▪ Economic Action Plan (EAP) was issued, reducing the eManifest budget by \$85M for the next two years.</li> </ul>
2010–2011	<ul style="list-style-type: none"> <li>▪ Change in the Financial Coding Structure was implemented to improve split between salary and non-salary expenditures.</li> </ul>
2011–2012	<ul style="list-style-type: none"> <li>▪ Maintenance funding started at \$74.9M a year (\$82.8M with Employee Benefits Plan (EBP), accommodations and GST).</li> </ul>
2014–2015	<ul style="list-style-type: none"> <li>▪ Re-baselining was performed, including the de-scoping of two initial capabilities and a new deployment strategy.</li> <li>▪ \$58M was moved from development to maintenance for 2007–2008 to 2013–2014.</li> <li>▪ The CBSA started to segregate its costs between Vote 1 and Vote 5.</li> </ul>
2015–2016	<ul style="list-style-type: none"> <li>▪ Financial coding structure was changed to improve the split between development and maintenance into separate accounts in the financial system.</li> <li>▪ The salary cost allocation changed from using the average of all salaries in a cost centre to a standard pre-determined rate.</li> <li>▪ The CBSA started allocating costs by project coding (Work Breakdown Structure Element, WBSE).</li> </ul>
2017–2018	<ul style="list-style-type: none"> <li>▪ Most recent planned completion date.</li> </ul>

### 3.0 Significance of the Audit

The eManifest financial audit is a condition of the Treasury Board submission requesting the authority to release all or part of a frozen allotment of the “CBSA — Ongoing Funds for eManifest”. The CBSA committed to conducting a financial audit of the eManifest project from inception to completion<sup>2</sup> led by RCGT.

### 4.0 Statement of Conformance

The audit approach and methodology followed the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors and the Directive on Internal Audit, as required by the Treasury Board’s Policy on Internal Audit.

### 5.0 Audit Conclusion

Overall, improvements were made to the financial control environment, post re-baselining, both from a design and operating effectiveness perspective. Improvements included the implementation of project codes, which directly allocated employee time to a specific major project and enabled segregation of development and maintenance costs in the financial system of record. This improvement to the salary-related costs resulted in the audit being able to provide reasonable assurance on accuracy, classification, and cut-off of eManifest costs. Post re-baselining, with the implementation of project codes, the audit

<sup>2</sup> Note that the eManifest project was ongoing at the beginning of this audit.

was able to provide reasonable assurance that 100% of the salary transactions sampled (\$4,125,538<sup>3</sup>) were related to eManifest.

Additionally, supporting documentation for non-salary costs, post re-baselining, was generally available to the audit team to assess whether or not the expense was related to eManifest. This allowed the audit to provide reasonable assurance on the accuracy, classification, and cut-off of non-salary eManifest costs. Post re-baselining, documentation improvements resulted in the audit being able to provide reasonable assurance on the accuracy of 94% (\$6,683,295<sup>3</sup>) of the sample tested for non-salary costs, validating that these costs were accurately classified as eManifest.

Although significant improvements were made post re-baselining, the audit cannot determine the eManifest project development and ongoing maintenance costs from project initiation in 2006 until March 31, 2017, or the extent to which eManifest funds were used as intended for the eManifest project given the lack of supporting documentation and financial controls pre-re-baselining.

## 6.0 Key Findings

### 6.1 Availability of Documentation

Documentation is important to support key decisions and the validity of costs claimed to a specific project. It was found that supporting documentation for fiscal years 2006–2007 to 2009–2010, including vendor invoices, contracts, departed employee files etc., were not well maintained by the CBSA. It would be expected that vendor invoices and employee timesheets would include sufficient information to demonstrate the specific activities and projects that were worked on. For the non-salary and salary sample, for all fiscal years, it was found that vendor invoices and employee timesheets lacked details that would allow the audit to provide independent assurance on the validity of these costs.

In fiscal year 2014–2015, a key decision was made to reallocate \$58.1M from development to maintenance costs. Although a reasonable methodology demonstrating the rationale and calculations for the reallocation was provided, supporting sources linking back to individual transactions could not be provided by the CBSA, reducing the level of audit assurance on this reallocation.

### 6.2 Financial Controls

At the onset of a major project of this size and magnitude, it would be expected that the CBSA would have a well-designed and effective financial control framework. Although certain financial controls were in place such as *Financial Administration Act* (FAA) sections 32 and 34 controls, project dashboard reporting and the Senior Project Advisory Committee, critical financial controls were not established. Improvements were noted in the area of project oversight throughout the duration of the project. Prior to fiscal year 2011–2012 the financial system lacked functionality to segregate salary and non-salary costs and prior to fiscal year 2014–2015, there was a lack of segregation between development and maintenance for salary-related costs. Additionally, key entity-level controls such as ongoing financial risk assessment and monitoring of financial spending was not implemented at the onset of the project.

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<sup>3</sup> Note that testing results are presented in absolute values.

## 7.0 Summary of Recommendations

Establish and implement:

- Documentation standards that support key financial decisions and financial record keeping throughout the duration of a major project; and
- A Financial Internal Control Framework at the onset of future major projects.

## 8.0 Management Response

See Appendix D.

## 9.0 Audit Findings<sup>4</sup>

In July 2014, the CBSA adopted a new project deliverable strategy and re-baselined the eManifest project, with Treasury Board’s (TB) concurrence on the revised technical approach to delivering eManifest. The proposed new strategy segmented the remaining eManifest deliverables into six business enabling deployments, sequenced in a revised schedule that would allow the CBSA and the commerce and trade stakeholders to adapt gradually to the new service. The viability, plan and costs of the new strategy were benchmarked through an independent third-party review in 2014, prior to being accepted by the CBSA.

As part of the project re-baselining in 2014, all project expenditures to date were reviewed to ensure that both development and maintenance spending were properly accounted for. The independent third party assessed the new strategy and deemed it reasonable to complete the eManifest within the original financial authorities of \$375.6M (from the EPA), if certain project management enhancements were made. The re-baselining involved the de-scoping (i.e. reassessing extent of project) of two original capabilities (electronic assessment of crew and re-manifest information).

The audit was required to assess the eManifest project from a pre-re-baselining and post re-baselining perspective. As such, the audit findings, including testing results, are divided between pre-re-baselining and post re-baselining periods: 2006–2007 to 2014–2015 and 2014–2015 to 2016–2017.

### 9.1 Reconciling the Financial System (CAS) against costs reported to Treasury Board

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>5</sup>	Recommendation	Conclusion	Recommendation
Project costs reported to the Treasury Board reconcile with the costs captured in CAS, including the spilt between development and maintenance costs.	<b>Not met</b>	No	<b>Met</b>	No

As part of the audit, RCGT compared the eManifest costs recorded in the financial system (CAS) against the costs reported to Treasury Board. This reconciliation found a difference of \$102.9 (in millions) between the amounts recorded in CAS of \$516 (in millions) and amounts reported to the Treasury Board of \$619 (in millions). Discussions with CBSA management noted that corporate costs accounted for a portion of the variance noted. While management’s rationale for the post re-baselining variance was supported by corporate costs, pre-re-baselining, a significant amount remained unsupported even after applying the corporate cost allocation.

<sup>4</sup> Note that testing results are presented in absolute values

<sup>5</sup> Criteria for met, partially met and not met are provided in Appendix C of the report

The observation found during the pre-re-baselining period has been addressed based on the results of the post re-baselining audit procedures. Therefore, an audit recommendation is not required.



## 9.2 Salary Costs and Testing Results<sup>6</sup>

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>7</sup>	Recommendation	Conclusion	Recommendation
Project costs reported to the Treasury Board; have occurred, are complete, are mathematically accurate, and have been recorded in the correct period.	Partially met	No	Met	No
The classification of financial costs is representative of the nature of the cost (i.e. development vs maintenance).	Partially met	No	Met	No

Over the scope period of the audit, approximately \$195M<sup>8</sup> of salary-related costs were reported to Treasury Board. Salary costs consisted of employee time spent on the eManifest project as well as employee benefit costs.

As the eManifest project has spanned approximately 10 years, the processes used to allocate salary-related costs to the project have varied over the lifecycle of the project. The section below is organized by years in which a specific salary cost methodology was employed; fiscal years 2006–2007 to 2009–2010, fiscal years 2010–2011 to 2014–2015, and fiscal years 2015–2016 to 2016–2017.

### *Fiscal Years 2006–2007 to 2009–2010 (Pre-Re-Baselining)*

During this time period, salary costs were determined by multiplying the number of hours incurred by a CBSA employee against an average rate<sup>9</sup>. At this time, the financial system did not have the functionality to track project costs in a manner that allowed for a split between salary/non-salary or development/maintenance expenses. Instead, salary costs were recorded to general CBSA expense accounts (i.e. salary expense for indeterminate employees, secondments, etc.). Additionally, timesheets and approvals were paper-based during this time-period and were manually entered into the system on a weekly basis.

A total of \$185,615<sup>4</sup> salary-related transactions was selected for audit testing during this time-period. Testing of the accuracy, classification and cut-off could not be performed for any of the salary transactions sampled for this period, due to the limitations of the financial system and the type of supporting documentation that resulted from these entries. Although salary sample testing could not be conducted, RCGT performed procedures to understand the methodology employed and reviewed any support provided for this period.

The methodology for capturing salary related costs during this time period consisted of a CBSA employee completing a paper-based timesheet, which was subsequently approved by their direct manager. Approved time was entered into the financial system on a weekly basis, facilitating formal recording and tracking of costs.

Once recorded in the financial system, a cumulative, average rate for the year was calculated for salary costs, using actual, cumulative salary costs over total direct hours. At each month end, there was an automated process within the financial system that calculated the actual rate for each cost center for that month. A second

<sup>6</sup> Note that there were transactions within the sample that were deemed “unable to assess” as they were either administrative transactions that netted to zero, or the information provided by CBSA management was not sufficient for testing. These transactions have been removed from the compliance rate calculation that are presented throughout this section. Compliance rates are calculated based on the number of compliant transactions (#), not the value of the amount (\$) compliant.

<sup>7</sup> Criteria for met, partially met and not met are provided in Appendix C of the report.

<sup>8</sup> Treasury Board Submission, November 2015, pre-tax amount, fiscal year 2016–2017 figures included in the submission are estimates, development costs only.

<sup>9</sup> Average rates were generated by Comptrollership Branch, by fund code.

automated process occurred, called the “re-evaluation”, which then generated the overall average for the year, up to and including the current month (averaging the current month to the cumulative average for the year to date). Costs for the current month were adjusted based on the new, cumulative average for the year.

Analysis of the documentation provided for this period found that sampled transactions were supported by financial system hours, evidence of rate calculations and screenshots of the system. Overall, 89% of the sample was found to be supported with documentation.

#### *Fiscal Years 2010–2011 to 2014–2015 (Pre-Re-Baselining)*

This period marked improvements to the accuracy of salary-related costs in the financial system of record. In fiscal year 2011–2012 the “fund” code was introduced, and facilitated the formal split between salary and non-salary costs directly in the financial system.

During this period, timesheets for salaried employees were allocated to a cost-center that was approved to charge expenses to the eManifest project. Accuracy testing was conducted to validate that the cost-center to which the timesheet was charged, was an eManifest-approved cost center.

Transactional testing for this period resulted in a compliance rate of 99% indicating that most salary costs tested were allocated to a cost-center that was eManifest approved. While the testing compliance rate was high, results of this test provide a reduced level of assurance for two reasons. First, the cost centers were not exclusively related to eManifest, and as such other non-eManifest related activities were allocated to these “eManifest approved” cost centers. Second, the employee timesheets provided did not include detailed descriptions of activities performed. Without cost centers exclusive to the eManifest project, or detailed descriptions of work performed in employee timesheets, testing could only provide a low level of assurance to whether salary costs incurred were eManifest related or not.

Classification sample testing, validating that the cost was correctly allocated to development or maintenance, could not be performed as the financial system could not segregate development and maintenance costs during this period. As such, assurance on classification could not be provided.

Cut-off audit testing was performed to determine if salary expenses were recorded in the fiscal year in which the expense occurred. Testing performed for fiscal years 2010–2011 to 2014–2015 found that salary expenses were recorded in the fiscal year in which the expense occurred in 98% of the sample tested.

#### *Fiscal years 2014–2015 to 2016–2017 (Post Re-Baselining)*

Fiscal year 2014–2015 consisted of another key improvement to the coding of salary costs in the financial system as eManifest project codes were introduced (and fully implemented in 2015–2016). These project codes were called Work Breakdown Structure Elements (WBSE) and facilitated the formal segregation of development and maintenance costs in the financial system. Further, beginning in fiscal year 2015–2016, salary costs were calculated using a “standard” rate (by cost center) instead of the “average” rate previously applied. This improved the accuracy of the salary costs allocated to the project.

Post re-baselining timesheets for salaried employees were allocated to project codes (WBSE). Transactional testing for this period resulted in a compliance rate of 100% meaning that all expenses tested were allocated to an eManifest project code (WBSE). As the project codes were exclusive to the eManifest project, the audit results provide a reasonable level of assurance.

Classification testing was performed to determine if salary expenses were accurately classified between development and maintenance. Transactional testing of timesheet transactions provided assurance for

approximately 100%<sup>10</sup> of the salary sample, meaning that salary costs were accurately classified in the system between development and maintenance.

Cut-off testing was performed to determine if salary expenses were recorded in the fiscal year in which the expense occurred. For this period, salary expenses were recorded in the fiscal year in which the expense occurred in 99% of the samples selected for testing.

Overall, the audit can provide a reasonable level assurance for salary-related transactions tested for this period, due to project codes being in place, were exclusive related to the eManifest project, and formalized the split between development and maintenance expenses in the financial system.

The observations found during the pre-re-baselining period have been addressed based on the results of the post re-baselining audit procedures. Therefore, an audit recommendation is not required.

### 9.3 Non-Salary Costs and Testing Results<sup>11</sup>

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>12</sup>	Recommendation	Conclusion	Recommendation
Project costs reported to the Treasury Board; have occurred, are complete, are mathematically accurate, and have been recorded in the correct period.	Partially met	Yes (1a, 1b, 2a)	Partially met	Yes (1b, 2a)
The classification of financial costs is representative of the nature of the cost (i.e. development vs maintenance).	Partially met	Yes (1a, 1b, 2a)	Partially met	Yes (1b, 2a)

Over the ten-year lifespan of the eManifest project, approximately \$209M<sup>13</sup> of non-salary costs were reported to Treasury Board. Non-salary transactions encompass various cost categories, including contractor services, travel, training, and purchase or rental of machinery and equipment.

The project has spanned over an extended period, and as such the availability of documentation has varied over time. For this reason, and to facilitate the split between pre-re-baselining and post re-baselining, the non-salary testing results have been grouped into three time periods; fiscal years 2006–2007 to 2009–2010, fiscal-years 2010–2011 to 2014–2015, and fiscal years 2015–2016 to 2016–2017.

#### *Fiscal Years 2006–2007 to 2009–2010 (Pre-Re-Baselining)*

The 2006–2007 to 2009–2010 sample selected by RCGT consisted of 56 transactions valued at \$418,974. RCGT was unable to perform audit testing of these transactions as the Agency destroyed all pre-2011 documentation, to which CBSA management indicated that this was in alignment with the CBSA documentation retention policy and the *Library and Archives (LAC) Act*.

RCGT assessed the Agency’s treatment of eManifest-related documentation (i.e. the destruction of documentation). This assessment found that while the *Library and Archives (LAC) Act* did prescribe the

<sup>10</sup> 100% compliance is calculated based on the removal of transactions that were unable to assess. Unable to assess included manual administrative transactions as well as a small portion of eManifest codes that did not clearly distinguish between development and maintenance.

<sup>11</sup> Note that there were transactions within the sample that were deemed “unable to assess” (UA) as the information provided was not sufficient for testing. These UA transactions have been removed from the denominator of the testing results depicted in the sections below. Additionally, compliance percentages are calculated on the number (#) of samples tested, not the value of the amount (\$) of the samples tested. Dollar values are provided for context in understanding the level of assurance the audit provided.

<sup>12</sup> Met, partially met, and not met.

<sup>13</sup> Treasury Board Submission, November 2015, pre-tax amount, fiscal year 2016–2017 figures included in the submission are estimates, development costs only.

retention period for documentation to be six years, there were several exclusions to this six-year rule, one of which was major capital projects. Documentation related to major capital project was required to be retained beyond the six year period.

Additionally, RCGT’s assessment noted that the original eManifest project Treasury Board Submission referred to the eManifest as a major crown project and stated that “...CBSA undertakes to conduct Independent Verification and Validation Audits as well as independent reviews at key decision points during the project lifecycle...” As such, this project was subject to regular audits by the CBSA’s Internal Audit and Program Evaluation Directorate, it should have been expected that all supporting documentation for eManifest would be retained through to the end of the project. Given the lack of documentation supporting an expense (i.e. vendor invoice, contract, etc.) assurance could not be provided on non-salary related expenses during this period.

### *Comparison between Pre-Re-Baselining and Post Re-Baselining Testing Results*

Accuracy testing was performed for non-salary transactions and covered two areas; 1) validation of accuracy in the procurement process, including alignment between contract and invoicing rates, as well as amounts invoiced versus costs recorded in the financial system, and 2) validation that non-salary costs were allocated to cost-centers that were approved to accept eManifest charges.

RCGT’s ability to assess accuracy largely depended on the availability of contracts and timesheets. In many instances, the CBSA was unable to provide the contract, the timesheet, or there was no link between the invoice, timesheet, purchase order, and the contract for the selected transactions. Additionally, there were instances where contracts received did not specify the rate for the contracted resources. These documentation limitations resulted in a significant volume of samples that could not be assessed for accuracy. Overall testing results are summarized in the tables below:

*Table 1: Accuracy Testing Results (Test 1a)*

Sample Information	Test 1a: Contract rate (\$) agreed to invoice rate (\$)							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
<b>Sample requested</b>	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
<b>Unable to assess</b>	\$3,804,988	203	63%	\$3,564,700	256	71%	\$7,369,688	459
<b>Sample tested</b>	\$1,340,380	106	33%	\$1,291,313	90	25%	\$2,631,693	196
<b>Compliance</b>	\$1,340,380	106	100%	\$1,287,713	89	99%	\$2,628,093	195 (99.5%)
<b>Not Applicable</b>	\$19,235	13	4%	\$579,521	15	4%	\$598,756	28

*Table 2: Accuracy Testing Results (Test 1b)*

Sample Information	Test 1b: Invoiced amount (\$) matched financial system (\$)							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
<b>Sample requested</b>	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
<b>Unable to assess</b>	\$2,572,070	125	39%	\$649,730	46	13%	\$3,221,800	171
<b>Sample tested</b>	\$2,592,534	197	61%	\$4,785,804	315	87%	\$7,378,338	512
<b>Compliance</b>	\$2,592,534	197	100%	\$4,781,514	314	99.7%	\$7,374,048	511 (99.8%)

<b>Not Applicable</b>	-	-	-	-	-	-	-	-
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Table 3: Accuracy Testing Results (Test 2)

Sample Information	Test 2: Costs were allocated to eManifest approved cost centers							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
Unable to assess	\$2,103,253	101	31%	\$1,114,214	87	24%	\$3,217,467	188
Sample tested	\$3,061,351	221	69%	\$4,321,320	274	76%	\$7,382,671	495
Compliance	\$2,934,510	214	97%	\$4,321,320	274	100%	\$7,255,830	488 (98%)
Not Applicable	-	-	-	-	-	-	-	-

As depicted in the tables above, for the portions of the sample that could be tested, pre-re-baselining accuracy testing resulted in compliance rates of 100%, 100% and 97%, for test 1a, 1b and 2, respectively. Post re-baselining accuracy testing, for the portions of the sample that could be tested, resulted in compliance rates of 99%, 99.7% and 100%, for test 1a, 1b and 2, respectively. Overall, the testing results demonstrate that the assessed transactions were generally compliant from the accuracy perspective, with compliance rates above 95% for all tests pre-re-baselining and post re-baselining. Post re-baselining, test 2 noted an increase in the availability of information, and the accuracy of the financial coding of transactions improved.

Classification testing was also performed to assess if costs could be linked to the eManifest project. If the cost could be linked to the eManifest project, it was tested to validate that the cost was correctly allocated to development or maintenance. In testing classification, it was expected that RCGT would be able to independently assess and provide assurance on whether the expenses were valid eManifest costs, based on review of invoices and corresponding timesheets.

However, the invoices and the timesheets provided lacked detail regarding the work performed, and as such, RCGT was unable to assess whether the costs were related to eManifest. RCGT requested contracts and corresponding statements of work (SOW) to assess classification of the cost. In many instances, the CBSA was unable to provide the contract, the SOW, or the link between the invoice, the purchase order, and the contract to the selected transactions. Additionally, certain SOWs referred to multiple projects, which reduced the level of assurance in determining classification to eManifest. Finally, for the expenses that were deemed eManifest, there were cases where RCGT was not able to determine if the cost was development or maintenance, as the SOW included elements of both. Overall testing results are summarized in the table below:

Table 4: Classification Testing Results (Test 1)

Sample Information	Test 1: Validation that costs were related to eManifest							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$13,186,868	775	-	\$16,323,708	874	-	\$29,510,576	1,649
Unable to assess	\$8,091,302	484	62%	\$9,303,673	456	52%	\$17,394,975	940
Sample tested	\$5,095,567	291	38%	\$7,020,035	418	48%	\$12,115,602	709
Compliance	\$4,806,703	268	92%	\$6,683,295	394	94%	\$11,489,998	662 (93%)
Not Applicable	-	-	-	-	-	-	-	-

Table 5: Classification Testing Results (Test 2)

Sample Information	Test 2: Validation that eManifest costs were correctly classified (development versus maintenance)							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$13,186,868	775	-	\$16,323,708	874	-	\$29,510,576	1,649
Unable to assess	\$9,763,625	584	75%	\$10,982,678	575	66%	\$20,746,303	1,159
Sample tested	\$3,423,244	191	25%	\$5,341,030	299	34%	\$8,764,274	490
Compliance	\$3,168,544	172	90%	\$4,118,458	220	74%	\$7,287,002	392 (80%)
Not Applicable	-	-	-	-	-	-	-	-

As depicted in the table above, pre-re-baselining classification testing resulted in compliance rates of 92% and 90%, for test 1 and 2, respectively, for the portions of the sample that could be tested. Post re-baselining classification testing resulted in compliance rates of 94% and 74%, for test 1 and 2, respectively, for the portions of the sample that could be tested. The testing results demonstrate that information was more readily available post re-baselining, with a higher volume of compliant transactions. However, test 2 post re-baselining resulted in a larger number of transactions that were non-compliant as the nature of work the contractor was hired to perform did not match the classification in the financial system. Approximately \$1,222,572<sup>14</sup> (22% of the sample tested) was misclassified between development and maintenance.

Finally, cut-off testing was performed to validate that costs were recorded in the fiscal year in which the expense occurred. To assess when the expense was incurred, RCGT referred to the service period stated on the timesheet or the invoice (or used travel dates for travel expenses). There were instances where the CBSA was unable to provide the timesheet, or an alternative source of information, that stated the service period, or provide the link between the supporting documentation and the selected sample. Overall testing results are summarized in the table below:

Table 6: Cut-Off Testing Results

Sample Information	Test 1: Costs recorded in fiscal year in which they occur							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
Unable to assess	\$2,633,430	127	39%	\$654,020	47	13%	\$3,287,450	174
Sample tested	\$2,531,174	195	61%	\$4,781,514	314	87%	\$7,312,688	509
Compliance	\$2,309,832	183	94%	\$4,728,602	310	99%	\$7,038,434	493 (97%)
Not Applicable	-	-	-	-	-	-	-	-

As depicted in the table above, for the portions of the sample that could be tested, pre-re-baselining cut-off testing resulted in a compliance rates of 94%. Post re-baselining cut-off testing resulted in a compliance rate of 99%, for the portions of the sample that could be tested. Post re-baselining, there was a significant increase in testable transactions due to improved availability of information. Overall, transactions were found to be largely compliant for both pre-re-baselining and post re-baselining, however, there was a noted improvement post re-baselining).

<sup>14</sup> This figure was calculated by subtracting samples tested (\$5,341,030) and compliance (\$4,118,458).

**Recommendation #1: Documentation Standards**

The Vice-President of the Comptrollership Branch should establish and implement documentation standards that support key financial decisions and financial record keeping throughout the duration of a major project. The documentation standards should include:

- a) The number of years in which records must be maintained by the CBSA; and
- b) Required invoicing details in which vendors submit timesheets that provide details on work performed.

**Recommendation #2: Financial Control Framework**

The Vice-President of the Comptrollership Branch should establish and implement a Financial Internal Control Framework at the onset of future major projects. The Financial Control Framework should include:

- a) System controls to enable clear links between contracts, purchase orders, invoices and financial expense reports.



## 9.4 Reallocation of Project Funds

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>15</sup>	Recommendation	Conclusion <sup>16</sup>	Recommendation
eManifest funds re-allocated to operations to alleviate CBSA operational pressures are well supported and have been approved by delegated authorities and the Treasury Board	Met	No	N/A	No
Funds received for eManifest that are unspent during the year (i.e. carry-forwards) are clearly tracked, segregated in accounts, and are used for eManifest-related activities prior to lapsing (2 years)	N/A <sup>17</sup>	No	N/A	No
Funds allocated from development to maintenance are accurate, well supported, and approved by delegated authorities and the Treasury Board	Partially met	Yes (1c)	N/A	No
Funds for eManifest are allocated correctly to the project and are not reallocated to other CBSA operational needs or projects	Partially met	Yes (1c)	N/A	No

Over the course of the project eManifest funding has been re-allocated from the original budget via two scenarios; 1) project funds have been re-allocated within the Agency to alleviate operational pressures, and 2) project funds have been re-allocated within the project, from the development budget (Vote 5) to the maintenance budget (Vote 1). This section will review both reallocation scenarios, providing context and key findings for each.

### 9.4.1 Reallocation of eManifest funds to Agency Operations

Soon after the inception of the CBSA in 2003, TBS recognized that the Agency’s A Base was underfunded due to funding shortfalls inherited from legacy organizations (specifically the split from Canada Revenue Agency). Subsequently, three (3) Treasury Board Submissions were made by the CBSA to increase A base funding, including 1) “Improving the Canada Border Services Agency Program Integrity (A-Base review)”, 2) “Funding to Ensure the Continuation of the CBSA delivery of efficient and secure border services (program integrity)”, and 3) “Funding to improve the integrity of CBSA front-line Operations.”

This A-base underfunding resulted in occasional re-allocations of project funding to operations to ensure the integrity of the Agency’s internal program. This included a total of \$95.6M<sup>18</sup> in re-allocated funds affecting fiscal years 2008–2009, 2009–2010, 2011–2012 and 2012–2013, respectively. Of the total, \$51.2M was reallocated from the eManifest development budget and \$44.4M from the maintenance budget. Table 8, below provides a breakdown of the monies allocated from the eManifest project to Agency operations,

<sup>15</sup> Met, partially met, and not met.

<sup>16</sup> Reallocation of project funds occurred during the pre-re-baselining period. As such, this audit criteria was not applicable in the post re-baselining period.

<sup>17</sup> Throughout the project (particularly at the project onset) there were several years during which the CBSA did not spend the full envelope of funds budgeted for that year. CBSA management indicated that all approved funding remained available to the Agency throughout the life of the project. As such, this audit criteria was deemed not applicable.

<sup>18</sup> Per the presentation by the CBSA to Treasury Board in April 2015 titled “eManifest: Status Update to Treasury Board Secretariat on Project Financials.”

including whether the funds were loaned to the Agency (requiring re-payment) or contributed to the Agency (without repayment).

*Table 7: Reallocation of eManifest Budget to Agency Operations*

Fiscal Year	Project Budget	Amount (pre-tax)	Contribution or Loan
2008–2009	Development	\$40M	Contribution
2008–2009	Development	\$10M	Loan
2009–2010	Development	\$1.2M	Loan
Total Development		\$51.2M	
2011–2012	Maintenance	\$40M	Contribution
2012–2013	Maintenance	\$4.4	Contribution
Total Maintenance		\$44.4M	
Total Development and Maintenance		\$95.6M	

In 2015, the Agency presented the dollar amounts and rationale for the re-allocation to operations to Treasury Board Secretariat, however there was no evidence that the loaned monies had been repaid back to the project.

#### 9.4.2 Reallocation between the Development and Maintenance budgets

Treasury Board approved the budget for the eManifest project, broken down by development costs (Vote 5) and maintenance costs (Vote 1); as \$375.6M and \$449.4M respectively. According to the project budget (broken down by year and by vote), the development portion of the budget began in year one (fiscal year 2006–2007) of the project, and the maintenance portion of the budget began in year six (fiscal year 2011–2012).

In fiscal year 2014–2015, the CBSA reallocated \$58.1 M of the development budget to maintenance costs. A summary of the reallocation, by year, is depicted in the table, below:

*Table 8: Project Budget, demonstrating funds re-allocated from Development to Maintenance*

Fiscal Year												
Cost (in millions of dollars)	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	Total
<b>Development</b>	\$32.0	\$94.6	\$90.1	\$84.0	\$74.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	<b>\$375.6</b>
<b>Maintenance</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$74.9	\$74.9	\$74.9	\$74.9	\$74.9	\$74.9	<b>\$449.4</b>
<b>Re-allocated to Maintenance</b>	<b>\$0.0</b>	<b>\$2.5</b>	<b>\$8.7</b>	<b>\$10.9</b>	<b>\$14.5</b>	<b>\$9.7</b>	<b>\$11.8</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$58.1</b>

As demonstrated in the table above, a total of \$58.1M was re-allocated from development to maintenance over the period of 2007–2008 through 2012–2013. The period included several years during which no maintenance costs had been approved for the project (i.e. 2007–2008 to 2010–2011).

### *Rationale for the Reallocation between Budgets*

CBSA management indicated that there was a need to reallocate funds from development to maintenance as the eManifest project was being delivered through a series of incremental deployments, and as such deployments moved from the development phase into the maintenance phase at varying intervals. As each deployment was completed and adopted into production there was a requirement to maintain these systems, which resulted in maintenance costs being incurred. According to the approved budget, maintenance funding was only received in fiscal year 2011–2012, creating a three-year gap where development funds were used to cover the project's ongoing and required maintenance costs.

As the financial system was not fully reliable in the pre-re-baselining period, the Agency used a methodology to allocate costs to maintenance for completed deployments. To re-allocate prior development costs to maintenance costs, the CBSA's Comptrollership Branch received communications from the IT Directorate (within the IT Branch) on which IT components were completed. The Comptrollership Branch then extracted data from the financial system, by completed component. The financial data was linked to the release date, by component, and expenses incurred during the first-year post-release were deemed maintenance costs. Lastly, all maintenance costs incurred (post release) were equally divided between the releases.

Further, within the methodology CBSA management noted that the standard industry ratio of maintenance to development is 20%. As at fiscal year 2014–2015, \$300.8M was spent on development; 20% of this cost totals \$60.2M which aligns closely to the \$58.1M re-allocated (excluding EBP, accommodations and tax).

The CBSA provided documentation to support the reallocation from development to maintenance, including the listing from IT Directorate on the completed components, the data extract from the financial system by completed component, and the schedules demonstrating that the amounts from the financial system were equally allocated across the completed releases, in alignment with the methodology. Additionally, the Agency provided documentation demonstrating that the reallocation, including the methodology and key figures, was presented to Treasury Board.

The Agency provided documentation that supported the re-allocation of eManifest project funds, for both the movement of project funds to operations and the reallocation of funds within the project between budgets. Supporting documentation included the rationale for the reallocations, methodologies employed and formal communication to Treasury Board. Although the re-allocation methodology appears to be reasonable, supporting sources that link back to individual transactions could not be provided due to limitations in the financial system as these transactions all relate to the pre-re-baselining period. As such, reasonable assurance could not be provided on these re-allocations between budgets and operational pressures as sample testing on individual transactions could not be performed.

#### **Recommendation #1: Documentation Standards**

The Vice-President of the Comptrollership Branch should establish and implement documentation standards that support key financial decisions and financial record keeping throughout the duration of a major project. The documentation standards should include:

- c) Supporting sources for major expense re-allocations.

## 9.5 Corporate Cost Allocations

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>19</sup>	Recommendation	Conclusion	Recommendation
Cost allocations are accurate, are supported by substantiating documentation and approved by delegated authorities.	Partially met	Yes (1)	Partially met	Yes (1)

Corporate costs include indirect (i.e. overhead) costs that are required to complete the project, but may not be directly factored into the project costs. The eManifest project incurred two types of corporate costs:

- 1) **Standard (non-salary) costs**, including but not limited to; uniforms, office furniture, printing and communication, training, stationary and office supplies, and others.
- 2) **Salary costs**, including a portion of salaries from internal services which are allocated as corporate costs to the project. Internal services include, but are not limited to; legal, human resources, internal audit, comptrollership, corporate affairs, and others.

The Comptrollership Branch developed a template for allocating corporate costs, incorporating both salary and standard costs. The percentages (for internal services) and average salary costs used to allocate corporate costs are derived from previous years actual costs. The costing template included the following tabs, to be completed by the user in determining corporate costs:

- **Standard costs**; which provided the standard percentages and dollar amounts for allocating standard costs, by region and Headquarters
- **Costing setup**; which allowed the user to include key information via drop down menus (i.e. language, purpose, fiscal years to be costed, prepared by/reviewed by)
- **Costing details**; where the user documented key assumptions and rationale, cost object/element, the branch/region, and details related to the corporate costs, broken down by salary and non-salary costs. Completion of the fields in this tab generated the appropriate corporate cost allocation amount via the use of formulas in the excel worksheet
- **Summary**; provides a summary of the costs, populated automatically from the costing details tab

The template was reviewed and approved by CBSA senior management and communicated to TB. Completion of the template generated corporate cost amounts that were allocated to the project. The Agency provided RCGT with worksheets documenting the allocations of corporate costs, to the project. Corporate costs reported in the Departmental Performance Reports (DPR) from project inception to fiscal year 2016–2017 totaled to \$28,166,403<sup>20</sup>. This represented approximately \$2.8M in corporate costs per year over the ten-year lifespan of the project. However, the worksheets were not accompanied by the completed templates.

Overall, post re-baselining, the Agency had a systematic, templated approach for determining and allocating corporate costs to the eManifest project. However, given that completed templates were not provided during the audit, RCGT could not validate that the corporate cost allocations were derived from the completion of the approved template.

<sup>19</sup> Met, partially met, and not met.

<sup>20</sup> The total corporate cost allocation for pre-re-baselining was \$18,635,457 and post re-baselining was \$9,530,946.

### Recommendation #1: Documentation Standards

See recommendation 1, (page 13, above)

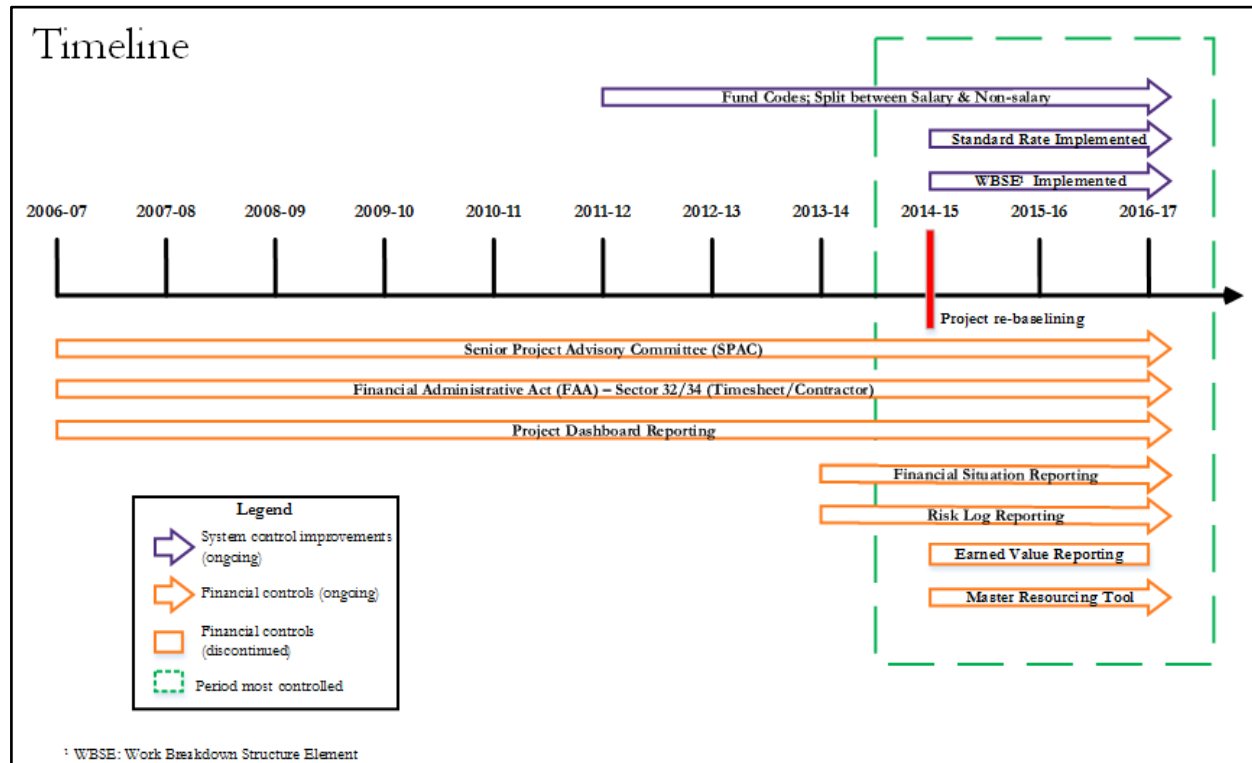
## 9.6 Financial Controls

Audit Criteria	Pre-re-baselining		Post re-baselining	
	Conclusion <sup>21</sup>	Recommendation	Conclusion	Recommendation
An internal controls framework is in place, is communicated to eManifest staff, and the framework is adhered to.	Partially met	Yes (2)	Partially met	Yes (2)
Governance bodies exist, meet regularly, and have clear mandated accountabilities to oversee and direct the eManifest project, including specific accountabilities related to financial risk management.	Partially met	Yes (2b)	Partially met	Yes (2b)
Financial controls for risk management exist, are complete and are effective in identifying, mitigating, monitoring and reporting on risk of the eManifest project.	Partially met	No	Met	No
Financial controls exist and are operating as intended, including but not limited to segregation of duties, financial coding, budgeting and forecasting, variance analysis and reporting, cost allocations, and compliance to sections 32 and 34 of the <i>Financial Administration Act</i> .	Partially met	No	Met	No
Formal monitoring mechanisms are in place to provide timely and accurate reporting to eManifest project management, oversight committees, CBSA senior management and the Treasury Board.	Partially met	Yes (2b)	Partially met	Yes (2b)

As the eManifest project spans across a ten-year period, internal financial controls over the course of the project evolved and were added to improve control over the project. The following timeline illustrates the key system improvements and controls identified for the eManifest project. The timeline also demonstrates the addition of controls improved over the course of the project, with fiscal year 2014–2015 (re-baselining) being a key year for implementing additional controls.

<sup>21</sup> Met, partially met, and not met.

Diagram 1: Internal Financial Controls Timeline



### 9.5.1 Pre-re-baselining Financial Controls (Fiscal Years 2006–2007 to 2013–2014)

As depicted in Diagram 1, above, the key controls in place prior to re-baselining included oversight from governance bodies, executive project dashboards, the *Financial Administration Act* (FAA) sections 32 and 34 controls over employee timesheets and contractor invoices and the introduction of the fund code in the financial system. An overview of each these controls and results of any testing performed, is included below.

#### Governance Bodies

The audit identified several governance bodies and committees within CBSA that provided oversight of the eManifest project, in some capacity. The primary committee responsible for oversight of the eManifest project was the Senior Project Advisory Committee (SPAC).

The SPAC was implemented at the onset of the eManifest project and was mandated to oversee the eManifest project exclusively. The SPAC is composed of a mix of senior-level management from CBSA and Treasury Board, and was mandated to meet semi-annually. The terms of reference (TOR) formally mandated the committee to “provide active advice on the overall direction and progress of the eManifest project...”.

As the SPAC was the key oversight committee for the project, all meeting minutes and/or records of decision were requested for audit testing to determine whether SPAC meetings took place in accordance with terms of reference. The audit team was provided five out of an expected 20 records of decisions representing a 25% compliance rate. This is an indication that SPAC meetings either did not take place in accordance with the terms of reference or meetings were not documented. The records of decisions provided included discussion of eManifest project financials, risks and key issues related to the project. Additionally, the TOR requirement of meeting twice a year may not have been sufficient to provide the oversight and direction required for a project of this magnitude.

Without formal documentation of regular meetings conducted, it is difficult for the Agency to support historical and strategic financial decisions and demonstrate appropriate project-level discussions and oversight.

### *Executive Project Dashboards*

The Executive Project Dashboard (EPD) was designed to communicate key project information to CBSA Senior Management and the TBS Chief Information Officer Branch. Information communicated via the dashboard included the project budget, scope and timelines, any project risks and issues, and corrective actions and contingency plans. The EPD was implemented at the project onset and was report and reviewed on a quarterly basis between fiscal years 2006–2007 and 2009–2010, and monthly between fiscal years 2010–2011 and 2016–2017. Audit effectiveness testing performed found that EPDs were consistently documented and communicated to the appropriate individuals.

### *Timesheets and Contractor invoices*

The eManifest Project was staffed with both contractors (approximately 125-130) and Government of Canada employees (approximately 900). External contractors were hired via a formal procurement process, while Government of Canada employees were hired via the standard federal government staffing processes. Both contractors and employees were required to complete timesheets (including invoices for contractors) to account for time incurred on the eManifest project. However, review found that these timesheets did not include detailed descriptions of the work performed, such as if the work related to the eManifest project or if the work was development or maintenance in nature.

### *Formal Approvals – Financial Administration Act (FAA)*

With respect to the formal approval of project-related time and associated costs, the Agency is required to be compliant with the *Financial Administration Act (FAA)*, specifically sections 32 and 34. Section 32 of the FAA provides the authority to commit funds against an appropriation before an expense is incurred. In the context of timesheets and contractor invoices, this is applicable for contractors only and applies at the contracting stage (i.e. section 32 sign off approval is required for all contracts). Section 34 of the FAA provides the authority to certify that goods were received, or services rendered as contracted. For timesheets and contractor invoices, this applies to the approval of salaried employee timesheets and the approval of contractor invoices.

### *Testing Results*

The audit included testing of sections 32 and 34 approvals for salaried employee timesheets and non-salaried (contractor) contracts and invoices, as applicable. Testing results are documented in the sections below.

#### *A. Salary Testing Results*

Section 32 approvals were not applicable for employee timesheets and, therefore, there were no conclusions for this test area. Managers did approve timesheets through section 34. Section 34 results for salary are as follows, split by pre-re-baselining and post re-baselining.

Table 9: Salary; FAA Section 34 testing results

Sample Information	Test 1: S.34 FAA Evidence of approval after the expense was incurred							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$2,688.98	456	-	\$7,057,089	1,427	-	\$9,746,071	1,833
Unable to assess	\$42,471	12	3%	\$885,589	41	3%	\$928,060	53
Sample tested	\$2,584,769	415	91%	\$6,167,363	1,383	97%	\$8,752,132	1,798
Compliance	\$2,467,416	372	90%	\$5,967,009	1,325	96%	\$8,434,425	1,697 (94%)
Not Applicable	\$61,742	29	6%	\$4,136.78	3	0%	\$65,879	32

As depicted in the table above, pre-re-baselining section 34 FAA testing resulted in a compliance rate of 90%. Post re-baselining, section 34 FAA testing resulted in a compliance rate of 96%. As such, there was a noted improvement post re-baselining. The increased volume of “unable to assess” in the post re-baselining population was related to samples that were related to manual accounting adjustments that were not linked to timesheets.

Transactional testing also noted that while timesheets were approved in the system they did not include detailed descriptions of key activities performed, pre or post re-baselining. Section 32 approvals were not applicable for employee timesheets and, therefore, there were no conclusions for this test area.

*B. Non-Salary Testing Results*

For section 32 testing, it was expected that RCGT would be able to independently perform testing and provide assurance on whether expenses were compliant with section 32 of the FAA, and were approved prior to the expense being incurred. Several challenges were encountered in performing this testing, due to the lack of supporting documentation, including signatures that included an approval date, and difficulties in linking the section 32 approval to the selected sample. Testing results are documented in the table below.

Table 10: Non-Salary; FAA Section 32 testing results

Sample Information	Test 1: S.32 FAA approval is after the expense being incurred							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
Sample requested	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
Unable to assess	\$3,601,238	194	60%	\$2,843,668	166	46%	\$6,444,906	360
Sample tested	\$1,563,366	128	40%	\$2,585,143	193	53%	\$4,148,509	321
Compliance	\$1,261,347	104	81%	\$2,265,064	166	86%	\$3,526,411	270 (84%)
Not Applicable	-	-	-	\$6,723	2	1%	\$6,723	2

As depicted in the table above, pre-re-baselining section 32 FAA testing resulted in a compliance rate of 81%. Post re-baselining section 32 FAA testing resulted in a compliance rate of 86%. The testing results demonstrate an increase in both the availability of information and the level of compliance post re-baselining.

To test section 34 FAA compliance, RCGT verified that the section 34 approval date was signed after the last day of service (as indicated on the contractor timesheet). In some instances, the CBSA was unable to provide the timesheet or alternative sources of information that provided the service period, or the link



between the supporting documentation and the selected transactions. Additionally, there were cases where the section 34 approval was not dated, and could not be assessed. Testing results are documented in the table below.

*Table 11: Non-Salary; FAA Section 34 testing results*

Sample Information	Test 1: S.34 FAA approval is after the expense being incurred							
	Pre-re-baseline			Post re-baseline			Total	
	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)	%	Value (\$)	Transactions (#)
<b>Sample requested</b>	\$5,164,604	322	-	\$5,435,534	361	-	\$10,600,138	683
<b>Unable to assess</b>	\$2,748,913	140	43%	\$656,557	48	13%	\$3,405,470	188
<b>Sample tested</b>	\$2,415,691	182	57%	\$4,778,977	313	87%	\$7,194,668	495
<b>Compliance</b>	\$2,415,691	182	100%	\$4,778,977	313	100%	\$7,194,668	495 (100%)
<b>Not Applicable</b>	-	-	-	-	-	-	-	-

As depicted in the table above, pre-re-baselining section 34 FAA testing resulted in a compliance rate of 100%. Post re-baselining section 34 FAA testing resulted in a compliance rate of 100%. All of the transactions for which complete documentation provided were compliant with section 34 in terms of the approval timings, both pre-re-baselining and post re-baselining.

#### *System Controls*

During the pre-re-baseline time period of the project, the financial system did not have the functionality to track project-related costs in a manner that allowed for the formal split between salary and non-salary transactions, or between development and maintenance costs. Further, the coding structure used to track eManifest expenditures (i.e. internal orders) was complex, was not consistently used and therefore was not fully reliable.

However, in fiscal year 2011–2012, use of the “fund” code was introduced, which facilitated the formal split between salary and non-salary transactions in the SAP (CAS) financial system of record, and marked an improvement to financial tracking of eManifest project expenditures. This enabled the project to enhance the tracking of costs between salary and non-salary expenses.

#### **9.5.2 Post re-baselining Controls (Fiscal Years 2014–2015 to 2016–2017)**

Post re-baselining, the Agency added controls to improve the tracking, oversight and monitoring of the project. This included key improvements to the financial system as well as the addition of budgeting and monitoring controls. This section will provide a summary of the new controls implemented, the results of testing performed, and key improvements made to the financial system.

#### *Budgeting Controls*

The Agency added two key budgeting controls to improve financial forecasting for the project, including the 1) Financial Situation Report (FSR) and 2) the Master Resourcing Tool.

The FSR was introduced in fiscal year 2013–2014<sup>22</sup> and was a mechanism to review and approve financial forecasts at both the Branch and Agency level. Vice-Presidents approve the financial forecasts for their

<sup>22</sup> This control was introduced just prior to the re-baselining year, and as such is included in the post re-baselining analysis

respective branches. The results are then integrated into an Agency-level FSR, which is reviewed by the Chief Financial Officer and presented to the Executive Committee for approval, on a quarterly basis. The FSR is not specific to the eManifest project, but incorporates, at a high level, financial information about the project. All FSRs selected for testing were provided and included evidence of analysis and reporting on the eManifest project financials.

The Master Resourcing Tool was implemented in 2014 to assist in resource scheduling for the upcoming fiscal year. The tool was prepared annually and included budgeted project costs, by month, for the coming fiscal year. Costs included in the Master Resourcing Tool were broken down by fund, deployment phase, individual human resources and cost centres. The schedule was informally monitored against on a weekly and monthly basis by the Commercial Project Portfolio Directorate. RCGT reviewed the tool and validated that it had been populated with budgeting information, by month, for the year.

### *Monitoring Controls*

Post re-baselining the agency added controls to enhance monitoring of project progress, risk and cost. Mechanisms implemented for monitoring included the Earned Value Report and the Risk Logs.

Earned value is defined as the actual value of the work completed at a specific date. Earned value reporting was a monthly control that commenced in May 2014 and was discontinued in April 2017. Earned value reports provided variance analysis against budgets, as well as estimates to complete. These reports were compared with the Financial Situation Report (to ensure alignment with internal figures and figures reported to Treasury Board. The reports were included into monthly portfolio roll-ups, also known as Earned Value Summary Reports, which were provided to the Associate VP of ISTB. Testing of six Earned Value Summary Reports found that reports were produced in alignment with the control requirement and included eManifest project analysis.

In fiscal year 2013–2014<sup>23</sup> the risk log introduced the formal management of eManifest project risk. The risk log was used as a tool to identify, communicate and mitigate eManifest project risk, including financial risk. Since implementation, the risk log tracked a total of 101 risks related to the eManifest project, nine of which were financial in nature. Formal mitigation plans and action logs were documented for all active risks tested by the audit. Additionally, the top three risks identified by the log were communicated to CBSA Senior Management and TBS via the Executive Project Dashboards.

In addition to these controls demonstrating an improvement in project monitoring and oversight, it was noted that CBSA conducted two previous eManifest engagements in 2012 and 2014, but neither assessed financial controls or documentation. The 2014 audit focused on governance and status reporting.

### *Financial System Improvements*

Post re-baselining consisted of major improvements to the financial system, including the implementation of the Work Breakdown Structure Element (WBSE) and Procure to Pay (P2P). The WBSE was introduced in fiscal year 2014–2015 and functioned as project codes, directly allocating salary time and associated costs to the development or maintenance budgets in the financial system. The use of the WBSE codes, facilitating the formal split between development and maintenance costs in the system, significantly improved the Agency's ability to track, monitor and manage eManifest project salary-related costs, post project re-baselining.

Additionally, Procure to Pay (P2P) was introduced in fiscal year 2016–2017 as a beginning-to-end solution for the electronic approvals and payments of procurement transactions and invoices. Electronic approval replaced the need for an actual signature on documents (e.g., paper-based purchasing, paying invoices), and increased efficiencies throughout the payments process. The P2P also tracked spending patterns, providing

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<sup>23</sup> This control was introduced just prior to the re-baselining year, and as such is included in the post re-baselining analysis

greater accountability for expenses and ultimately helping employees to make better purchasing decisions. Overall, the audit noted significant improvement to the financial controls over the course of the project, many of which occurred during the post re-baselining period. Key system improvements allowed for formal segregation between salary/non-salary costs, as well as development/maintenance costs. Additionally, post re-baselining, financial controls were generally in place and functioning as intended to support the effective management of the eManifest project.

The observations found related to financial risk management and system controls during the pre-re-baselining period have been addressed based on the results of the post re-baselining audit procedures. Therefore, an audit recommendation is not required in these areas.

**Recommendation #2: Financial Control Framework**

The Vice-President of the Comptrollership Branch should establish and implement a Financial Internal Control Framework at the onset of future major projects. The Financial Control Framework should include:

- b) Increased frequency of verification over project expenses throughout the project lifecycle.

## **APPENDIX A – About the audit**

### **Audit objectives and scope**

The objective of the audit was to determine:

- The eManifest Project development and ongoing maintenance costs from project initiation in 2006 until March 31, 2017;
- The extent to which eManifest funds were used as intended for the eManifest Project; and
- Whether required financial controls are in place and function as intended to support the effective financial management of the eManifest Project.

The eManifest audit is a condition of the Treasury Board submission requesting the authority to release all or part of a frozen allotment of the “CBSA — Ongoing Funds for eManifest”. The CBSA committed to conducting a financial audit of the eManifest project from inception to completion led by Raymond Chabot Grant Thornton Consulting Inc. (RCGT) with an audit engagement plan outlined in the sections below.

The scope included an assessment of the extent to which eManifest:

- Financial internal controls required by relevant authorities are in place and function as intended;
- Financial transactions have occurred, are complete, accurate, and recorded in the correct fiscal year and accounts in the general ledger for the eManifest Project; and
- Financial transactions as well as development and ongoing maintenance costs are compliant with applicable financial terms and conditions of the related Memoranda to Cabinet, Treasury Board Submissions, and other applicable policies and standards.

The audit period included all financial controls and transactions from the project initiation in 2006 to the projected completion date of March 31, 2017. The audit was conducted in two phases:

- Phase 1: From the eManifest project initiation in 2006–2007 to the project re-baselining in July 2014; and
- Phase 2: From the re-baselining in July 2014 to the projected project completion date of March 31, 2017.

The final deliverable submitted to the Project Authority was a written report addressing the objectives listed above. This report was presented at the CBSA’s Departmental Audit Committee meeting as well as a presentation of findings to the Treasury Board Secretariat.

### **Scoping Limitations**

#### *Unreconciled Amounts*

During the planning phase of this engagement the audit team performed a reconciliation between CAS (the financial system of record) and financials reported to the Treasury Board Secretariat. This reconciliation found a difference of \$102.9<sup>24</sup> (in millions) between the amounts recorded in CAS of \$516 (in millions) and amounts reported to the Treasury Board \$619 (in millions).

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<sup>24</sup> The variance of \$102.9M is for fiscal year ends 2006–2007 to 2015–2016 since the 2016–2017 amounts are not yet available.

Given internal audit’s reliance on the data in the financial system to obtain a sample, assurance could not be provided on the unreconciled amounts through sample testing.<sup>25</sup>

*Project Close Date*

The Statement of Work issued to RCGT stated that the financial audit should be performed using a two-phased approach with the first phase covering from project initiation to project re-baselining in 2014 and the second phase covering the re-baselining in 2014 to project completion date on March 31, 2017. RCGT conducted the planning phase of the engagement based on these specifications. CBSA management indicated that the eManifest project close date has been extended to September 2017. Due to this project extension, a scope limitation existed as performing the financial audit, as originally planned, up to March 31, 2017 did not capture the eManifest development project costs in its entirety.

As a result of this scope limitation, RCGT proposed three options for the eManifest financial audit as follows:

- 1) Perform the financial audit covering the period of project inception to March 31, 2017;
- 2) Issue an interim and final report. Perform the financial audit covering the period of project inception to March 31, 2017 and issue an interim report with our recommendations and findings. Subsequent to eManifest project completion, RCGT would perform additional procedures to gain assurance on the remaining period of the project and issue a final report; or
- 3) RCGT would pause efforts after the planning phase and resume the financial audit in Spring 2018 when the eManifest development project would be complete and the associated financial records prepared.

RCGT recommended the second option to capitalize on the current financial audit momentum and the procedures that were underway. The Agency’s Senior Management accepted the second option.

**Risk Assessment results**

#	<i>Inherent Risk</i>
<b>R1</b>	There is a risk that amounts spent on eManifest may be in excess of TB approved project limits, including the overall project budget and prescribed limits for development and maintenance costs.
<b>R2</b>	There is a risk that amounts recorded in CAS for the eManifest project may be inaccurate, may not be aligned with amounts reported, and/or unsupported.
<b>R3</b>	There is a risk that the methodologies used to allocate project costs may not be supported, may not represent actual costs, and/or may not be approved by the appropriate delegated authorities.
<b>R4</b>	There is a risk that that funds intended for the eManifest project may have been absorbed into the Agency and used to alleviate operational pressures or to fund other projects.
<b>R5</b>	There is a risk that the Agency may not have an internal control framework in place and/or the eManifest project may not be adhering to the framework.
<b>R6</b>	There is a risk that governance bodies may not be in place and/or may not have clear, mandated accountabilities to the eManifest project.
<b>R7</b>	There is a risk that financial controls may not be in place and/or may not be effectively designed or functioning as intended (i.e. FAA sections 32 and 34, approvals of budget reallocations etc.).
<b>R8</b>	There is a risk that monitoring, and reporting mechanisms may not be in place and/or may not be effective to promote transparency and effective decision-making.

<sup>25</sup> Procedures performed during the audit found that a portion of the unreconciled amount to be corporate costs. Discussions with CBSA management noted that the remaining portion could not be identified.

**R9**

There is a risk that contracting may not be fair and transparent and may not be performed in accordance with the CBSA's procurement policies.<sup>26</sup>

## Approach and Methodology

The audit was conducted in a manner consistent with the International Standards for the *Professional Practice of Internal Auditing* and *The Treasury Board Policy on Internal Audit*.

The audit examined relevant evidence and obtained sufficient information that provided a reasonable level of assurance in support of the audit conclusion.

During the planning phase, the following key audit activities were completed:

- Initial kick-off meeting with Project Authority followed by a kick-off meeting with key engagement players
- Provided Project Authority with a detailed work plan and resource allocation for the planning, reporting, conduct and clearance phases of the audit for acceptance by the Project Authority
- Reviewed the terms and conditions from the Memoranda to Cabinet (MC) and Treasury Board (TB) Submissions
- Reviewed additional documentation as requested by the CBSA in the initial document request
- Provided the Project Authority with a list of additional documents required at planning stage based on initial review
- Identified key individuals to be interviewed who are relevant to the audit objective and scope - prepare interview notes
- Obtained and reviewed relevant information, including the general ledger, sub-ledgers, reports and supporting documents for selected samples and reconciled to public records such as the DPR
- Developed an understanding of the controls, risks, funding and applicable costs. Performed a risk assessment identifying key risks based on document review and interviews to be conducted
- Proposed any identified adjustments to the preliminary audit objectives and scope, including scope limitations based on initial documentation review and preliminary interviews
- Determined the sample size for substantive testing and extent of testing to be performed
- Developed the audit engagement plan (terms of reference) and audit program to achieve the audit objectives (proposed sampling plan, related interview questionnaire, testing tools)
- Debriefed the Project Authority as required

During the examination phase, the following key audit activities were completed:

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<sup>26</sup> It was determined this risk would not be assessed through this audit given upcoming planned internal audits in this area.

- Once approved by the Project Authority, conducted audit procedures and tests as outlined in the planning phase
- Conducted additional interviews as determined necessary based on audit procedures performed
- Obtained and reviewed additional relevant documentation identified during the planning phase as well as while conducting audit procedures
- Assessed the extent to which eManifest financial internal controls were designed in accordance with relevant authorities (may require additional interviews and/or documentation review)
- Selected and tested a sample of transactions to validate if expenditures are in accordance with the terms of the eManifest project MC, TB Submissions and other relevant policies
- Determined the extent to which financial transactions could be supported by audit assertions such as: occurrence, completeness, accuracy, cut off and classification
- Collected evidence, analyzed findings and drafted conclusions on the sample tested
- Prepared working papers and working paper summaries
- Discussed any findings with Project Authority and developed recommendations to correct the causes of identified issues
- Prepared and present a summary of findings in the form of a deck

During the reporting phase, the following key audit activities were completed:

- Submitted the revised working paper summaries based on comments received in the conduct phase
- Completed and submitted the draft audit report
- Submitted a revised version of the report and working paper summaries that address all the final observations resulting from quality assurance review (agreed upon individual)
- Addressed all comments on the draft audit report
- Adjusted the report and working papers to integrate comments and observations from the Project Authority

During the clearance phase, the following key audit activities will be completed:

- Complete a disposition table addressing all comments on the draft report
- Participate at the CBSA's Audit Committee Dry-run meeting
- Provide final working paper summaries, audit report and management letter which integrated the comments provided at the Audit Committee Dry-Run meeting
- Participate in the CBSA Audit Committee Meeting
- Attend and participate in the discussion with the Treasury Board Secretariat

## Audit Criteria

Audit Objective	Audit Criteria
<b>1 Determine the eManifest project development and maintenance costs</b>	1.1 Project costs reported to the Treasury Board reconcile with the costs captured in CAS, including the split between development and maintenance costs. 1.2 Project costs reported to the Treasury Board; have occurred, are complete, are mathematically accurate, and have been recorded in the correct period 1.3 The classification of financial costs is representative of the nature of the cost (i.e. development vs maintenance) 1.4 Cost allocations are accurate, are supported by substantiating documentation and approved by delegated authorities 1.5 Total project costs (\$) recorded in the financial system (CAS) are within the overall project budget limit, and are aligned with the split between development and maintenance costs.
<b>2 Determine the extent to which eManifest funds were used as intended for the eManifest project</b>	2.1 eManifest funds re-allocated to operations to alleviate CBSA operational pressures are well supported and have been approved by delegated authorities and the Treasury Board. 2.2 Funds received for eManifest that are unspent during the year (i.e. carry-forwards) are clearly tracked, segregated in accounts, and are used for eManifest-related activities prior to lapsing (two years). 2.3 Funds allocated from development to maintenance are accurate, well supported, and approved by delegated authorities and the Treasury Board. 2.4 Funds for eManifest are allocated correctly to the project and are not reallocated to other CBSA operational needs or projects.
<b>3 Determine whether required financial controls are in place and function as intended to support the effective financial management of the eManifest project</b>	3.1 An internal controls framework is in place, is communicated to eManifest staff, and the framework is adhered to. 3.2 Governance bodies exist, meet regularly, and have clear mandated accountabilities to oversee and direct the eManifest project, including specific accountabilities related to financial risk management. 3.3 Financial controls for risk management exist, are complete and are effective in identifying, mitigating, monitoring and reporting on risk of the eManifest project 3.4 Financial controls exist and are operating as intended, including but not limited to segregation of duties, financial coding, budgeting and forecasting, variance analysis and reporting, cost allocations, and compliance to sections 32 and 34 of the <i>Financial Administration Act</i> . 3.5 Formal monitoring mechanisms are in place to provide timely and accurate reporting to eManifest project management, oversight committees, CBSA senior management and the Treasury Board.

## Sampling Methodology

RCGT's sampling plan was organized in two main sections; 1) classes of transactions which explained the sampling plan for objectives one and two and, 2) the sampling approach for internal controls which covered objective three.

For the testing of classes of transactions (objective one and two), RCGT developed a three-tiered sampling approach based on negative and positive transactions in absolute value terms. The three-tiered sampling approach included the following:

- Risk weighting - differentiating between categories of costs including pre- and post re-baselining, salary vs. non-salary and development vs. maintenance



- Proportions - ensuring coverage over the scope of the project, and selecting samples from each category of costs
- Randomness - using the data set from each of the cost categories described above, RCGT selected transactions at random for testing

Based on Treasury Board's Accounting Standards, *GC 1010 Financial Statement Concepts (Materiality)*, there are qualitative and quantitative factors which impact the calculation of materiality. From a quantitative perspective, GC 1010 defines materiality, in general, as 0.5% to 2% of total expenses. For this reason, the total sample selected represented an absolute value equal to 0.5% - 2% of total expenses.

For the testing of internal controls, RCGT determined the frequency of the identified internal control to be tested based on standard methodology.

## **APPENDIX B – Glossary**

CAS: The departmental financial system (SAP)

CBSA: Canada Border Services Agency

Comptrollership Branch: the Finance branch in the department

EBP: Employee Benefits Plan

eManifest: Electronic Manifest for international trade

EPA: Effective Project Approval

EPD: Executive Project Dashboards

FAA: *Financial Administration Act*

GST: Goods and Services Tax

ISTB: Information, Science and Technology Branch, the branch under which the eManifest is managed

LAC: Library and Archives

Pre-re-baselining: a period of time during the eManifest project from fiscal years 2006–2007 to 2014–2015. The re-baselining occurred in 2014–2015 and included the descoping of two capabilities for the eManifest system.

Post re-baselining: a period of time during the eManifest project from fiscal years 2014–2015 to date. The re-baselining occurred in 2014–2015 and included the descoping of two capabilities for the eManifest system.

P2P: Procure-to-pay

RCGT: Raymond Chabot Grant Thornton Consulting Inc.

SOW: Statement of Work

SPAC: Senior Project Advisory Committee

TB: Treasury Board (the Cabinet committee that reviews and approves spending by the Government of Canada)

TBS: Treasury Board Secretariat (the administrative arm that supports Treasury Board and is recognized as a department)

Vote 1 expenditures: Non-capital or operational expenditures. For the purpose of this report, maintenance expenses.

Vote 5 expenditures: Capital expenditures. For the purpose of this report, development expenses.

## **APPENDIX C – Criteria for Concluding on Audit Criteria**

The report concludes on the audit criteria as met, partially met and not met. The scale used to assign these conclusions is documented as follows:

<b>Conclusion</b>	<b>Criteria</b>
<b>Met</b>	The requirements of the criteria were generally met, with minor exceptions noted.
<b>Partially Met</b>	The requirements of the criteria were mostly met, with some exceptions noted.
<b>Not Met</b>	The requirements of the criteria were not met, with significant exceptions noted.

## APPENDIX D – Management Responses

### OVERALL MANAGEMENT RESPONSE

<p>The CBSA has reviewed the report and the recommendations and is in agreement with the findings. The CBSA has already made improvements to the processes, practices and systems to address the recommendations.</p>
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### RECOMMENDATION 1

*The Vice-President of the Comptrollership Branch should establish and implement documentation standards that support key financial decisions and financial record keeping throughout the duration of a major crown project. The documentation standards should include:*

- a) The number of years in which records must be maintained by CBSA; and*
- b) Required invoicing details in which vendors submit timesheets that provide details on work performed.*
- c) Supporting sources for major expense re-allocations.*

MANAGEMENT RESPONSE
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<p>The CBSA agrees with the recommendations. Work is either completed or already underway to address the observations and recommendations which will result in clear and concise evidence to support key financial decisions.</p>
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### RECOMMENDATION 2

*The Vice-President of the Comptrollership Branch should establish and implement a Financial Internal Control Framework at the onset of future major crown projects. The Financial Control Framework should include:*

- a) System controls to enable clear links between contracts, purchase orders, invoices and financial expense reports.*
- b) Increased frequency of verification over project expenses throughout the project lifecycle.*

MANAGEMENT RESPONSE
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<p>The CBSA agrees with the recommendations. Work is either completed or already underway to address the observations and recommendations resulting in a solid Financial Control Framework.</p>
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