



CANADIAN FIREARMS CENTRE

REPORT OF FINDINGS FROM THE PERFORMANCE OF SPECIFIED PROCEDURES

For fiscal years 2000/01 and 2001/02

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Introduction

This report presents our findings from the performance of specified procedures on the expenditures of the Canadian Firearms Centre for the 2000/01 and 2001/02 fiscal years, as described in our letter to the Assistant Deputy Minister of the Department of Justice dated January 8, 2003 and amendment #1 to contract #4500036336 between KPMG LLP and the Department of Justice.

Overview

Under the 1995 Firearms Act, the Department of Justice (the “Department”) is responsible for the Canadian Firearms Program, including the Canadian Firearms Registration System (“CFRS”). In 1996, the Department established the Canadian Firearms Centre (the “CFC”) as a division of the Department reporting to the Deputy Minister. The CFC was designated to be the “single point of responsibility and accountability to implement the Canadian Firearms Program”.

In December 2002, the Office of the Auditor General (the “OAG”) issued its report on the costs of implementing the Canadian Firearms Program. The report had four recommendations, which were accepted by the Department of Justice. The recommendations were:

“The Department of Justice, using a meaningful activity-based reporting framework should annually provide Parliament in its departmental performance report complete, accurate, and up-to-date financial and management information on the following:

- *the full costs to develop, implement and enforce the Canadian Firearms Program;*
- *all revenues collected and refunds made;*
- *forecast costs and revenues to the point at which the Department expects the Program to become fully operational, including details on outsourcing major components of the Canadian Firearms Registration System and moving certain headquarters functions to Edmonton; and*
- *complete explanations for changes in costs and revenues, and changes to the overall Program.”*

As part of its action plan to respond to the OAG’s recommendations, the Department has started the process of reviewing the Canadian Firearms Program to improve its efficiency and effectiveness. In addition, in his January 8, 2003 press release, the Minister communicated his acceptance, *“without reservation, the Auditor General’s*

recommendations to provide Parliament annually with complete, accurate and up-to-date financial information regarding the Program”.

This project is part of the overall review of the Canadian Firearms Program being conducted by the Department. The purpose of performing the specified procedures is to provide the Department and the CFC with information on the validity of expenditures recorded by the CFC in the 2000/01 and 2001/02 fiscal years. These two fiscal years are expected to be used as one of the bases for forecasting future costs during other parts of the Departmental review of the CFC and the Canadian Firearms Program.

Scope of Work

The specified procedures were performed on a sample of transactions selected from the expenditures of the Canadian Firearms Centre for fiscal years 2000/01 and 2001/02. These expenditures are provided by expenditure object in the summary financial statement found in Appendix A.

The summary financial statement presents the expenditures charged as dispositions of Parliamentary appropriations by the Canadian Firearms Centre through the Department of Justice. The statement was prepared by CFC management to comply with the reporting requirements and standards established for government departments by the Receiver General of Canada as outlined in the Public Accounts Instruction Manual.

As such, services provided without charge by other Government departments to the Canadian Firearms Centre are not included in the summary financial statement. Examples of common services provided without charge include certain accommodation and banking services provided by Public Works and Government Services Canada (“PWGSC”), the employers share of employee insurance premiums provided by Treasury Board Secretariat, workers’ compensation coverage provided by Human Resources Development Canada (“HRDC”), and certain legal services provided by other divisions within the Department of Justice.

As well, other expenditures relating to the Canadian Firearms Program and charged to the Parliamentary appropriations of other federal government departments are not included in the summary financial statement of the Canadian Firearms Centre. Under the standards of the Public Accounting Instruction Manual, these expenditures are recorded in the dispositions of appropriations of the other federal government departments.

As the specified procedures performed on the expenditures are limited, they do not constitute an attest audit of the expenditures of the Canadian Firearms Centre or the Canadian Firearms Program. Therefore, we do not express an audit opinion on these expenditures.

This report is for use solely in connection with the Minister of Justice’s review of key financial transactions to verify the adequacy and appropriate application of the Canadian Firearms Centre’s financial systems and controls.

Summary of Findings

The specified procedures performed, and the results of these procedures, are documented in the body of the report. The following is a summary of our findings by major expenditure category:

<u>Expenditure Category</u>	<u>Summary of Findings</u>
Salaries	<ul style="list-style-type: none"> • For the 30 employees selected, the salary expenditures recorded in the SAP accounting system agreed to the salary documented in the employee's personnel file and were within the salary range for the employee's position and level under the respective union agreement. No errors were noted. • For six of the 30 employees, the employment start or end date per the personnel file did not agree to the start or end date per the SAP accounting system. In these six cases, the employees transferred between the CFC and another division with the Department of Justice or another government department. We requested evidence of journal vouchers transferring the employee's salary between the CFC and the other division or department. Management was unable to identify the specific journal vouchers directly relating to the salary amounts of four of these employees. CFC management provided journal vouchers transferring a portion of the salary expenditures for two employees. The total amount of expenditures, for which we were not provided a journal voucher supporting the transfer of salary was \$47,107.
Operating and Maintenance	<ul style="list-style-type: none"> • KPMG selected 355 transactions for specified procedures, totalling \$29,976,497 and representing 34% of total operating and maintenance expenditures for fiscal years 2000/01 and 2001/02. • For the 355 transactions selected, 349 transactions were approved by an authorized CFC official in accordance with Departmental policy and Section 34 <i>Payment for Work, Goods or Services</i> of the <i>Financial Administration Act</i>. Of the remaining six transactions: <ul style="list-style-type: none"> • Two invoices were approved by individuals for whom the CFC was unable to provide a Section 34 delegation of authority form. • Three invoices had a Section 34 approval stamp but no

<u>Expenditure Category</u>	<u>Summary of Findings</u>
	<p>signature was observed on the documentation provided by the CFC.</p> <ul style="list-style-type: none"> • One journal entry did not have a Section 34 authorization stamp evidencing approval. • For the 355 transactions, the validity of the expenditures was supported by the documentation provided by the CFC. No errors were noted. • 352 transactions were appropriately entered in the SAP accounting system. For three transactions, the amount of the expenditure recorded differed from the amount per the invoice. The total of the three differences is \$14,882 including \$14,000 for the inaccurate recording of the GST component of one invoice.
<p>Information Technology Contracts</p>	<ul style="list-style-type: none"> • KPMG selected 151 transactions for specified procedures, totalling \$57,480,985 and representing 90% of contract services expenditures relating to significant contracts for fiscal years 2000/01 and 2001/02. • For the 151 transactions selected, 145 transactions were approved by an authorized CFC official in accordance with Departmental policy and Section 34 <i>Payment for Work, Goods or Services</i> of the <i>Financial Administration Act</i>. For the remaining six transactions, the supporting documentation did not have a Section 34 authorization stamp evidencing approval. • For 135 transactions, the validity of the expenditures was supported by the documentation provided by the CFC. For the remaining 16 transactions, supporting documentation was not provided with respect to labour rates for 12 transactions and the labour rates differed between the contract and invoice for four transactions. The labour rate differences ranged from 5%-20% of the contracted labour rate. • The 151 transactions were appropriately entered in the SAP accounting system.

<u>Expenditure Category</u>	<u>Summary of Findings</u>
Other Government Department Transactions	<ul style="list-style-type: none"> • KPMG selected 82 transactions for specified procedures, totalling \$53,726,036 and representing 92% of OGD transactions for fiscal years 2000/01 and 2001/02 • For the 82 transactions selected, the transactions were approved by an authorized CFC official in accordance with Departmental policy and Section 34 <i>Payment for Work, Goods or Services</i> of the <i>Financial Administration Act</i>. No errors were noted. • For the 82 transactions, the validity of the expenditures was supported by the documentation provided by the CFC. No errors were noted. • For the 82 transactions, the expenditures were appropriately entered in the SAP accounting system. No errors were noted.
Contributions	<ul style="list-style-type: none"> • KPMG selected 29 transactions for specified procedures, totalling \$71,307,489 and representing 99% of contributions for fiscal years 2000/01 and 2001/02. • Of the 29 transactions selected, 24 were approved by an authorized CFC official with Section 34 signing authority. The other five transactions were approved by an individual for whom the CFC was unable to provide a Section 34 delegation of authority form as evidence that the individual has the authority to approve the transaction. The individual did have Section 34 authority within two months of the date of these five transactions. • For the 29 transactions selected, the contribution payment made was consistent with the expenditure claim form received by the CFC or with the funding agreement, as applicable. Please note that KPMG did not perform any specified procedures at the provincial governments or the aboriginal groups to verify that the expenditures claimed for reimbursement were incurred and were eligible under the contribution agreements. • The 29 transactions were appropriately entered in the SAP accounting system. No errors were noted.

Salaries

Salary expenditures include payroll-related amounts paid to employees that have been processed through the Department's payroll system. The expenditures tested in this section do not include salary amounts charged by other government departments to the CFC or employee benefit plan costs that are funded by statutory appropriation for all government departments. Salary charges from other government departments were included in the specified procedures performed on other government department transactions. These procedures are described in that section of this report.

Specified Procedures and Results

The following specified procedures were performed on salary expenditures for each of fiscal 2000/01 and 2001/02. These specified procedures were performed on documentation, including personnel files, provided to us by the CFC.

Procedure #1

Obtain transactional data from the SAP accounting system showing all payroll amounts paid to employees and charged to the CFC in fiscal 2000/01 and 2001/02.

Results

KPMG obtained an export of transaction data from the CFC SAP accounting system for each fiscal year. The total transactions agreed to the amounts reported in the "Salaries-Canadian Firearms Centre" line item presented in the summary financial statement for fiscal 2000/01 and 2001/02.

Procedure #2

Select 30 employees that were active in fiscal 2000/01 and/or 2001/02, including in the sample selection at least five employees that were hired by/transferred into the CFC, and five employees that were terminated by/transferred out of the CFC, during the two fiscal years.

Results

KPMG selected 30 employees that were active in fiscal 2000/01 and/or 2001/02 from the SAP data. Of the 30 employees, 22 were employed through the Ottawa location of the CFC and eight were employed in the Edmonton location. The selected employees had the following split:

Employees hired by/transferred into the CFC	17
Employees terminated by/transferred out of the CFC	5
Employees employed by the CFC throughout fiscal 2000/01 and 2001/02	8
Total	30

Procedure #3

Obtain the personnel file for each selected employee and perform the following procedures:

- a. For those employees hired/transferred in during 2000-2002, agree the date of hire/transfer per the personnel file to the SAP accounting system.
- b. For those employees terminated/transferred out during 2000-2002, agree the date of termination/transfer per the personnel file to the SAP accounting system.
- c. For employees that were employed by the CFC throughout 2000-2002, verify that the personnel file has a hire/transfer date prior to April 1, 2000 and that the employee was not terminated or transferred out of the CFC prior to March 31, 2002.
- d. For salaried employees, agree the annual salary paid to the employee per the SAP accounting system to the personnel file. Note that the employee annual salaries are recorded to the cost elements "regular employees" or "casual employees" in the SAP accounting system. Verify that the salary is within the range for the employee's position and level per the relevant union agreement.
- e. For hourly employees, for 2 pay periods per year, agree the hours paid to the employee's approved timesheet. Agree the hourly rate to the employee's personnel file or relevant employment agreement.

Results

For the 30 selected employees:

- a. Of the 17 employees hired by/transferred into the CFC, six employees had an effective start date of employment per their personnel file that agreed to the first salary pay period recorded in the SAP accounting system. For the remaining 11 employees, the effective start date of employment at the CFC per the employee's personnel file was prior to their first salary pay period recorded in the SAP accounting system. (see procedure #4 for additional procedures performed)

- b. Of the five employees terminated/transferred out of the CFC, four employees had an effective end date of employment per their personnel file that agreed to their last salary pay period recorded in the SAP accounting system. For the other employee, the effective end date of employment at the CFC per the personnel file was prior to their last salary pay period recorded in the SAP accounting system. (see procedure #4 for additional procedures performed)
- c. Of the eight employees that were employed by the CFC throughout 2000-2002, the effective start date of employment was prior to April 1, 2000 and the individual continued to be employed by the CFC after March 31, 2002, per the personnel file.
- d. For the 30 employees, the salary expenditures recorded in the SAP accounting system agreed to the salary documented in the employee's personnel file. All employees' annual salaries were within the range of salary for the employee's position and level per the relevant union agreement.
- e. No hourly employees were selected in our sample.

Procedure #4

For employees whose date of transfer in or out of the CFC per the personnel file did not correspond with the dates that salary payments began or ended, obtain the journal voucher or intradepartmental settlement charging the salary expenses to, or removing the salary expenses from, the CFC.

Results

KPMG identified 11 employees who transferred into the CFC, for whom the effective start date of employment at the CFC per the personnel file was prior to their first salary pay period recorded in the SAP accounting system. KPMG requested journal vouchers or interdepartmental settlements showing the employees' individual salaries being charged to the CFC from the employee's previous department or division within the Department of Justice. The CFC was unable to identify specific journal vouchers or interdepartmental settlements related to these salary expenses for six of these employees. The CFC provided two journal vouchers reversing a portion of these salary expenses for two of the remaining five employees.

KPMG identified one employee who transferred out of the CFC, for whom the effective end date of employment at the CFC per the personnel file was prior to the last salary pay period recorded in the SAP accounting system. KPMG requested the journal voucher or interdepartmental settlement showing the employee's individual salary being removed from the CFC expenditures and charged to the employee's subsequent department or division within the Department of Justice. The CFC was unable to identify the specific journal voucher or interdepartmental settlement relating to this employee.

The total amount of expenditures, for which we were not provided a journal voucher supporting the transfer of salary was \$47,107.

Operating and Maintenance

In the regular course of its operations, the CFC incurs significant expenditures outside of the areas of salary expenditures and contributions. These operating and maintenance expenditures include such costs as postage and freight, contract services, advertising, and other government department transactions. Significant information technology contracts (*included in the contract services line item*) are examined separately in the information technology contracts section below. Similarly, other government department transactions (*included in the OGD – operating expenditures line item, and certain other individual line items*) were separately examined in the other government department transaction section below.

Specified Procedures and Results

The following specified procedures have been performed on the CFC's operating and maintenance expenditures for the 2000/01 and 2001/02 fiscal years, except for significant system-development contracts and other government department transactions, both of which are dealt with separately below.

Procedure #1

Obtain transactional data by expenditure category from the SAP accounting system for operating and maintenance expenditures.

Results

KPMG obtained a download from the SAP accounting system of all operating and maintenance expenditures for each of the 2000/01 and 2001/02 fiscal years. This data download agreed to the summary financial statement for each of the two fiscal years.

Procedure #2

From this download, select a sample of transactions and obtain relevant supporting documentation for these transactions from the CFC.

Results

From this download, KPMG isolated those transactions relating to significant information technology contracts and other government department transactions for separate specified procedures. For the remaining population of transactions, KPMG selected a sample of transactions from each fiscal year. Our sample sizes for each year are as follows:

	2000 / 01	2001 / 02
Debit transactions greater than \$100,000	88	69
Transactions between \$1,000 & \$100,000	93	70
Credit transactions greater than \$100,000	7	28
Total number of transactions	188	167

These transactions represent 270 invoices, and 85 journal entries. The total dollar value of the items selected compares to the original population as follows:

	2000 / 01	2001 / 02
Dollar Value of Sample Selected	<u>\$22,140,962</u>	<u>\$7,835,535</u>
Total Operating and Maintenance Expenditures	106,278,463	60,862,708
Less: information technology contract expenditures (significant vendors)	(39,108,881)	(24,972,965)
Less: Other Government Department Transactions (non-salary)	<u>(11,439,189)</u>	<u>(3,276,932)</u>
Net Operating and Maintenance Expenditures	<u>\$55,730,393</u>	<u>\$32,612,811</u>
Sample Selected as % of Net Operating and Maintenance Expenditures	39.7%	24.0%

Procedure #3

For each transaction selected, perform the following specified procedures:

- a. Verify that the invoice was properly approved by an authorized official in accordance with Departmental Policy and Section 34 *Payment for Work, Goods or Services* of the *Financial Administration Act*, by reviewing the confirmation of delegated signing authority and signature authentication for each official to verify proper contract performance and price signing authority for the concerned cost centre as of the transaction date.
- b. Verify that, as required by Section 34, that:
 - In the case of a payment for the performance of work, the supply of goods or the rendering of services, that the work has been performed, the goods supplied

or the services rendered, as the case may be, and that the price charged is according to the contract, or if not specified in the contract, is reasonable; and

- In the case of any other payment, that the payee is eligible for or entitled to the payment.
- c. Agree the amount of the expenditure to the amount recorded in the SAP accounting system, by verifying that:
- the cost centre charged in the SAP accounting system is consistent with that approved on the expenditure claim form or journal voucher;
 - the cost element charged in the SAP accounting system is consistent with that approved on the expenditure claim form or journal voucher;
 - the dollar amount recorded in the SAP accounting system is consistent with that on the expenditure claim form or journal voucher; and
 - the recording date of the transaction in the SAP accounting system is appropriate based on the actual date of the transaction.

Results

Invoices

For the 270 invoice transactions selected:

- a. 265 invoices had been properly approved by an authorized official in accordance with Departmental Policy and Section 34 of the *Financial Administration Act*;

Two invoices were approved by individuals for whom the CFC was unable to provide a Section 34 delegation of authority form as evidence that the individuals had the authority to approve the invoices for the respective time periods and cost centres.

Three invoices had a Section 34 approval stamp, but no signature was observed on the documentation provided by the CFC. KPMG re-performed Section 34 account verification on these invoices, and based on these procedures, the invoices related to work that was performed, goods that were supplied, or services that were rendered for the CFC.

- b. For the 270 invoices, the validity of the expenditures was supported by the documentation provided by the CFC. No errors were noted.
- c. Of the 270 invoices selected:
- 267 invoices were verified as being appropriately recorded in the SAP accounting system.

- For three invoices, the amount of the expenditure recorded differed from the amount of the invoice. This differences were due to data entry errors or errors made in recording the GST component. The total value of these differences was \$14,882 including \$14,000 relating to the inaccurate recording of the GST component of one invoice.

Journal Entries

For the 85 journal entries selected:

- a. 63 journal entries represented correcting entries and reversing transactions to either back out erroneous charges, or to correct the recording of transactions in the SAP accounting system. For these entries, proper authorization of the originating entry was verified. No errors were noted.

22 journal entries represented entries to establish “payables at year end” (*PAYEs*) related to operating and maintenance expenditures. For 21 journal entries, the supporting journal voucher recording the PAYE was properly authorized by a CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded. For one journal entry, KPMG did not observe a signature authorizing the PAYE.

- b. For the 22 PAYE journal entries, KPMG obtained the details of operating and maintenance expenditures charged subsequent to year-end from the SAP accounting system. For PAYEs with significant open amounts remaining at the time of our procedures, we obtained explanations from CFC management.

For the 63 transactions representing correcting entries and reversing transactions, KPMG discussed the nature of the transactions with CFC management to verify that the transactions were appropriately corrected or recorded in the appropriate cost centre. No errors were noted.

- c. For the 63 correcting and reversing entries, and the 22 PAYE journal entries, the transactions were verified as being appropriately entered in the SAP accounting system. No errors were noted.

Information Technology Contracts

Included in operating and maintenance expenditures reported by the CFC, are systems development and maintenance costs related to the Canadian Firearms Registration System (“CFRS”). In addition, the CFC has incurred expenditures related to the processing of transactions and data related to the CFRS.

Specified Procedures and Results

The following specified procedures were performed on systems development contract expenditures for the 2000/01 and 2001/02 fiscal years:

Procedure #1

Obtain transactional data from the SAP accounting system for the contract services expenditures line item, and identify those vendors with significant total expenditures during the 2000/01 and 2001/02 fiscal years.

Results

KPMG obtained a download from the SAP accounting system of contract services expenditures, which agreed to the line item in the summary financial statements. KPMG identified two significant vendors completing systems development work and data processing work for the CFC. These vendors are EDS/Systemhouse and BDP Business Data Services. The value of these contracts is over \$64 million in fiscal 2000/01 and 2001/02. The breakdown of the transactions recorded by the CFC in each of these years is as follows:

<i>Vendor</i>	<i># of transactions</i>	<i>Dollar value of transactions</i>
2000/01		
BDP	7	\$4,116,001
EDS	290	\$31,726,666
PAYE journal entries	11	\$3,266,214
Sub Total - 2000/01	308	\$39,108,881
2001/02		
BDP	63	\$6,784,177
EDS	63	\$17,289,729
PAYE journal entries	1	\$899,059
Sub Total – 2001/02	127	\$24,972,965
TOTAL	425	\$64,081,846

Procedure #2

Review significant vendor contracts for the 2000/01 and 2001/02 fiscal years.

Results

KPMG reviewed the contracts and related amendments with respect to these two vendors for the 2000/01 and 2001/02 fiscal years for financial related terms and conditions to be used in the subsequent procedures documented below.

Procedure #3

Select a sample of transactions from the SAP download of transactions for significant vendors, and obtain relevant supporting documentation for these transactions from the CFC.

Results

KPMG requested and obtained from the CFC supporting documentation for 151 transactions, totaling \$57,480,985 over the 2000/01 and 2001/02 fiscal years. These transactions represent 90% of the total dollar value of the expenditures. The sample selected was as follows:

<i>Vendor</i>	<i># of Transactions Sampled</i>	<i>Dollar Value of Transactions Sampled</i>	<i>Total Population (\$)</i>	<i>% Coverage</i>
2000/01				
BDP	7	\$4,116,001	\$4,116,001	100%
BDP - PAYE	2	964,833	964,833	100%
EDS	76	26,906,393	31,726,666	84.8%
EDS - PAYE	9	2,301,381	2,301,381	100%
Subtotal – 2000/01	94	\$34,288,608	\$39,108,881	87.7%
2001/02				
BDP	38	\$6,630,737	\$6,784,177	97.7%
EDS	18	15,662,581	17,289,729	90.6%
EDS - PAYE	1	899,059	899,059	100%
Subtotal – 2001/02	57	\$23,192,377	\$24,972,965	92.8%
TOTAL	151	\$57,480,985	\$64,081,846	89.7%

Procedure #4

For each of the items selected, perform the following specified procedures:

- (a) Verify that the invoice was properly approved by an authorized official in accordance with Departmental Policy and Section 34 *Payment for Work, Goods or Services* of the *Financial Administration Act* by reviewing the confirmation of delegated signing authority and signature authentication for each official to verify proper contract performance and price signing authority for the concerned cost centre as of the transaction date;
- (b) Verify that, as required by Section 34, that:
 - In the case of a payment for the performance of work, the supply of goods or the rendering of services, that the work has been performed, the goods supplied or the services rendered, as the case may be, and that the price charged is according to the contract, or if not specified in the contract, is reasonable; and
 - In the case of any other payment, that the payee is eligible for or entitled to the payment.
- (c) Agree the amount of the expenditure to the amount recorded in the SAP accounting system, by verifying that:
 - the cost centre charged in the SAP accounting system is consistent with that approved on the invoice;

- the cost element charged in the SAP accounting system is consistent with that approved on the invoice;
- the dollar amount recorded in the SAP accounting system is consistent with that on the approved invoice, considering proper treatment of GST; and
- the recording date of the transaction in the SAP accounting system is appropriate based on the actual date of the transaction.

Results

For the proper authorization of the invoice in accordance with Section 34 of the *Financial Administration Act*:

a. For the 151 transactions sampled:

- 121 invoices had been approved by an authorized official in accordance with Departmental Policy and Sections 34 of the *Financial Administration Act*.
- For six 2000/01 invoices, Section 34 signatures of authorization were not observed on the documentation provided by the CFC. KPMG re-performed Section 34 account verification on these invoices, and based on these procedures, the invoices related to work that was performed, goods that were supplied, or services that were rendered for the CFC.
- 13 transactions were correcting entries to either back out erroneous charges, or to appropriately record transactions in the SAP accounting system. These transactions were reviewed with CFC management to verify that the transactions were appropriately corrected or recorded in the appropriate cost centre. No errors were noted.
- 11 transactions were journal entries to establish “payables at year end” (*PAYEs*). These journal entries were reviewed with CFC management to verify that the journal vouchers had been approved by an appropriate official in accordance with Departmental Policy. We obtained the details of payments made against the *PAYEs* subsequent to year-end from the SAP accounting system. For *PAYEs* with significant open amounts, we obtained explanations from management. No errors were noted.

b. For the 151 transactions sampled:

- For 135 transactions, the validity of the expenditures was supported by the documentation provided by the CFC.
- For 12 invoices, supporting documentation was not provided by the CFC to verify labour rates, expenditures or the details of labour charges;

- For four invoices, the labour rates charged by the vendors differed from those in the signed contracts or task authorizations. These differences ranged from 5-20% of the labour rate in the contract.
- c. The 151 transactions were verified as being appropriately recorded in the SAP accounting system. No errors were noted.

Other Government Department Transactions

Other government department (“OGD”) transactions are expenditures invoiced to the CFC by other government departments through the intradepartmental settlement system. These amounts include salaries and operating expenditures. These expenditures are charged to the CFC’s allotment and the Department’s annual Parliamentary appropriation. These transactions do not include expenditures incurred by other government departments relating to the Canadian Firearms Program, that are not charged to the CFC’s allotment or the Department’s appropriation (i.e., services provided without charge).

Specified Procedures and Results

The following specified procedures were performed on OGD transactions for each of fiscal 2000/01 and 2001/02.

These specified procedures are limited to the documentation provided by the other government department with the interdepartmental settlement. We have not performed any specified procedures at the other government departments to verify that the expenditures claimed for reimbursement were incurred and were related to the CFC. We understand that the CFC is making arrangements to perform separate audits of the expenditures claimed for reimbursement by other government departments.

Procedure 1

Obtain transactional data from the SAP accounting system for OGD expenditures including payroll and operating and maintenance expenditures. Identify OGD’s with significant transactions with the CFC.

Results

KPMG obtained a download of other government department transactional data from the SAP accounting system for both payroll and operating and maintenance expenditures. KPMG identified four significant memoranda of understanding with the following OGD’s: the Royal Canadian Mounted Police (“RCMP”), Public Works and Government Services Canada (“PWGSC”), Canada Customs and Revenue Agency (“CCRA”), and Human Resources Development Canada (“HRDC”).

The break-down of transactions is as follows:

Transaction Type	2001 / 02		2000 / 01	
	Number of Transactions	Amount	Number of Transactions	Amount
Salary-related payments to other government departments	109	\$8,127,563	91	\$35,639,461
Operating and maintenance expenditures with other government departments	298	3,276,932	398	11,439,189
Total	407	\$11,404,495	489	\$47,078,650

Procedure 2

Review the significant memoranda of understanding with other government departments.

Results

KPMG reviewed the respective memoranda of understanding between the Department of Justice and the RCMP, PWGSC, CCRA and HRDC for financial-related terms and conditions to be used in the subsequent procedures described below.

Procedure 3

Select a sample of interdepartmental settlements for these other government departments, and obtain relevant supporting documentation for these transactions from the CFC.

Results

KPMG requested and obtained from the CFC, supporting documentation for 82 transactions totaling \$53,726,036 over the 2000/01 and 2001/02 fiscal years. These transactions represent 92% of total other government department expenditures of \$58,483,145 over the two fiscal years. The sample selected was as follows:

<i>Expenditure Type</i>	<i># of Transactions</i>	<i>Dollar Value of Transactions</i>
2000/01		
Salary	22	\$33,914,252
Operating and Maintenance	16	10,068,120
<i>Sub Total – 2001</i>	38	<i>\$43,982,372</i>
2001/02		
Salary	29	\$6,821,501
Operating and Maintenance	15	2,922,163
<i>Sub Total – 2002</i>	44	<i>\$9,743,664</i>
TOTAL	82	\$53,726,036
TOTAL OGD TRANSACTIONS	407	\$58,483,145
% Coverage		92%

Procedure 4

For each interdepartmental settlement selected, perform the following specified procedures:

- a. Verify that the interdepartmental settlement was properly approved by an authorized official in accordance with Departmental Policy, Receiver General Manual and Section 34 of the *Financial Administration Act*, as applicable, by reviewing the confirmation of delegated signing authority and signature authentication for each official to verify proper contract performance and price signing authority for the concerned cost centre as of the transaction date.
- b. Verify that, as required by Section 34, that:
 - In the case of a payment for the performance of work, the supply of goods or the rendering of services, that the work has been performed, the goods supplied or the services rendered, as the case may be, and that the price charged is according to the contract, or if not specified in the contract, is reasonable; and
 - In the case of any other payment, that the payee is eligible for or entitled to the payment.
- c. Agree the amount of the expenditure to the amount recorded in the SAP accounting system by verifying that:
 - the cost centre charged in the SAP accounting system is consistent with that approved on the invoice;

- the cost element charged in the SAP accounting system is consistent with that approved on the invoice;
- the dollar amount recorded in the SAP accounting system is consistent with that on the approved invoice, considering proper treatment of GST; and
- the recording date of the transaction in the SAP accounting system is appropriate based on the actual date of the transaction.

Results

For the 51 other government department salary transactions selected:

- 25 interdepartmental settlements had been properly approved by an authorized official in accordance with Departmental Policy, Receiver General Manual and Sections 34 of the *Financial Administration Act*;

26 transactions were reversing or correcting entries, to either back out erroneous charges, or properly record expenditures in the SAP accounting system. These transactions were reviewed with CFC management to verify that the transactions were appropriately corrected or recorded in the appropriate cost centre. No errors were noted.

- For the 51 transactions, the validity of the expenditures was supported by the documentation provided by the CFC. No errors were noted.
- The 51 transactions were verified as being appropriately recorded in the SAP accounting system. No errors were noted.

For the 31 other government department operating and maintenance transactions tested:

- 19 interdepartmental settlements had been properly approved by an authorized official, and accurately recorded in the SAP accounting system.

12 transactions were reversing or correcting entries, to either back out erroneous charges, or properly record expenditures in the SAP accounting system. These transactions were reviewed with CFC management to verify that the transactions were appropriately corrected or recorded in the appropriate cost centre. No errors were noted.

- For the 31 transactions, the validity of the expenditure was supported by the available supporting documentation provided by the CFC. No errors were noted.
- The 31 transactions were verified as being appropriately recorded in the SAP accounting system. No errors were noted.

Contributions

Contributions include amounts paid by the CFC to participating provincial governments and aboriginal groups under contribution agreements signed by the CFC. These contributions are to reimburse the provinces and aboriginal groups for eligible costs incurred in implementing firearms licensing and registration.

Specified Procedures and Results

The following specified procedures were performed on contribution payments for each of fiscal 2000/01 and 2001/02.

These specified procedures were performed on documentation provided to us by the CFC, including expenditure claim forms received by the CFC from the participating provincial governments and aboriginal groups. KPMG did not perform any specified procedures to verify that the expenditures claimed for reimbursement by the provincial governments and aboriginal groups were incurred and were eligible under the contribution agreements. We understand that the CFC is making arrangements to perform separate audits of the expenditures claimed for reimbursement by the participating provinces and aboriginal groups.

Procedure #1

Obtain transactional data from the SAP accounting system for contribution expenditures, and identify provinces and aboriginal groups with significant contributions.

Results

KPMG obtained a download of transactional data from the SAP accounting system for each year. The total transactions agreed to the amounts reported in the summary financial statement provided to us by the CFC. KPMG identified six provinces and four aboriginal groups that received funding under contribution agreements during the fiscal years.

The break-down of transactions is as follows:

Transaction Type	2001/02		2000/01	
	Number of Transactions	Amount	Number of Transactions	Amount
Contribution payments to provinces and aboriginal groups	13	\$15,420,722	11	\$19,623,508
Journal entries to record PAYEs for provinces and aboriginal groups	6	\$19,722,069	2	\$16,350,640
Contribution payment via ISN to another government department	1	\$200,000	0	\$0
Offsetting correcting journal entries	<u>0</u>	<u>\$0</u>	<u>2</u>	<u>\$0</u>
Total	20	\$ 35,342,791	15	\$ 35,974,148

Procedure #2

Review the significant contribution agreements.

Results

KPMG reviewed the contribution agreements for six provinces and four aboriginal groups for financial-related terms and conditions to be used in the procedures described below.

Procedure #3

Select a sample of transactions from the SAP download, and obtain relevant supporting documentation for these transactions from the CFC.

Results

KPMG requested and obtained, from the CFC, supporting documentation for 20 2001/02 transactions and nine 2000/01 transactions. These transactions consisted of 20 contribution payments, eight journal entries and one interdepartmental settlement note (ISN). KPMG did not perform specified procedures on the two offsetting correcting journal entries and four contribution payments to aboriginal groups totalling \$9,450 in 2000/01.

Procedure #4

For each transaction selected, perform the following specified procedures:

- a. Verify that the contribution payment was properly approved by an authorized official in accordance with Departmental Policy and Section 34 of the *Financial*

Administration Act by reviewing the confirmation of delegated signing authority and signature authentication for each official to verify proper contract performance and price signing authority for the concerned cost centre as of the transaction date;

- b. Verify that, as required by Section 34, that:
 - In the case of a payment for the performance of work, the supply of goods or the rendering of services, that the work has been performed, the goods supplied or the services rendered, as the case may be, and that the price charged is according to the contract, or if not specified in the contract, is reasonable.
 - In the case of any other payment, that the payee is eligible for or entitled to the payment.
- c. Agree the amount of the expenditure to the amount recorded in the SAP accounting system, by verifying that:
 - the cost centre charged in the SAP accounting system is consistent with the approved expenditure claim form or journal voucher;
 - the cost element charged in the SAP accounting system is consistent with the approved expenditure claim form or journal voucher;
 - the dollar amount recorded in the SAP accounting system is consistent with the approved expenditure claim form or journal voucher; and
 - the recording date of the transaction in the SAP accounting system is appropriate based on the actual date of the transaction.

Results

Contribution Payments

For the 20 contribution payments to provinces and aboriginal groups:

- a. 15 contribution payments were properly approved by a the CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded.

Five contribution payments in 2001/02 were approved by an individual for whom the CFC was unable to provide a Section 34 delegation of authority form as evidence that the individual had the authority to approve the contribution payments. This individual received Section 34 authority on April 1, 2002 but these contribution payments were approved in February and March, 2002.

- b. For the 14 contribution payments to provinces, the provinces submitted their request for contribution payments using the expenditure claim form provided in the signed contribution agreements. The expenditure claim forms were certified as

being accurate by the provincial Firearms Officer as required by the contribution agreement.

For the six contribution payments to aboriginal groups, the amounts paid agreed to the payment terms in the respective contribution agreements. Under the contribution agreements, the aboriginal groups were to provide a final financial statement at the end of the project, detailing the expenditures funded by the contribution payment. As at January 16, 2003, the CFC had not received the final financial statement from two aboriginal groups.

- c. The 20 contribution payments were verified as being appropriately recorded in the SAP accounting system. No errors were noted.

Journal Entries

For the eight journal entries to record PAYEs relating to contributions to provinces and aboriginal groups:

- a. For the eight journal entries, the supporting journal voucher recording the PAYE was properly authorized by a CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded.
- b. KPMG obtained the details of contribution payments made against the eight PAYEs subsequent to the year-end from the SAP accounting system.

For the two 2000/01 PAYEs, KPMG identified nine contribution payments made against the PAYEs which totalled the full amount of the PAYEs. The nine contribution payments were properly authorized by a CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded.

For the nine contribution payments, the CFC received the expenditure claim form as provided in the signed contribution agreements. The expenditure claim forms were certified as being accurate by the provincial Firearms Officer as required by the contribution agreement.

For the six 2001/02 PAYEs, KPMG identified ten payments of claims totaling \$14,908,567. The ten contribution payments were properly authorized by a CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded.

Eight of the ten contribution payments related to provinces. The expenditure claim forms were submitted in the format in accordance with the contribution agreement and were certified as being accurate by the provincial Firearms Officer. The two contribution payments to aboriginal groups agreed to the payment terms in the respective contribution agreements.

- c. The eight PAYEs were verified as being appropriately recorded in the SAP accounting system. No errors were noted.

Interdepartmental Settlement Note

For the ISN transaction:

- a. The ISN was properly authorized by a CFC official with Section 34 signing authority for the cost centre to which the expenditures were recorded.
- b. The amount of the ISN agreed to the terms of the agreement with the other government department. KPMG noted that the agreement required that unused funds be refunded to the CFC by April 1, 2002. No refunds were identified. The agreement did not request a final financial report from the other government department.
- c. The ISN was verified as being appropriately recorded in the SAP accounting system. No errors were noted.

Appendix A: Summary Financial Statement

CANADIAN FIREARMS CENTRE

Summary Financial Statement

Years ended March 31, 2002 and 2001

	2002	2001
Salaries, benefits and allowances:		
Salaries:		
Canadian Firearms Centre	\$ 25,374,225	\$ 12,105,203
OGDs	8,127,563	35,639,461
Overtime	434,997	877,572
	33,936,785	48,622,236
Employee benefit plan	6,487,198	9,488,982
	40,423,983	58,111,218
Operating and maintenance:		
Travel	1,987,953	3,690,381
Relocation	64,830	115,075
Training and development	193,140	325,835
Membership fees	13,209	12,394
Conferences and travel fees	1,808	13,527
Hospitality	42,211	62,417
Telecommunications	3,491,103	4,084,643
Postage and freight	2,079,122	4,656,114
Informatics operating costs	68,713	34,799
Information	3,195	37,474
Advertising	6,133,566	16,749,157
Printing	988,179	5,056,426
Professional and other services	3,472,516	1,482,782
Temporary personnel	56,468	517,201
Contract services	30,751,196	52,576,754
Litigation costs	624	25
Office supplies and utilities	1,352,450	2,389,222
Maintenance	1,153,802	1,436,532
Tenant services	89,676	861,441
Library	11,550	18,124
Rental	1,182,418	2,397,760
Other miscellaneous operating costs	30,532	59,482
Furniture and equipment	171,664	226,037
Informatics equipment	891,494	546,501
OGDs – operating expenditures	2,966,789	8,928,360
Capital assets	3,664,500	–
	60,862,708	106,278,463
Contributions:		
Aboriginal agreements	802,725	9,450
C-68 agreements	34,540,066	35,964,698
	35,342,791	35,974,148
Total expenditures	\$136,629,482	\$200,363,829