

Financial Audit of the Canadian Police Information Centre Renewal (CPIC-R) Project

Internal Audit Branch
Sous-direction de la vérification interne

Background

The objective of the Canadian Police Information Centre Renewal (CPIC-R) Project is to replace and augment the capacity of the existing 30 year old CPIC system and to provide a national gateway for all criminal justice partners to access essential crime and offender data. The CPIC-R Project is scheduled for completion in 2005.

On September 16, 2002 the Senior Executive Committee (SEC) of the RCMP requested that the Internal Audit Branch conduct a financial audit of the CPIC-R Project. The committee would like assurance that the financial reporting produced for the project is accurate and compliant with relevant government policies and regulations.

Audit Scope

The audit focussed on the Financial Status Report (*see Appendix 1*) detailing the actual expenses for the CPIC-R Project, including the National Criminal Justice Index (NCJI), for the period beginning in 1996 and ending August 31, 2002 and the budget and forecast expenses for the fiscal year 2002/2003.

Audit Objectives

The purpose of the audit was to provide reasonable assurance that the CPIC-R Project Financial Status Report (*see Appendix 1*) was fairly stated, in all material respects, in accordance with provisions of relevant government regulations. Specifically, the objectives were to:

1. determine whether expenses incurred to date related to the CPIC-R Project and were accurately recorded;
2. confirm all budget figures;
3. review the reasonableness of the process to establish the assumptions used to determine the 2002-2003 forecast to year-end figures;
4. verify the mathematical accuracy of the free balance amounts; and
5. assess whether the expenses incurred to date were compliant with relevant government policies and regulations.

Audit Approach

Our audit included a review of the transactions related to the CPIC-R Project and such tests as we considered necessary to provide reasonable assurance that the above objectives were achieved.

The audit was conducted in accordance with the *Standards for the Professional Practice of Internal Auditing* from the Institute of Internal Auditors. Materiality for this audit was set at \$1.5 million.

Audit Results

Based on the results of our audit, we can conclude with reasonable assurance that the CPIC-R Project Financial Status Report (*see Appendix 1*) detailing the actual expenses for the CPIC-R Project for the period beginning in 1999 and ending August 31, 2002 and the budget and forecast expenses for the fiscal year 2002/2003 are fairly stated, in all material respects, and in accordance with provisions of relevant government regulations. However, for the period covering the beginning of the CPIC-R project in 1996 to March 31, 1999, we are unable to provide reasonable assurance that the expenses for this period, as presented in the Financial Status Report, are fairly stated due to an inability in obtaining supporting information for expenses incurred during this period (*see details in Appendix 2*),

More specifically the audit results can be summarized as follows,

Audit Objectives

Conclusions

- | | |
|---|--|
| 1 | Other than the exception noted above, expenses incurred to date relate to the CPIC-R Project and have been accurately recorded. There are however some observations that have been summarized in the attached <i>Appendix 2</i> and require CPIC-R management's attention. |
| 2 | All budget figures have been confirmed. |
| 3 | The process to establish the assumptions used to determine the 2002-2003 forecast to year-end figures is deemed reasonable. |
| 4 | The free balance amounts are mathematically accurate. |
| 5 | Other than the exception noted above, the expenses incurred to date are compliant with relevant government policies and regulations. |

Consistent with our approach, a management response for the audit recommendations detailed in Appendix 2 is required.

RCMP

Internal Audit Branch

CPIC-R Project Financial Audit
(GHA 232-107)
Final Audit Report

Protected A

April 16, 2003

Audit Team

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APPENDIX 1
CPIC RENEWAL PROJECT
Financial Status Report - Summary
As at August 31, 2002

Description	Notes	1996 to 1999 Expenses	1999/2000 Expenses	2000/2001 Expenses	2001/2002 Expenses	Original Budget	Current Budget	2002/2003		Free Balance
								YTD Expenses	Forecast To Year End	
PROJECT INDIRECT COSTS:										
Project Start-Up	A	2,497,900	4,997,224							
Project Office	B		6,679,317	7,049,752	6,590,744	5,066,385	5,096,618	1,602,691	5,955,857	-2,461,930
Devel. & Implementation Support	E				4,033,477	3,235,768	2,884,099	1,219,345	2,167,978	-503,225
Implementation Mgmt. (Excluding Capital)	O				2,956,818	3,139,709	1,843,940	1,310,873	3,534,487	-3,001,420
Total Indirect Costs		2,497,900	11,676,541	7,049,752	13,581,040	11,441,863	9,824,657	4,132,910	11,658,322	-5,966,575
PROJECTS:										
Project 1 - Securing Communications			2,682,420	2,734,815	1,914,353					
Project 2 - CPIC Modernization (PPA / Definition)			3,085,707	7,835,320	4,305,789	1,430,864	3,114,658	1,546,256	2,308,972	-740,570
- Project 2 - Phase 1: Interface Services					4,299,325	1,482,085	2,078,800	973,443	2,311,442	-1,206,085
- Project 2 - Phase 2: PRISM Risk Reduction					2,398,396	1,111,365	1,078,901	487,729	1,372,047	-780,875
- Project 2 - Phase 3: Modernized Applications									3,548,993	-3,548,993
National Criminal Justice Index										
- NCJI (PPA/Definition)	2		291,410	751,856	1,331,161	946,502	1,433,823	672,682	1,440,889	-679,748
- NCJI (Implementation)									3,011,315	-3,011,315
Total Projects			6,059,538	11,321,991	14,249,023	4,970,816	7,706,182	3,680,109	13,993,659	-9,967,587
Total Indirect Costs & Projects		2,497,900	17,736,079	18,371,743	27,830,063	16,412,679	17,530,839	7,813,019	25,651,981	-15,934,161
Management Reserve:	1					10,627,321	9,509,161			9,509,161
Total		2,497,900	17,736,079	18,371,743	27,830,063	27,040,000	27,040,000	7,813,019	25,651,981	-6,425,000

Notes:

1. Composition of Management Reserve:
Management Reserve - Project 1 - EPA
Management Reserve - Projects 2,3,4 - PPA
Management Reserve - Project 2, Phase 1&2 - EPA
Carry Forward from 2001/02 (Pending)
Total:

O & M	Capital	Total
7,575,329.30	1,933,832	9,509,161
7,575,329	1,933,832	9,509,161

2. Includes costs of \$72,920.40 (1999/00) & \$31,247.20 (2000/01) incurred for Project 4 - New Clients, New Services (closed June/2002)

3. Adjustments for the Options Analysis Cost Considerations reductions have not been included.

APPENDIX 2**Audit Finding****Recommendation****1. Employee benefits expense**

The employee benefit costs included in the TBS Submission for the CPIC-R Project were estimated at 20% of the budgeted salary expense (Note: 20% is deemed as a reasonable rate as per Treasury Board of Canada Secretariat: Capital Plans, Projects and Procurement Policies and Guidelines Chapter 2-1 - Project Approval). Once the project is underway, actual benefits attributed to the project should be used and recorded at 20% of actual salaries.

As part of our audit, it was noted that employee benefits presented in the Financial Status Report were calculated as 20% of the budgeted salary expense rather than of the actual salary expense.

This discrepancy results in an overall overstatement of the benefit expense of \$439,581. This overstated amount is allocated by fiscal year as follows:

Fiscal Year	20% of Budgeted Salaries	20% of Actual Salaries	Variance
1999/2000	\$440,500	\$203,810	\$236,690
2000/2001	600,036	553,379	46,660
2001/2002	565,314	545,773	19,541
2002/2003	<u>511,000</u>	<u>374,310</u>	<u>136,690</u>
Total	<u>\$2,116,853</u>	<u>\$1,677,272</u>	<u>\$439,581</u>

The current and future fiscal years should be corrected to ensure that employee benefits included in the Financial Status Report are calculated based on 20% of actual salaries instead of 20% of budgeted salaries. With regards to past fiscal years CPIC-R management should attempt to recover the funds and restate the Financial Status Report in order to accurately reflect the project's expenses. If the funds cannot be recovered, disclosure of the overstatement in a note to the Financial Status Report should be considered.

Audit Finding**Recommendation****Management Action Plan**

Action To Be Taken: Current and future fiscal years will be corrected to ensure that employee benefits included in the Financial Status Report are calculated based on 20% of actual salaries instead of the employee benefit budgeted amounts retained by Treasury Board.

With regards to past fiscal years, I have been informed by the Project Financial Analyst, Sgt. Bob Drybrough, that funds resulting from the restatement of the Financial Status Report can not be recovered now and applied to past years.

The resulting changes will be disclosed in a note to the Financial Status, and will be visible in the annual budget/expense variances.

Responsibility Assigned To (Position): Financial Analyst, CPIC Renewal Project

Diary Date For Completion: 2003-01-31

Audit Finding**Recommendation****2. Unrecorded internal transfers of funds**

During our audit it was brought to our attention by CPIC-R accounting staff that five internal funds transfers were paid and/or received by CPIC-R in the past fiscal years but were not recorded in the Financial Status Report, that is the expenses to which these transfers related to were not recorded or reversed in the Financial Status Report.

This discrepancy results in an overall net overstatement of expenses of \$100,806.

Given that errors found relate to past fiscal years, CPIC-R management should attempt to recover the funds and restate the Financial Status Report in order to accurately reflect the project's expenses. If the funds cannot be recovered, disclosure of the overstatement in a note to the Financial Status Report should be considered.

Procedures should be implemented to ensure that all future funds transfers are processed and recorded in a timely manner.

Management Action Plan

Action To Be Taken: The funds transfers identified were recorded in TEAM, but were not recorded in the CPIC Renewal Project FMIS, and subsequently the Financial Status Report. As these funds transfers were used to pay for goods and services received from other RCMP sectors, there are no funds to be recovered. The past fiscal years restatement of the Financial Status Report resulting from these changes will be disclosed in a note to the Financial Status, and will be visible in the annual budget/expense variances. These transactions occurred in 1999/2000 and 2000/2001. Since that time all funds transfers have been recorded in the CPIC Renewal Project FMIS.

Responsibility Assigned To (Position): Financial Analyst, CPIC Renewal Project

Diary Date For Completion: 2003-01-31

Audit Finding**Recommendation****3. C wing fit-up costs**

In fiscal year 1999/2000 CPIC-R agreed to pay the costs to refit the C Wing of RCMP Headquarters, as per recommendation of PWGSC. However, since the C Wing was occupied by CPIC-R along with other tenants, such as the CIO, CPIC Services and IPIRS, the CIO agreed to pay for their portion of the costs. According to CPIC-R accounting the total costs of the C wing fit-up were \$2,346,500.93. Of this total 60% were to be paid by CPIC-R (\$1,407,900.56) and 40% were to be paid by the CIO (\$938,600.37). To date, the CIO reimbursed \$482,024 and a balance of \$456,576.37 remains outstanding and remains included in the Financial Status Report as part of the CPIC-R project expenses even though these expenses are not related to the CPIC-R project.

CPIC-R management should attempt to recover the funds and restate the Financial Status Report in order to accurately reflect the project's expenses. If the funds cannot be recovered, disclosure of the overstatement in a note to the Financial Status Report should be considered.

The above represents an overstatement of the expenses included in the Financial Status Report. In addition, the use of CPIC-R project funds for unrelated costs, such as fit-up costs for office space that is not occupied by the CPIC-R project, is inappropriate.

Management Action Plan

Action To Be Taken: I have been informed by the Project Financial Analyst, Sgt. Bob Drybrough, that as the expenditures occurred in 1999/2000, funds can not be recovered now and applied to 1999/2000. As well, in 2003/2004 Treasury Board funding will end, and the CIO Sector will be providing the required funding to the end of the Project. As a consequence, the CIO Sector will in effect be repaying the C Wing fit-up costs. The overstatement of \$456,576.37 will be disclosed in a note to the Financial Status Report.

Responsibility Assigned To (Position): Financial Analyst, CPIC Renewal Project

Diary Date For Completion: 2003-01-31

Audit Finding**Recommendation****4. Supporting documentation for expenses relating to fiscal years 1996 to 1999**

Supporting documentation for all expenses should exist however the supporting documentation (i.e. purchase orders, contracts, invoices etc.) for transactions selected in the audit sample for fiscal years 1996 to 1999 could not be obtained at the time of our audit. The reasons remain unknown. During these fiscal years, accounts payable supporting documents were kept by the Finance branch within Corporate Management & Comptrollership (CM&C). After 1999, procedures were implemented whereby CPIC-R accounting retained and filed copies of all supporting documentation. No problems were encountered in locating supporting documents after 1999.

We recommend that CM&C review procedures surrounding the filing, storing and tracking of accounts payable supporting documents in order to ensure the completeness of financial records.

Without proper supporting documentation it is impossible to provide assurance as to the accuracy of the project's expenses for these fiscal years.

Management Action Plan

Action To Be Taken: Full concurrence with recommendation. We will canvass our Regional offices for their documented procedures and will be reviewing and standardizing these in 2003-2004 as part of Internal Controls review.

Responsibility Assigned To (Position): Director, Accounting Operations & Internal Control

Diary Date For Completion: Preliminary progress report by December 2003