



**Final Report**

**RCMP International Operations Branch /  
Foreign Affairs Canada  
Memorandum of Understanding  
Audit**

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## Executive Summary

### Background

The Audit and Evaluation Committee of the RCMP, requested that Audit and Evaluation conduct an internal audit of the funds paid to Foreign Affairs Canada (FAC) by the International Operations Branch (IOB) with regards to the Memorandum of Understanding (MOU) established in October 12, 1988, between the Royal Canadian Mountain Police (RCMP) and FAC. The purpose of the audit was to provide reasonable assurance that the internal controls surrounding the financial accounting of mission (*related to first year mission fit-up only*) and program expenses related to the activities of Liaison Officers (LOs) operating in missions abroad are appropriate and compliant with the requirements of the MOU. The audit focussed on the financial data and controls surrounding the activities of LOs operating abroad for fiscal years ending March 31, 2002 and March 31, 2003.

### Conclusion

Based on the overall results of the audit and the conclusions reached for each of the audit objectives for the period under review, we conclude that overall the internal controls surrounding the financial accounting of first year mission fit-up expenses paid through IS process along with all program expenses are appropriate and transactions are compliant with the requirements of the existing MOU. Nevertheless, the audit identified specific areas of concern warranting attention as presented in the *Appendices A and B*.

### Main Audit Findings and Recommendations

- While supporting documentation for program expense transactions paid through the IS system was available, sufficient justification from FAC for first year mission fit-up expenses, paid through the IS system, for the creation of new LO positions abroad is not available. *Recommendation: IOB should ensure that the appropriate supporting documentation to justify mission expenses for first year fit-up costs are obtained and maintained.*
- Weaknesses in the authorization under section 32 of the Financial Administration Act (FAA) for funds transfers through the Interdepartmental Settlement (IS) process and under section 34 of the FAA for LO expense claims. *Recommendation: IOB, in consultation with Finance Branch, should ensure compliance with the FAA.*
- While most program expenses related to the activities of LOs in missions abroad are recorded in the RCMP corporate accounting system, certain types of program transactions such as LO advances and posting loans are recorded in a manual accounting system. *Recommendation: Follow-up on the possibility of recording such transactions in the corporate accounting system and ensure that back-up copies of the manual system are retained until the transition occurs.*

- Although it was concluded that the interpretation of allowable expenses used were reasonable and therefore compliant with Appendix A of the MOU, the definition of allowable costs, as stated in the current MOU is unclear and leaves room for interpretation. *Recommendation: Clarify definition in negotiations for new Interdepartmental MOU.*

## Main Report

### Background

In October 12, 1988, a Memorandum of Understanding (MOU) was established between the Royal Canadian Mounted Police (RCMP) and Foreign Affairs Canada (FAC) [*previously known as the Department of Foreign Affairs and International Trade (DFAIT)*]. The MOU recognized "that the RCMP activities in the law enforcement field have an international dimension and that the Department of External Affairs has responsibility for international relations". The MOU specified the terms of reference of RCMP Foreign Service Liaison and related responsibilities.

In May 1995, an amendment of the initial MOU was created "in order to establish an up-to-date inventory of the personnel carrying out the program of the RCMP at Canadian missions abroad, to address specific administrative matters and to harmonize the funding to support RCMP personnel".

At the present time, negotiations are taking place to finalize a new interdepartmental MOU with agency specific annexes which will replace previous agreements.

Within the International Operations Branch (IOB), the Foreign Services Unit is responsible for delivering its services through its 35 Liaison Officers (LOs) in various missions abroad. The mission and program expenses related to the Foreign Service Liaison are administered according to the specifications of the MOU between the RCMP and FAC.

The following table provides an overview of mission and program expenses by presenting their definition, examples of such expenses, their typical payment method and the organization held accountable/responsible for such expenses.

	Mission expenses		Program expenses	
<b>Definition</b>	- Expenses incurred for the establishment of LO positions abroad - Common services abroad expenses to maintain LO positions abroad		- Expenses incurred by LOs abroad for their day-to-day work	
<b>Examples as per Appendix A of the existing MOU</b>	- Staff quarters costs, fit-up capital costs, Canada based and/or locally engaged support staff expenses and overhead costs		- Salaries, travel, hospitality, relocation and Foreign Service Directives (FSD) allowances.	
<b>Payment method</b>	- Interdepartmental Settlement (IS) system for first year position costs	Annual Reference Level Update (ARLU) process for future years	IS system	Standard Payment System (SPS)
<b>Accountability / Responsibility</b>	RCMP	FAC <sup>1</sup>	RCMP	RCMP

<sup>1</sup> For more details, refer to the Audit Finding A1 in Appendix A.

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In mid May 2003, the Audit Committee, chaired by the Commissioner, requested that the Audit & Evaluation conduct an audit of the funds paid to FAC by the IOB with regards to the existing MOU.

## **Audit Objectives**

The purpose of the audit was to provide reasonable assurance that:

- A) the internal controls surrounding the financial accounting of mission and program expenses related to the activities of LOs operating in missions abroad, as prescribed in the existing MOU between the RCMP and FAC are appropriate, and;
- B) the mission and program expenses paid to FAC with regards to the activities of LOs operating abroad are compliant with the existing MOU between the RCMP and FAC.

## **Scope**

The audit focused on the financial data and controls surrounding the activities of LOs operating abroad for fiscal years ending March 31, 2002 and March 31, 2003.

Although the original objectives and scope of the audit included the assessment of both mission and program expenses, it was determined, as explained in Appendix C, that the RCMP is neither responsible nor accountable for mission expenses paid through the ARLU process to FAC. Hence, such financial transactions were not examined in the course of the audit.

## **Approach**

The audit work was carried out starting in June 2003 and was completed in April 2004. It was conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that audit objectives are achieved. The audit included various tests, as considered necessary, to provide such assurance. These tests included, but were not limited to, interviews, observations, walkthroughs, review of supporting documentation, sampling of transactions and analytical reviews. The audit criteria used to develop the required audit tests were based on relevant policies and regulations, applicable criteria for control and the existing MOU.

## **Audit Team**

The internal audit team was comprised of the following auditors:  
Raffaella Bertorelli, Acting Director Internal Audit - Corporate Infrastructure Services  
Sandra Lopes, Financial Auditor  
Isabelle Godin, Financial Auditor

## Audit Results

Based on the overall results of the audit and the conclusions reached for each of the audit objectives for the period under review, we conclude that overall the internal controls surrounding the financial accounting of first year mission fit-up expenses paid through the IS process along with all program expenses are appropriate and transactions are compliant with the requirements of the existing MOU. Nevertheless, the audit identified specific areas of concern warranting attention as presented in the in *Appendices A and B*.

## Appendix Format

The audit findings in *Appendices A and B* are presented using the following format:

<b>Audit Objective</b>		The specific objective that was examined during the audit
<b>Audit Findings</b>	<i>Criteria</i>	What should be in place - based on recognized control frameworks & policies
	<i>Assessment of the Current Situation</i>	What is in place - based on the evidence gathered by Internal Audit during the audit
	<i>Potential Risk</i>	Potential risk/impacts associated with the current situation if audit recommendations are not implemented
<b>Audit Recommendation</b>		Internal Audit's recommendation to mitigate the risks.
<b>Management Action Plan</b>	<i>Actions to be taken</i>	Response / action plan provided by management regarding their decision as to how they are going to implement the audit recommendations ( <i>Outstanding at this time</i> )
	<i>Person Responsible</i>	
	<i>Project Schedule</i>	

## Signature:

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Sylvain Michaud, CA, CIA  
Acting Director General  
Audit and Evaluation

## Appendix A: Audit Findings - Internal Controls

**Audit Objective A:** The internal controls surrounding the financial accounting of mission and program expenses related to the activities of Liaison Officers (LOs) operating in missions abroad, as prescribed in the existing MOU between the RCMP and FAC are appropriate.

### Audit Finding A1: Supporting documentation for expenses

**Criteria** - As mentioned in Appendix C, IOB uses the IS system to pay FAC for mission fit-up expenses, generally incurred in the first year when a new LO position is created in a mission abroad. To establish the amount to be transferred for each new position abroad, FAC provides IOB with a costing template which indicates all of the forecasted expenses that will be incurred for the new position abroad. Once agreement is reached by FAC and IOB over the amounts presented in the costing templates, an IS transfer is made as pre-payment for the expected mission expenses.

The IS process is a method of payment which allows government departments to settle financial transactions with each other. The funds being transferred originate from the RCMP's budget and the RCMP remains accountable to report on the use of these funds.

FAC provides the RCMP with monthly prepaid reports which indicate the amount of funds, received through the IS system for mission fit-up costs, spent on a cost recovery basis, and what balance remains available for future expenses. FAC's cost recovery accounting system is based, according to the 2002/03 FAC Performance Report, "on a share of the mission's overhead and common service budget and on the proportion of the co-locator's staff to the mission's total staff". The prepaid reports do not provide detailed information regarding the type of fit-up expenses incurred. The actual amount of expenses attributable to the creation of a new RCMP LO position are not tracked and the prepaid report, along with the costing templates are the only supporting documentation that the RCMP receives from FAC to justify the mission fit-up costs paid through the IS system.

Day-to-day program expenses related to the activities of LOs operating in missions abroad can also be paid through the IS system. In this case, FAC sends an invoice to the RCMP identifying the various program expenses for which it requires payment. The supporting documents (i.e. invoices, expense claims, etc.) for FAC's monthly invoice are kept in each mission abroad and are accessible to the RCMP upon request.

**Assessment of the current situation** - During the audit, it was determined that, upon request from the missions, the supporting documentation related to the monthly FAC invoices were available for the majority of program expense transactions, paid through the IS system, selected in the audit sample. It was concluded that appropriate procedures are in place for the retention of supporting documents for program expenses.

However, a weakness was noted with regards to the first year mission expenses, paid through the IS system, for the creation of new LO positions abroad. It was noticed that for certain



cases selected, the RCMP did not retain copies of the costing templates related to the mission fit-up costs prepared and sent by FAC. Without the costing templates, IOB does not have a reference document which provides a breakdown of how the funds being transferred are planned to be spent. This is especially important given that no other supporting documents, such as invoices, are available to justify the RCMP's mission fit-up costs. The sole related documents which are available are the FAC prepaid reports however IOB explained that such reports are not sufficiently detailed to account for their actual mission fit-up costs. IOB explained that they've requested greater justification for expenses from FAC however to date FAC has been unable to provide it due to limitations in their reporting processes.

**Potential Risks** - The RCMP's accountability for first year mission fit-up expenses related to the creation of LO positions in missions abroad is hampered due to insufficient supporting documentation for these transactions provided by FAC. In addition, without the necessary detailed information from FAC on how the funds are spent, it is impossible for the RCMP to determine the accuracy and appropriateness of the expenses paid, for example, a transaction may be processed through the IS transfer for first year mission expenses however it might also have been covered in the payment of program expenses.

***Audit Recommendation A1:***

***IOB should ensure that the appropriate supporting documentation to justify mission expenses for first year fit-up costs are obtained and maintained. In the course of the negotiations for the new Interdepartmental MOU with agency specific annexes, the roles and responsibility surrounding the provision of supporting documentation for actual expenses should be discussed.***

**Management Action Plan A1:**

Action To Be Taken: IOB is negotiating with FAC a RCMP-specific Annex to the MOU on Operations and Support at Missions Abroad. In the course of these negotiations, IOB has requested that FAC provide this supporting documentation. FAC has replied that their financial systems do not allow them to break out department-specific financial information. The matter is still under discussion between finance officials of the two organizations, and the result will be incorporated in the RCMP Annex to the MOU with FAC.

Responsibility Assigned To (Position): Director IOB

Diary Date For Completion: March 31, 2005

**Audit Finding A2: Delegation of authority**

**Criteria** - Consistent with the Delegation of Financial, Contracting and Asset Management Authorities - RCMP managers' guide to the exercise of delegated authorities, the availability of funds for mission and program expenses must be confirmed before a contractual arrangement is concluded, as per Section 32 of the Financial Administration Act (FAA). In addition, expenses must be supported by appropriate documentation to justify that goods have been received, work or services rendered and that the payment requested is according to the arrangements of the contract or is reasonable, prior to authorization under Section 34 of the FAA is provided. Records must therefore be maintained as evidence that the appropriate controls surrounding approvals and delegated authorities have been implemented.

**Assessment of the current situation** - During the audit, we noticed that no formal approval, as required under the Section 32 of the FAA, was obtained for attesting the availability of funds prior to funds transfers, processed through the IS system.

Also, the audit team noticed that IOB coordinators certified Section 34 of the FAA for LO expense claims received from missions abroad, without having any supporting documents (such as invoices and receipts) to justify that goods have been received, work or services rendered. This control weakness stems from the need for practicality. Given the distance/location of the LOs, all supporting invoices/receipts would need to be mailed or faxed and this would represent delays in payments along with additional costs. To compensate for the absence of supporting documentation, the IOB coordinators rely on their knowledge of an LO's activities to assess the reasonableness of all claims. In addition, the LOs are required to provide all supporting documentation upon request. Audit tests were performed and required that, for a sample of transactions, the LOs transmit supporting documents for their claims. No significant problems were encountered in obtaining the relevant supporting documents and no significant errors were detected when comparing the selected expense claims to the supporting documents.

**Potential Risks** - Failure to comply with Section 32 and Section 34 of the FAA could increase the risk of inappropriate transactions being inadvertently approved and paid. Personnel authorized to exercise these signing authorities would be held accountable for any improper expense of public funds for which they are responsible.

***Audit Recommendation A2:***

- a) IOB, in consultation with Finance, should ensure that Section 32 of the FAA authorization is obtained by the appropriate level of authority, for all program and the mission expenses paid through the IS system, prior to the payment.***
- b) IOB coordinators, to whom authorities for financial administration have been delegated, are responsible for ensuring that they understand the extent of their***

*authority and financial accountability. Therefore, they should ensure that they have evidence justifying that goods were supplied or services rendered for each transaction in the LO expense claim before they certify and sign under the Section 34 of the FAA.*

**Management Action Plan A2:**

Action To Be Taken:

a) IOB is currently ensuring that Section 32 authorization is appropriately performed prior to payment of all program and mission expenses paid through the IS system.

b) IOB will require that all LO expense claims be accompanied by copies of supporting records (originals to be kept at the missions), and that such documents be reviewed by the IOB LO coordinators prior to authorizing the claim under Section 34 of the FAA.

In addition, IOB is in the process of improving financial control this calendar year, whereby all LOs are being provided with section 34 authority under the FAA. This will allow them to certify, under section 34 of the FAA, mission expenses which the RCMP is currently relying on FAC for certification. This amendment will be included in the MOU currently being negotiated between FAC and the RCMP. This new mechanism will provide an alternative payment process, returning control to the RCMP, from FAC, as well as the necessary documentation and compliance with policies.

Responsibility Assigned To (Position): Director IOB, in consultation with Director General Finance

Diary Date For Completion: December 31, 2004

**Audit Finding A3: Manual accounting system**

**Criteria** - All the program financial transactions related to the activities of LOs operating in missions abroad should be properly recorded in the RCMP's corporate accounting system (i.e. TEAM (SAP)). This ensures the completeness and integrity of the corporate accounting system.

**Assessment of the current situation** - During the audit, we noticed that all program expenses related to the activities of LOs in missions abroad are recorded in the RCMP's corporate accounting system (TEAM (SAP)).

However, exceptions were noted for certain types of program transactions such as LO advances and posting loans. For these two types of transactions, IOB records the details in a manual accounting system. Only consolidated totals are recorded in TEAM on a monthly basis. Therefore the details of these transactions, which are important given they represent the

respective amounts due from/to LOs, are not part of the RCMP corporate accounting system. Furthermore, no back-up of the manual accounting system exists.

It should be noted that the audit did not reveal any significant errors in the transactions recorded in this manual accounting system.

The non-use of TEAM for the above transactions stems from the fact that TEAM would require some system programming changes to efficiently process these transactions. System changes must be approved and implemented through the RCMP Business Systems Branch. All change requests are evaluated by the TEAM Change Management Board based on the nature of the proposed changes and the priority of such changes. It is noteworthy to mention that IOB has presented a change request to the TEAM Change Management Branch, to address this issue.

**Potential Risks** - Manual accounting systems often increase the risk of errors which affects the accuracy of financial data. In addition, without proper back-up procedures the risk that manual data is lost or destroyed is increased.

***Audit Recommendation A3:***

- a) *IOB should follow-up with RCMP Business Systems Branch to determine the status of their change request. If significant delays are expected, discussions should be held to consider alternate procedures.*
- b) *IOB should ensure that sufficient backup of the manual accounting system is maintained and filed in a location other than where the original manual accounting system is kept. Also, IOB should regularly monitor balances of LO advances and posting loans.*

**Management Action Plan A3:**

Action To Be Taken: Follow-up on the possibility of recording such transactions in the corporate accounting system. Provide alternate system in the interim and ensure that back-up copies are retained.

Responsibility Assigned To (Position): Director General Finance in consultation with Director IOB

Diary Date For Completion: March 31, 2005

## Appendix B: Audit Findings - Compliance to MOU

**Audit Objective B:** The mission and program expenses paid to FAC with regards to the activities of Liaison Officers (LOs) operating abroad are compliant with the existing MOU between the RCMP and FAC.

**Audit Finding B1: Compliance with the existing MOU**

**Criteria** - Given the existence of a MOU between the RCMP and FAC, all program and mission expenses for fiscal years ended March 31, 2002 and March 31, 2003 should comply with the Allowable Costs defined in Appendix A of the MOU.

**Assessment of the current situation** - The definition of allowable costs as stated in the current MOU is not clear and leaves room for interpretation. Based on the sample of program expenses selected in the course of this audit, it was concluded that the interpretation of allowable expenses used were reasonable and therefore compliant with Appendix A of the MOU. However, given the scope limitation described in Appendix C, compliance with the MOU for mission expenses paid through the ARLU process was not examined.

**Potential Risks** - An unclear definition of allowable costs may cause confusion and lead to inappropriate costs being charged.

***Audit Recommendation B1:***

*IOB should ensure that a clear definition of allowable costs for both program and the mission expenses is negotiated in the new Interdepartmental MOU with agency specific annexes.*

**Management Action Plan B1:**

**Action To Be Taken:** The new MOU on Operations and Support at Missions Abroad is more detailed and provides clear guidance on these expenses at Parts 4.0 (Governance), 6.0 (Human Resources), 7.0 (Property and Material) and 8.0 (Communications and Information / Technology). Moreover, the new MOU provides a dispute resolution mechanism to address conflicts of interpretation. IOB has already implemented a process to review / capture / retain the first year post opening costs (GIP-726-5).

**Responsibility Assigned To (Position):** Directors IOB & Director General Finance

**Diary Date For Completion:** March 31, 2005

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## **Appendix C: Responsibility and accountability for mission expenses**

In order to clarify which organization, either the RCMP or FAC holds the responsibility and accountability for mission expenses paid through the ARLU process, the following sources were examined:

- The existing MOU established between the RCMP and FAC, dated October 12, 1988, states that: “While members of the Force, they (LOs) will serve as an integral part of the Canadian mission concerned and will be responsible to the Head of Mission”. The Department of Foreign Affairs and International Trade Act states that “Except as otherwise instructed by the Governor in Council, a head of mission shall have the management and direction of his mission and its activities and the supervision of the official activities of the various departments and agencies of the Government of Canada in the country or portion of the country or at the international organization to which he is appointed”.
- According to the TBS Common Services Policy, FAC is considered a Common Service Organization (CSO) offering mandatory services which are mandated under legislation and not through TBS policies. The appendix E of the Common Services policy, section 3, states that: DFAIT “manages the procurement of goods, services, and real property to meet its overseas requirements and those of other departments and agencies as a common service. These services are mandatory for departments to use when required to support Canada's diplomatic and consular missions abroad. This is consistent with the provisions of the Department of External Affairs Act whereby the minister is responsible for managing Canada's diplomatic and consular missions”. Also, it states that: “Missions abroad have been delegated purchasing authority outside Canada under the Department of Public Works and Government Services Act”. It specifically states that the CSO is accountable for “establishing an environment (...) oriented toward client service (...) for example ease of administration (minimum paper burden, reporting in a manner that meets the requirements of client departments); and (...) monitoring business volumes, levels of performance, resource use, financial results, and the implications of providing individual common services and reporting on these factors annually in Part III of the Estimates or in annual reports”.
- The existing MOU between the RCMP and FAC states that: “For further deployment or redeployment of RCMP position abroad, the provision of all related resources will be the responsibility of the RCMP”. Therefore the RCMP transfers funds to FAC through the ARLU process to cover its mission expenses, except for when a new position abroad is established, in which case the funds are transferred through the IS system. The FAC Common Services Abroad Planning and Coordination Division (SMC) - Partner 101 guide, section 15 Common Services Abroad Charge (CSAC), states that: “Partner departments normally transfer funding for the Common Services Abroad Charge through an Inter-departmental Settlement (IS) in the first year and, depending on the time of year, occasionally in the second year. They transfer future year funding through the Annual

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Reference Level Update (ARLU)”.

- As per confirmation received from TBS, if the funds transferred are voted by parliament to a specific department, then it is the responsibility of the department who receives the funds to report on these funds to parliament through its Report on Plans and Priority (RPP) and Departmental Performance Report (DPR). In fact, the RCMP Finance Branch also confirmed that the RCMP funds for mission expenses are transferred permanently, through the ARLU process, from the RCMP budget and to the FAC budget. Consequently, the accountability to report on the use of these funds is also transferred to FAC.

The above references confirm that mission expenses related to the activities of LOs operating in missions abroad are under the responsibility and accountability of FAC, when such expenses are paid through an ARLU transfer. However, if funds are not permanently transferred, such as when transferred through the IS system, then the responsibility to report on the use of these funds remains with the RCMP.

During the audit, we noticed that the notions of responsibility and accountability with regards to the funds permanently transferred from the RCMP budget to FAC budget, through the ARLU process, for mission expenses related to the activities of LOs operating in missions abroad were not clear and well understood between the RCMP and FAC.

The IOB considers itself responsible and accountable for the mission expenses related to the activities of LOs operating in missions abroad, since the funds originate from the RCMP’s budget and are simply transferred to FAC. IOB feels that it should receive an account on an annual basis of how the funds were spent by FAC for the RCMP. Such information would be particularly useful in managing the LO program. Several requests for such information have been made but none have yet been received. FAC has explained that financial information by mission abroad is available on a consolidated basis however they cannot provide an allocation by partner of how the funds were spent during the year. Each mission is provided annually with its budget and is responsible for its total expenses. FAC’s responsibility lies in reporting on a consolidated basis to Parliament under its DPP, RPP and financial statements. Therefore, it is accountable to Parliament rather than to the RCMP. There exists no duty to report to the RCMP which explains the limitations imposed on the scope of the internal audit.

The confusion over the notions of responsibility/accountability and roles and responsibilities may continue to impede the achievement of the needs and expectations of the partners. For example, the lack of reporting of results to partner organization such as the RCMP, by FAC, impairs the decision-making process for the RCMP. Therefore it is suggested that in the course of negotiations for the new Interdepartmental MOU with agency specific annexes there be discussions over the reporting needs of the RCMP in order to appropriately manage the Liaison Officer Program