

**TRANSPORTATION SAFETY
BOARD OF CANADA**

**COMPLIANCE AUDIT REPORT
ON SECTION 32**

APRIL 20th, 2006

**Submitted by:
Samson & Associates
85, rue Victoria
Gatineau, Québec, J8X 2A3
(819) 772-0044
(819) 595-9094 (fax)
www.samson.ca
samson@samson.ca**



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. INTRODUCTION.....	3
II. AUDIT PARTICULARS.....	4
1. AUDIT OBJECTIVES	4
2. SCOPE OF THE AUDIT	4
3. METHODOLOGY AND APPROACH.....	5
4. AUDIT CRITERIA	6
III. OBSERVATIONS AND RECOMMENDATIONS.....	7
1. COMPLIANCE TO SECTION 32 OF THE FINANCIAL ADMINISTRATION ACT.....	7
1.1 Justification for contracting out	7
1.2 Appropriate Requisition Documentation	8
1.3 Contracts are signed before the start date	8
1.4 Clear justification for contracts approved by appropriate authority	8
1.5 Documented sole source justifications must be prepared and on file.....	9
1.6 Availability of funds	9
2. ASSESSMENT OF THE ADEQUACY OF INTERNAL CONTROLS AND PROCESSES. 10	
2.1 Management of TSB	10
IV. SUMMARY OF RECOMMENDATIONS.....	12
V. MANAGEMENT RESPONSE.....	13
Appendix A: Audit Criteria	

EXECUTIVE SUMMARY

Background

The Transportation Safety Board of Canada (TSB) is an independent agency of the Federal Government and exercises its activities through its Head Office in Gatineau, an Engineering Laboratory in Ottawa, and eight regional offices. The Head Office provides assistance and guidance to the various managers and administration officers by developing policies, guidelines and training to assist them in the exercise of their responsibilities. Those responsibilities include the need to comply with the section 32 of the Financial Administration Act (FAA), the Treasury Board Policy on Commitment Control and the TSB Internal Policies and Guidelines regarding the procurement processes.

Objectives and Scope

In February 2006, a compliance audit was required by TSB with the objectives to determine the extent of compliance to section 32 of the *Financial Administration Act*, the Treasury Board policy on Commitment Control and the TSB policy on Commitment Accounting and to assess the adequacy of internal controls with respect to financial commitments.

The scope of this audit covered transactions from the period of April 1, 2005 to February 28, 2006. Of the 79 transactions reviewed, 60 transactions were chosen from the Accounting Transactions Detail Report and 19 transactions from the Outstanding Commitments Report.

Methodology

The audit included interviews, the review of relevant documentation and on-site examination of a sample of transactions in each of the key areas covered by the assignment.

Conclusion and Recommendations

Overall, we found that the procurement and contracting activities at TSB were well executed and complied with the audit criteria. However, there are areas where compliance and business processes could be strengthened as described below.

The Director General Corporate Services should:

- Ensure that the Administrative Procedures Manual be updated to reflect current practices and directives and be accessible to TSB managers and staff.

The contracting and acquisition activities could be improved by establishing a standardized file identification system. This system would ensure that copies of all contracts are on file in a central location, thus allowing the contracting activities to be independently monitored and information more easily traceable. It is recommended that:

- Appropriate training and instructions be provided to personnel regarding the procurement process and file keeping; and
- The importance of the following be reinforced:
 - requisition documentation in the procurement process;
 - monitoring procedures regarding contracts signing before starting date;
 - commitment process regarding traveling expenditures and credit card transactions; and
 - sole sourcing justification when applicable.

I. INTRODUCTION

The Transportation Safety Board of Canada (TSB) is a small agency of the federal government created in 1990 with a mandate to advance safety in the marine, rail, pipeline and aviation modes of transportation by:

- conducting independent investigations and, if necessary, public inquiries into transportation occurrences in order to make findings as to their causes and contributing factors;
- reporting publicly on its investigations and public inquiries and on the related findings;
- identifying safety deficiencies as evidenced by transportation occurrences;
- making recommendations designed to eliminate or reduce any such safety deficiencies; and
- conducting special studies and special investigations on transportation safety matters.

The TSB operates independently from other government departments and agencies and reports to Parliament through the President of the Privy Council. The TSB has approximately 230 employees of which 125 work at the Head Office in Gatineau, Quebec, 25 work at the Engineering Laboratory in Ottawa, Ontario, and the remainder work in the eight regional offices located across the country.

From a financial perspective, the TSB operates in a decentralized manner. There are currently 47 delegated persons who can sign under section 32 of the *Financial Administration Act* (FAA). There are 18 administrative officers who are responsible to record commitments in the departmental financial management system, some of whom also have signing authority under section 32.

Commitment authority can only be exercised if there are sufficient unencumbered funds available to discharge the obligation. The TSB currently utilizes the G/X departmental financial management system; therefore, directorates must ensure that:

1. Commitments are recorded in GX prior to incurring a financial liability.
2. Recorded commitments are reviewed by managers on a regular basis and amendments are entered into GX if required.
3. Commitments should be set up in GX prior to entering into contractual arrangements.
4. Open commitments are closed and outstanding balances are released on final payments or when it is determined that no further liability exists.

Generally, salary payments are not committed in GX.

II. AUDIT PARTICULARS

1. Audit Objectives

The objectives of this compliance audit are to:

- determine the extent of compliance to section 32 of the *Financial Administration Act*, the Treasury Board policy on Commitment Control and the TSB policy on Commitment Accounting; and
- assess the adequacy of internal controls with respect to financial commitments.

2. Scope of the Audit

The scope of this audit is to:

- review of current policy requirements;
- review of controls, monitoring and reporting systems (electronic and manual);
- review of current compliance levels against the approved policies;
- document the rationale for non-compliance, where applicable;
- identify best practices, where applicable;
- identify areas for improvements;
- assess the completeness and reliability of commitment information in the departmental financial management system;
- validate findings with Finance Division; and
- formulate recommendations.

The scope of this audit has included Head Office, the Engineering Branch and the regional offices. Approximately 1,500 commitments and 5,000 payment transactions were processed in the departmental financial management system during the period from April 1, 2005 to February 28, 2006.

Of the 79 transactions reviewed, 60 transactions were chosen from the Accounting Transactions Detail Report representing \$279,480 out of \$5,333,336 and 19 transactions were chosen from the Outstanding Commitments Report representing \$384,381 out of \$2,061,620.

The audit was conducted between February 20 and April 7, 2006.

3. Methodology and Approach

The audit has been conducted in accordance with the standards and requirements set out in the Government of Canada Treasury Board Secretariat's Policy on Internal Audit, the Institute of Internal Auditors and standards for assurance engagements recommended by the Canadian Institute of Chartered Accountants.

3.1 OVERALL METHODOLOGY

3.1.1 Planning Phase

During the planning phase, the audit team:

- reviewed Treasury Board Policy on commitment control and the Financial Administration Act;
- reviewed the TSB Organizational Chart, the Administrative Procedures Manual and the Financial Signing Authorities;
- reviewed previous internal audit reports conducted at TSB;
- reviewed TSB web site and its Business Plan;
- examined selected case files to gain an understanding of their content;
- established audit criteria and an audit program to undertake the audit; and
- completed the audit Engagement Plan and presented it to the Board.

3.1.2 Field Work Phase

During the work phase the audit team:

- realized the sampling and examination of files;
- entered data and findings in a summary worksheet; and
- maintained an audit trail showing the structure and the rationale of the audit approach.

3.2 SAMPLING METHODOLOGY

In order to test the internal controls, Samson & Associates has examined the Accounting Transactions Detail Report and the Outstanding Commitment Report that were provided by TSB's Finance and Administration Manager. The amounts under \$200 in the Transactions Detail Report were segregated as these amounts are not required to be committed into the financial system as per the limit set by TSB. Our findings established that the total population over \$200 to be 3,332 transactions (3,149 under \$5,000 and 183 over \$5,000) representing \$5,333,336 (\$3,322,091 under \$5,000 and \$2,011,245 over \$5,000). Our sampling methodology consists of a dual approach including statistical sampling, using a formula generally accepted by the Canadian Institute of Chartered Accountant (CICA) and a judgmental approach for additional transactions with a high dollar value amount.

For the statistical sampling, a 95% factor of confidence level was used to reflect a high degree of risk with an error margin of 5%. The result was a sample size of 60 transactions to audit.

For the judgmental sampling, an additional 19 transactions were chosen resulting in a total of 79 transactions reviewed.

4. Audit Criteria

The Audit Criteria clarifies the audit objectives and forms a basis for the work plan and the conduct of the audit. For this reason, they originate from Acts and Regulations, Government Policy, Guidelines or Standards, guidance provided by the Office of the Comptroller General, and/or simply from generally accepted good-practice models developed by recognized experts or the auditor with management.

Consequently, audit criteria used in this audit project are specific to the two audit objectives previously identified. See Appendix A for detailed criteria.

III. OBSERVATIONS AND RECOMMENDATIONS

1. Compliance to Section 32 of the Financial Administration Act.

Our findings indicate that five of the thirteen criteria used to assess compliance to Section 32 of the FAA, the Treasury Board Policy on commitment control and TSB policy on commitment accounting were met by the transactions examined during our audit. In particular, the following practices are highlighted:

- Clear requirements definition and statement of work were found to be existent with the appropriate requisition documentation.
- The requirements definition and statement of work were approved by the appropriate authority and signature cards were kept in order and up to date.
- There are clear and appropriate contract terms and conditions that are approved by officials with appropriate authority.
- We noted that all the outstanding commitments were still current and being monitored closely by managers and administration officers. On final payment or when it is determined that no further liability exists, open commitments are closed and outstanding balances released.

However, the audit revealed some specific areas where compliance issues and value for money can be strengthened. These are discussed further in this report followed by recommendations to address these issues.

1.1 Justification for contracting out

Our audit revealed that the justification for contracting out and the analysis of alternative solutions to the acquisition of goods and services were not always found to be existent in the supplier's file. More specifically, we found that in five occasions there was no documentation on file comparing alternative solutions and demonstrating how the procurement process provided best value or value for money for the organization. Most of the occasions related to information technology (IT) services (4 out of 5). In these five occasions, three were under \$1000, one was \$7,200 and one was \$29,700. Although most of the contracts were of low dollar value, sole source justification became less a factor. We also noticed that the documentation is found in numerous locations, the file identification and file keeping is not standardized or misunderstood by the internal resources and is sometimes hard to locate as also described in section 2 of this report.

RECOMMENDATION 1

The Director General Corporate Services should ensure that appropriate training and instructions be given to personnel regarding the procurement process and file

keeping.

1.2 Appropriate Requisition Documentation

It was found that requisition documents are being used in the majority of the transactions. However, we noted three occasions out of 60 transactions where the appropriate requisition documentation were missing (room rental for training, internet services and plane rental). These occasions seem to be isolated as there is no common factor noted between them. Missing requisition documents cannot provide assurance that the contracting activities are carried out in accordance with Treasury Board Contracting Policy.

RECOMMENDATION 2

Since the number of deficiencies were minimal, an internal memo to procurement personnel reminding the importance of the requisition documentation in the procurement process should be sufficient.

1.3 Contracts are signed before the start date

It was found that the contract was not signed by the supplier in one occasion out of eight transactions requiring contracts. The one exception noted was for obtaining internet services.

RECOMMENDATION 3

It is recommended that the Director General Corporate Services reinforce monitoring procedures to ensure that contracts are signed before the contract start date.

1.4 Clear justification for contracts approved by appropriate authority

It should be noted in one occasion in which a supplier's file did not contain justification for an amendment (internet services). This was partially due to problems regarding contract administration support and responsibilities between divisions. This relates also to the observations on criteria 2.1. This could decrease the ability of the organization to effectively monitor the contracting activities.

RECOMMENDATION 4

We recommend that files be established to provide a complete audit trail and that clear responsibilities of file keeping be developed between divisions. This relates also to the recommendations in section 2.

1.5 Documented sole source justifications must be prepared and on file

In the course of our audit, it is noted in two occasions that it was difficult to determine if a competitive process had taken place because of problems in locating the original RFP file. TSB cannot obtain the assurance that the organization is getting best value for its money.

RECOMMENDATION 5

All suppliers' accounts payable files should contain justification for sole sourcing when applicable. Also, the suppliers' files should contain a reference to the original RFP file to provide a proper audit trail and to meet Treasury Board Contracting Policy.

1.6 Availability of funds

During our audit, we observed that funds were not committed against their respective budgets in 13 occasions out of 60 transactions. Of the 13 occasions, nine referred to traveling, two referred to goods, one referred to training and one to consulting. It was also noted that out of the nine traveling transactions, five were for investigation purposes which could be justified due to the urgency of the situation. There were seven transactions under \$500 and only one over \$800 (this transaction was for training at \$7,200). It was also noted that out of the 13 occasions, four were credit card related. The internal policy allows payment up to \$200 without committing, but this ceiling limit is often exceeded.

RECOMMENDATION 6

We recommend that the Director General Corporate Services reinforce the importance of fund commitment process regarding traveling expenditures and credit card transactions to employees with commitment authority.

2. Assessment of the adequacy of internal controls and processes

It is our findings that four of the six criteria used to assess the adequacy of internal controls and processes were met by the organization during our audit. In particular, the following practices are highlighted:

- The decision making process for finance resource allocation permits decisions to be made quickly. More specifically, a Business Plan defines corporate priorities and identifies key initiatives in support of these priorities. Budgets are also developed and monitored on a regular basis.
- The Board's financial system tracks and reports information that is relevant for management and decision making purposes. Monitoring plans and budgets are produced and carried out annually. Sufficient and relevant information is identified and communicated in a timely manner to enable staff to perform their assigned responsibilities and to monitor activities to make appropriate decisions. More specifically, the GX financial information system tracks and reports the required financial information. The current procedures require the various Administrative Officers to review and report on a monthly basis on the status of their respective open commitments. After interviewing the Finance and Administration Manager and various Administration Officers, we feel that the process and budgets are closely monitored. This meets the requirements of Section 32 of the Financial Administration Act and provides good financial information for decision making.

Furthermore, the audit also revealed some specific areas where the internal control and processes can be strengthened. These are discussed further in this report followed by recommendations to address these issues.

2.1 Management of TSB

TSB provides guidance and support to its staff and regional offices through the Corporate Services Directorate and its various Divisions, such as, Finance and Administration, Human Resources, Information Management and Informatics. The responsibility for the input of commitments into the financial system (G/X) has been delegated or assigned to the Administration Officers in the various Branches and Regions.

An Administrative Procedures Manual was developed to guide and assist managers and staff in carrying out their responsibilities. This manual seems to be very explicit and detailed, but unfortunately does not reflect the current situation and directives at TSB (last updated in January 1998). Also, being a decentralized organization, the responsibilities of contracting and acquiring goods are divided among various sectors and regions. Therefore, the documentation is found in numerous locations, the file identification and file keeping is not standardized and is sometimes difficult to locate. This results in an increased risk of errors and non-compliance to Treasury Board Policy, the Financial Administration Act and TSB internal policies.

RECOMMENDATION 7

The Administrative Procedures Manual should be updated to reflect current practices and directives and be accessible to TSB managers and staff. Also, the effectiveness and efficiency in the contracting and acquisition activities could be improved by establishing a standardized file identification system. This system would ensure that copies of all contracts are on file in a central location, thus allowing the contracting activities to be independently monitored and information more easily traceable.

IV. SUMMARY OF RECOMMENDATIONS

- The Director of Corporate Services should ensure that appropriate training and instructions be given to personnel regarding the procurement process and file keeping.
- The Directorate of Corporate Services should reinforce the importance of the requisition documentation in the procurement process to procurement personnel.
- The Director of Corporate Services should reinforce monitoring procedures to ensure that contracts are signed before the contract start date.
- All supplier files should contain justification for sole sourcing when applicable. Also, the supplier file should contain a reference to the original RFP file to provide a proper audit trail and to meet Treasury Board Contracting Policy.
- We recommend that the Directorate of Corporate Services reinforce the importance of the fund commitment process regarding traveling expenditures and credit card transactions to employees with commitment authority.
- The Director of Corporate Services should ensure that the Administrative Procedures Manual be updated to reflect current practices and directives and be accessible to TSB managers and staff. Also, the effectiveness and efficiency in the contracting and acquisition activities could be improved by standardizing a part of the process such as the file identification and file keeping by establishing a common log so information could be easily retraceable.

V. MANAGEMENT RESPONSE

The Director General of Corporate Services stated that the procurement process and file keeping was also a concern in the past and that procedures were developed last year for standardizing some aspects of the procurement process. The staff turnover may have contributed to documents being misfiled and the process not having been fully understood. The Manager of Finance and Administration will review and update, if needed, the actual procedures and guidelines and will inform appropriate internal personnel.

Management feels that the other audit findings might not justify a general approach across the organization since the non compliant instances were mostly of a low dollar value amount and were mostly related to the observation above. Therefore, management may elect to reinforce the actual procedures by issuing a reminder on the existence of the procurement and the updated commitment processes.

Appendix A: Audit Criteria

Objective # 1: *To determine the extent of compliance to section 32 of the Financial Administration Act (FAA), the Treasury Board Policy on commitment control and TSB policy on commitment accounting.*

Criteria 1.1: Justification for contracting out including an analysis of alternatives is conducted and well documented.

Criteria 1.2: Clear requirements definition / statement of work (SOW) exist.

Criteria 1.3: The SOW is approved by appropriate authority.

Criteria 1.4: A purchase order (PO) exists on file.

Criteria 1.5: Contracts are signed before the start date.

Criteria 1.6: There are clear and appropriate contract terms and conditions.

Criteria 1.7: Contracts are approved by officials with appropriate authority.

Criteria 1.8: If applicable, there is clear justification for contract amendments.

Criteria 1.9: If applicable, contract amendments are approved by officials with appropriate authority.

Criteria 1.10: If applicable, sole source is justified.

Criteria 1.11: Availability of funds is verified before a contractual arrangement is entered into.

Criteria 1.12: The commitments of funds are recorded against budget on a timely manner.

Criteria 1.13: On final payment or when it is determined that no further liability exists, open commitments should be closed and outstanding balances released.

Objective # 2: *To assess the adequacy of internal controls and processes.*

Criteria 2.1: The management of TSB is organized with sufficient financial resources, facilities, human resources and information technology.

Criteria 2.2: Roles and responsibilities are defined and communicated.

Criteria 2.3: The decision making process for finance resource allocation permits decisions to be made quickly.

Criteria 2.4: There is a financial system that tracks and reports information that is relevant for management and decision making purposes.

Criteria 2.5: Monitoring plans and budgets are produced annually, and monitoring activities are carried out in accordance with these plans and budgets.

Criteria 2.6: Sufficient and relevant information is identified and communicated in a timely manner to enable people to perform their assigned responsibilities and to monitor activities to make appropriate decisions.