



Department of Justice
Canada

Ministère de la Justice
Canada

ACQUISITION CARDS

**Internal Audit Branch
Department of Justice Canada**

MARCH 8, 2012

TABLE OF CONTENTS

STATEMENT OF ASSURANCE I

EXECUTIVE SUMMARY i

1. INTRODUCTION1

2. FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES3

3. AUDIT OPINION/OVERALL CONCLUSION.....9

APPENDIX A – AUDIT CRITERIA11

APPENDIX B – APPROACH AND METHODOLOGY13

**APPENDIX C – RISK ASSESSMENT GUIDELINES FOR AUDIT
RECOMMENDATIONS.....17**

STATEMENT OF ASSURANCE

We have completed the internal audit of Acquisition Cards. This internal audit was planned and conducted in accordance with the *Internal Auditing Standards for the Government of Canada*.¹ The audit was undertaken in a manner consistent with the Treasury Board (TB) *Policy on Internal Audit* and related guidelines and procedures, and with generally accepted auditing standards.

In my professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time of the audit (May – August 2011), against pre-established audit criteria that were agreed upon with management.

Original signed by

Cheryl Driscoll CIA, CGAP, CCSA, CRMA
Chief Audit Executive

Date

¹ The Internal Audit Branch has not undergone an external assessment at least once in the past five years or been subject to ongoing monitoring or to periodic internal assessments of its internal audit activity that would confirm compliance with these standards.

EXECUTIVE SUMMARY

Audit Opinion/Overall Conclusion

The Department of Justice has effective practices in place for the use of acquisition cards. Section 34 approval processes are adhered to in accordance with the requirements of the 2009 TBS *Directive on Acquisition Cards*. Appropriate and timely training activities are conducted for all resources involved in acquisition card transactions, and monitoring activities occur regularly.

Enhancements are required for the use of acquisition cards to be in full compliance with departmental procedures, the *Financial Administration Act* (FAA) requirements, and the TBS *Directive on Acquisition Cards*. Required enhancements include: implementing efficiencies for acquisition card payments; complying with the departmental acquisition card transaction limits set out in the *Supporting Notes to the Delegation of Financial Signing Authorities*, FAA requirements and the TBS Directive; ensuring the security of acquisition cards; and formally communicating roles and responsibilities, including the finalization of a departmental procedural document. These required enhancements have led to the recommendations in this report.

The Department of Justice uses acquisition cards as a convenient method of procuring goods and services while maintaining financial control. The Policies, Systems and Corporate Accounting Division, Chief Financial Officer Branch (CFOB), in conjunction with Contracting and Materiel Management Division (CMMD), has established departmental instructions with respect to the nature and value of transactions that may be charged to an acquisition card.

This audit was identified in the 2011-12 Risk-Based Audit Plan. The overall objective of the audit was to provide assurance that acquisition card usage in the Department of Justice is effective. The scope of the audit included an examination of acquisition card usage at headquarters and in the Ontario, Quebec, and Atlantic regional offices for fiscal years 2009-10 and 2010-11.

The Department could achieve additional savings by taking advantage of the card provider's early single payment discounts. The Department has not formally analyzed the requirements to implement this payment option in the Integrated Financial and Materiel System (IFMS). As a result, more than \$18,000 in savings over the two past fiscal years has not been realized. Senior

management advised that there is a planned initiative to implement this ability in IFMS after other departmental priorities have been completed.

At headquarters, the Library made payments on the same day to the same supplier in amounts that, when combined, exceeded the acquisition card transaction limit of \$5,000. Procurement processes were respected with regard to these purchases; however, the proper payment process was not followed.

Inconsistent compliance with the performance of Section 32 of the FAA was found at headquarters and in the three regions. Staff view Section 32 performance as an administrative burden. When purchases are made without pre-approval, there is a risk that funds may not be available and payments may be made for purchases that may not have been otherwise approved if the proper Section 32 authorization were in place.

Approximately 40% of cardholders at headquarters and in the three regions do not keep their cards in a secure location when not in use. Some cardholders indicated that it was impractical to keep their cards locked in their offices. The risk of potential loss or theft increases when acquisition cards are not kept in a secure location.

The Department provides adequate mandatory training to acquisition cardholders on their responsibilities. The roles and responsibilities of other resources involved in the acquisition card process have not been formally communicated. The finalization and distribution of a draft procedural document will assist in providing staff with guidance on roles and responsibilities. To mitigate the risk that key tasks may not be performed and completed, staff should be fully aware of the respective roles and responsibilities of those involved in the acquisition card process.

The Department of Justice has worked toward implementing practices to improve the management control framework for the use of acquisition cards. Additional enhancements are required in order to strengthen the effectiveness of the management control framework.

1. INTRODUCTION

1.1 Background

1.1.1 Acquisition cards are credit cards that provide a convenient method of procuring goods and services while maintaining financial control. Acquisition card usage in the Department of Justice is governed by the TBS *Directive on Acquisition Cards*. Under this Directive, the Chief Financial Officer (CFO) is responsible for establishing risk-based management practices and controls to ensure economical, efficient, and secure use of acquisition cards. At the time of the audit, the Department of Justice had not issued a departmental policy. Procedures and guidance on acquisition card use is provided to departmental staff on the Chief Financial Officer Branch (CFOB) and Contracting and Materiel Management Division (CMMD) sites on JUSnet. The Policies, Systems and Corporate Accounting Division, CFOB, in conjunction with CMMD, has established departmental instructions with respect to the nature and value of transactions that may be charged to an acquisition card.

1.1.2 CMMD provides departmental training to cardholders at headquarters and to regional acquisition card coordinators on the use of acquisition cards. The regional acquisition card coordinators then provide training to cardholders in their regions. The Departmental Coordinator, Acquisition/Travel Cards & Relocation, Corporate Accounting and Reporting (Departmental Card Coordinator) is responsible for the issuance, authorization, and control of acquisition cards.

1.1.3 This audit was identified in the 2011-12 Risk-Based Audit Plan and was selected due to the widespread and growing use of acquisition cards and the time since the last audit (2005). As such, it is important to determine the extent to which acquisition cards are used for the intended purposes; the level of compliance with the *Financial Administration Act* (FAA), the TBS *Directive on Acquisition Cards*, and departmental procedures; the level of monitoring of acquisition card activities; and the extent to which acquisition cards are accounted for and safeguarded.

1.2 Audit Objective and Scope

1.2.1 The overall objective of this audit was to provide assurance that acquisition card usage in the Department of Justice is effective.

1.2.2 The scope of the audit focused on:

- the management control framework;
- risk management practices;
- controls in place to ensure compliance with the TBS *Directive on Acquisition Cards*, the FAA, and departmental procedures;

- user awareness of policy and procedural requirements and training;
- monitoring activities.

1.2.3 The audit examined acquisition card usage at headquarters and in the Atlantic, Quebec, and Ontario regional offices. The audit examination included transactions from fiscal years 2009-10 and 2010-11.

1.2.4 The scope of the audit did not include testing of compliance with Section 33 of the FAA for acquisition card payments.

1.3 Audit Criteria

1.3.1 Audit criteria were developed in consideration of the risks identified during the planning phase of the audit and were based on guidance from the Committee of Sponsoring Organizations (COSO) Entity Level Control Framework, the TBS *Core Management Controls: A Guide for Internal Auditors*, and the TBS *Directive on Acquisition Cards* (Oct. 2009). All criteria were approved by Internal Audit Branch management. For high level criteria, see *Appendix A*.

1.4 Approach and Methodology

1.4.1 The planning and on-site examination phases of the audit were conducted between May and August 2011. For headquarters and the three regions audited, the audit reviewed 7,589 transactions for 2009-10 and 10,975 transactions for 2010-11 for a total of 18,562 transactions. A detailed description of the approach and methodology is outlined in *Appendix B* of this report.

2. FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

2.1 Acquisition Card Payment Discounts

Key finding: The Department is not taking advantage of the single payment rebate offer from the card provider.

Audit Criterion: The use of acquisition cards is in accordance with the TBS *Directive on Acquisition Cards*. [Criterion 1.0]²

2.1.1 The TBS *Directive on Acquisition Cards* indicates that acquisition card payments made in advance of the due date are encouraged in order to maximize early payment rebates. The card provider for the Department of Justice offers discounts and rebates based on early single payments. Currently, the Department sends multiple cheques to the card provider to pay cardholders' monthly statements within the stipulated 25-day grace period. This results in a 1.12% rebate on total departmental acquisition card expenditures per month. The card provider offers the Department the option to pay with a single payment the day after monthly statements are issued, which would provide a rebate of up to 1.44% per month.

2.1.2 A previous internal *Audit of Acquisition Cards* in 2005 recommended that the Department investigate receiving statements and making payments electronically to take advantage of the single payment option. Since that audit, the Department has implemented the ability to obtain electronic statements and monitor accounts online; however, the Department has not formally analyzed the requirements to implement in IFMS (the departmental financial system) the ability to pay the card provider with a single payment the day after statements are issued.

2.1.3 Senior management advised that there is a planned initiative to implement this ability in IFMS, but that it must be addressed after completing other priorities.

2.1.4 If the single payment option had been utilized in the last two fiscal years, the additional rebate to the Department would have been \$7,613 in fiscal year 2009-10 and \$11,026 in fiscal year 2010-11. The amount of the rebate is based on the Department's volume of acquisition card expenditures. More than \$18,000 in savings over the two past fiscal years has not been realized. The Department is encouraging the increased use of acquisition cards and therefore risks further opportunities for larger cost-saving efficiencies in the future.

Recommendation and Management Response

2.1.5 It is recommended that the CFO implement in IFMS the ability to pay the card provider with a single payment. (Low Risk³)

² See table of high level criteria in Appendix A.

³ The Risk Assessment Guidelines for Audit Recommendations are found in Appendix C.

Agreed. This functionality, which is part of the Federal Government's SAP footprint, is scheduled to be implemented as a part of the Procure-to-Pay re-engineering project. This project is pending approval from the Department's Executive Committee. The project is planned to be done in two phases. The first phase will consist of producing the business blueprint. The second phase will consist of implementing the new functionality in the Integrated Financial and Materiel System (IFMS) and performing the business transformation required. The second phase is planned to be completed by the end of fiscal year 2013-14.

2.2 Compliance with the Acquisition Card Transaction Limit

Key Finding: The Library has exceeded the departmental acquisition card transaction limit.

Audit Criterion: Acquisition card ongoing use and processes are in accordance with departmental policy and the TBS *Directive on Acquisition Cards*. [Criterion 7.0]

2.2.1 Section 2.1.1 of the *Supporting Notes to the Delegation of Financial Signing Authorities* states that individuals who have been authorized for and issued a departmental acquisition card may use the card for individual purchases up to \$5,000 including all applicable taxes. The use of acquisition cards is recommended for purchases of day-to-day expense items for standard maintenance, repair and operational goods and services. Although the use of an acquisition card is not mandatory, it is strongly encouraged when the purchase is within delegated transaction authority.

2.2.2 The Atlantic, Quebec, and Ontario regions were in compliance with the maximum \$5,000 transaction limit, and no purchases appeared to be an attempt to split transactions.

2.2.3 At headquarters, the Library made several payments on the same day to the same supplier in amounts that, when combined, exceeded the \$5,000 limit. Procurement processes were respected with regard to these purchases; however, the proper payment process was not followed. There is a risk that acquisition cardholders will utilize cards for transactions in excess of the departmentally authorized limits deemed appropriate for day-to-day operations in compliance with the TBS Directive.

Recommendation and Management Response

2.2.4 It is recommended that the Director, Library Services Division ensure that the use of acquisition cards complies with departmental and TBS requirements. (Low Risk)

Agreed. In May 2011, discussions took place with the Chief Financial Officer Branch regarding the Library's compliance with the policy on the use of acquisition cards. The

policy was clarified, and as a result, payments using acquisition cards are now consistent with the policy. All subsequent transactions have been in compliance with the policy. In December 2011 and February 2012, the Director, Library Services Division met with all acquisition cardholders in the Library and their managers to review policy and procedures subsequent to the audit findings to ensure a complete understanding of the policy and the correct procedures to follow for payments over \$5,000.

2.3 Compliance with Section 32, FAA

Key Finding: Acquisition card transactions do not consistently comply with Section 32, FAA.

Audit Criterion: Sections 32 and 34 of the FAA are appropriately adhered to with respect to acquisition card transactions. [Criterion 6.0]

2.3.1 Performance of Section 32 is a requirement of the FAA and is supported by the 2009 TBS *Directive on Acquisition Cards*.

2.3.2 Evidence of non-compliance with this requirement was found in all regions audited and at headquarters. The results of audit transaction testing (by fiscal year) are summarized below.

	Percentage of transactions without Section 32 approval			
	Headquarters	Atlantic Region	Quebec Region	Ontario Region
2009-10	44%	50%	91%	65%
2010-11	52%	70%	85%	2%

2.3.3 Staff in headquarters and all regions indicated that they viewed the Section 32 requirement as an administrative burden.

2.3.4 For all regions audited and headquarters, there is a risk that funds may not be available and that payments may be made for purchases that may not have been otherwise approved if the proper Section 32 authorization were in place.

Recommendation and Management Response

2.3.5 It is recommended that a) the Chief Financial Officer, b) the Regional Director General, Atlantic Region, and c) the Regional Director General, Quebec Region ensure that the Section 32, FAA requirement for acquisition cards is performed. (Medium Risk)

a) Agreed. A bulletin will be issued to all Directors of Business Management, Financial Management Advisors, and Regional Directors of Finance by March 12, 2012. This bulletin will address the requirement to have evidence of Section 32 approval on file with all payments made by the Department.

b) Agreed. The Atlantic Regional Office (ARO) will conduct information sessions on the proper use of acquisition cards to ensure that Section 32 of the FAA is in place. These sessions will target cardholders and accounting services, and will be conducted by March 30, 2012. The ARO will also establish a monitoring program for cardholder statements and supporting transaction documents to ensure ongoing compliance with the FAA and the TBS *Directive on Acquisition Cards* by April 30, 2012.

c) Agreed. To ensure budgets are not exceeded, O&M (operating and maintenance) expenditures greater than \$200 will be committed in IFMS and appropriate Section 32 FAA authorization will be kept on file. The expected completion date for the implementation of this recommendation by the Quebec Regional Office is May 1, 2012.

2.4 Physical Security of Acquisition Cards

Key Finding: Some cardholders are not appropriately securing their acquisition cards when not in use.

Audit Criterion: Acquisition cards are kept in a secure location at all times. [Criterion 5.0]

2.4.1 The TBS *Directive on Acquisition Cards* requires cardholders to safeguard card information and ensure that the card is kept in a secure location at all times. This Directive also requires the Departmental Card Coordinator to ensure that the use of acquisition cards is monitored. Card numbers are not to be recorded anywhere or made accessible to others and the acquisition card is to be kept in a secure location with controlled access when not in use.

2.4.2 Of the sample of cardholders selected at each location for compliance testing, overall 60% of cardholders kept their cards in a secure location. There was no evidence of lost or stolen cards in the sample selected. The results by individual location for cardholder compliance in securing their acquisition cards are as follows:

	Number of Cardholders	Percent Compliance
Headquarters	120	40%
Atlantic Region	7	25%
Quebec Region	27	19%
Ontario Region	11	100%

2.4.3 The majority of cardholders interviewed stated that they were aware of the requirements of the TBS *Directive on Acquisition Cards* and had received training on the requirement to

secure their cards. Some cardholders advised that they found it impractical to keep acquisition cards locked in their offices when not in use. They kept their cards in wallets or purses for ease of use, as it saves time when they are required to make purchases outside of office hours.

2.4.4 With an overall result of 40% non-compliance for securing acquisition cards, there is a risk of potential loss or theft if cards are not kept in secure locations.

Recommendation and Management Response

2.4.5 It is recommended that the Departmental Coordinator, Acquisition/Travel Cards and Relocation ensure that cardholders are reminded of the requirement to keep acquisition cards in a secure location. (Low Risk)

Agreed. A bulletin will be sent to cardholders to remind them of the requirement to keep their acquisition cards in a secure location. The bulletin will be sent by March 12, 2012.

2.5 Acquisition Card Roles and Responsibilities

Key finding: Roles and responsibilities have not been clearly communicated.

Audit Criterion: Responsibilities are documented and communicated in accordance with the TBS *Directive on Acquisition Cards*. [Criterion 2.0]

2.5.1 The TBS *Directive on Acquisition Cards* requires the CFO to ensure that responsibilities of the departmental acquisition card coordinator, managers, and cardholders are communicated. Cardholders receive adequate information on their responsibilities through mandatory training sessions from CMMD and regional acquisition card coordinators when their cards are issued. The roles and responsibilities of other resources involved in the acquisition card process (e.g. CFOB and CMMD) have not been formally communicated. Communicating roles and responsibilities has not been a priority for the CFOB, as acquisition cards are not considered risky procurement vehicles.

2.5.2 CMMD has developed a draft document, entitled *Department of Justice (JUS) – Acquisition Card Procedures (Version 05-2011)* that outlines procedures and processes for acquisition cards and contains information on roles and responsibilities. Distribution of this document, once finalized, will assist in providing information on roles and responsibilities. To mitigate the risk that key tasks may not be performed and completed, staff should be fully aware of their roles and responsibilities in the acquisition card process.

Recommendation and Management Response

2.5.3 It is recommended that the CFO ensure that roles and responsibilities are formally communicated to all resources involved in the acquisition card process and that the procedural document is finalized and communicated. (Medium Risk)

Agreed. The acquisition card procedural document has been finalized in conjunction with Contracting and Materiel Management Division, and the roles and responsibilities are clearly stated. The document is in the approval stage process and will be communicated to everyone involved with the acquisition card process by April 30, 2012.

3. AUDIT OPINION/OVERALL CONCLUSION

3.1 The Department of Justice has effective practices in place for the use of acquisition cards. Section 34 approval processes are adhered to in accordance with the requirements of the 2009 TBS *Directive on Acquisition Cards*. Appropriate and timely training activities are conducted for all resources involved in acquisition card transactions, and monitoring activities occur regularly.

3.2 Enhancements are required for the use of acquisition cards to be in full compliance with departmental procedures, the *Financial Administration Act* (FAA) requirements, and the TBS *Directive on Acquisition Cards*. Required enhancements include: implementing efficiencies for acquisition card payments; complying with the departmental acquisition card transaction limits set out in the *Supporting Notes to the Delegation of Financial Signing Authorities*, FAA requirements, and the TBS Directive; ensuring the security of acquisition cards; and formally communicating roles and responsibilities, including the finalization of a departmental procedural document. These required enhancements have led to the recommendations in this report.

APPENDIX A – AUDIT CRITERIA

Audit criteria were developed in consideration of the risks identified during the planning phase of the audit and were based on guidance from the Committee of Sponsoring Organizations (COSO) Entity Level Control Framework, the TBS *Core Management Controls: A Guide for Internal Auditors*, and the TBS *Directive on Acquisition Cards* (Oct. 2009). All criteria were approved by Internal Audit Branch management.

The following high level audit criteria were developed during the planning phase of the audit and included relevant criteria to address specific risks identified in the planning phase.

High Level Criteria	Results
<p>Management Control Framework</p> <p>1.0 The use of acquisition cards is in accordance with the TBS <i>Directive on Acquisition Cards</i>.</p> <p>2.0 Responsibilities are documented and communicated in accordance with the TBS <i>Directive on Acquisition Cards</i>.</p>	<p>Partially met</p> <p>Partially met</p>
<p>Risk Management Practices</p> <p>3.0 Separate controls and procedures are established over acquisition cards issued in the name of organizational assets, taking into account unique risks associated with the organizational asset, as applicable.</p> <p>4.0 A risk assessment process exists for the proper recording of acquisition card transactions including identified controls to mitigate risks.</p>	<p>Met</p> <p>Met</p>
<p>Controls for Compliance with Policies and Procedures</p> <p>5.0 Acquisition card ongoing use and processes are in accordance with departmental policy and the TBS <i>Directive on Acquisition Cards</i>.</p> <p>6.0 Sections 32 and 34 of the FAA are appropriately adhered to with respect to acquisition card transactions.</p>	<p>Partially met</p> <p>Partially met</p>
<p>Compliance by Cardholders with TBS Directive</p> <p>7.0 Acquisition card purchases, payments, and reconciliations are appropriate and authorized in accordance with the TBS <i>Directive on Acquisition Cards</i> and the FAA.</p>	<p>Partially met</p>
<p>User Awareness of requirements of TBS Directive Requirements and User Training</p> <p>8.0 Departmental training activities and other guiding documentation are clear and appropriately communicated to all personnel involved in the use of acquisition cards by the authorized group/branch.</p>	<p>Met</p>
<p>Monitoring Activities</p> <p>9.0 Acquisition card monitoring activities are adequate and conducted regularly, and purchase transactions are made in accordance with departmental and TB requirements.</p>	<p>Met</p>

APPENDIX B – APPROACH AND METHODOLOGY

The audit was undertaken in a manner consistent with the *TB Policy on Internal Audit* and related guidelines and procedures, and with generally accepted auditing standards.

The methodology consisted of a review of pertinent documentation, systems, practices, procedures, and interviews with appropriate Department of Justice management and staff at headquarters and in the Ontario, Atlantic, and Quebec regions.

In conducting this audit, the audit team:

- prepared detailed audit criteria for each management framework area;
- prepared a detailed audit program with criteria;
- developed a sample selection methodology for testing acquisition card files (outlined in detail below);
- interviewed departmental management and staff;
- conducted on-site visits to headquarters and the Atlantic, Quebec, and Ontario regional offices to review their acquisition card files, conduct the appropriate testing, and conduct interviews with management and staff;
- reviewed documents including the following:
 - *TBS Directive on Acquisition Cards* (October 1, 2009)
 - Comptroller General: *Acquisition Cards Program – Best Practice Guide*
 - Department of Justice Acquisition Process Flowcharts
 - Delinquent Accounts Summary
 - Listing of Active Cardholders
 - Sample Emails to Cardholders with Accounts in Arrears
 - Government of Canada Acquisition Card Application – Employee Account Request Form
 - Department of Justice Delegated Financial Signing Authorities Chart
 - *Department of Justice – Supporting Notes to the Delegation of Financial Signing Authorities*
 - Departmental Acquisition Card Training Deck and related training material
 - *Department of Justice – Acquisition Card Procedures* (Draft Version 5)

As of March 31, 2010, there were approximately 233 acquisition cards in the Department. During the timeframe of the audit, the audit team tested 165 acquisition cards in use at headquarters and in three regional offices.

In determining the sample size for the transaction testing, the audit team obtained an Excel file, downloaded from the card provider's reporting system, containing all acquisition card statements for headquarters and the Atlantic, Quebec, and Ontario regions for both fiscal years. The file included 18,562 transactions, stratified as follows:

Region	2009-2010	2010-2011
Headquarters	3,564	5,204
Atlantic	181	632
Quebec	2,765	3,963
Ontario	1,077	1,176
Total	7,587	10,975

The audit team used the statistical sampling software IDEA to determine an appropriate sample size. Based on the total number of transactions for the two fiscal years audited, IDEA provided a sample of 360 transactions to review in order to obtain a sound representation of the complete transaction population. For the two fiscal years, IDEA outlined 180 transactions to be tested for each fiscal year. The sample size was determined based on the following parameters:

- total transaction population size (18,562 transactions)
- expected deviation rate of 2%
- tolerable deviation rate of 5%
- confidence level of 95%

A 95% confidence level signifies that 95 out of 100 items sampled will accurately represent the population being sampled.

Once a sample size for each fiscal year was determined, the audit team determined that a sample of 45 transactions to review was reasonable for each of the three regions and headquarters. Given the large number of transactions associated with cardholders in headquarters, Quebec, and Ontario as compared to the fewer transactions in the Atlantic region, the audit team used professional judgment to conclude that 20 transactions per fiscal year would be appropriate to be tested in the Atlantic Region and that 25 transactions needed to be allocated to the other three locations.

Using professional judgment and based on preliminary information obtained during the planning phase interviews with headquarters and the three regions, the audit team determined that the 25 transactions should be allocated to the remaining three locations as follows:

- Headquarters – nine transactions
- Quebec – eight transactions
- Ontario – eight transactions

In summary, the sample size of transactions reviewed for each location per fiscal year was as follows:

- Headquarters 54 transactions
- Atlantic 20 transactions
- Quebec 53 transactions
- Ontario 53 transactions

Total 180 transactions

Once the audit team determined the sample size, the audit team modified the reporting system transaction information as follows:

- All transactions valued at \$10 or less were removed from the population, as the audit team determined that these amounts were immaterial dollar transactions that should not be reviewed, given the limited amount of time available to review them and given materiality considerations.
- All negative balance transactions identified as statement payments, credits, and refunds were removed, as they would be subject to separate testing procedures.

Once the reporting system's database was modified by the audit team to adjust for transactions that would not be reviewed, the remaining transactions were imported into IDEA and the software was used to select a random sample of transactions for each region, based on the sample size per year as identified above.

The audit team determined that the above sample of 180 transactions for each fiscal year was sufficient information to make conclusions in relation to the audit objective.

FAA, Section 34 Compliance in all three Regions and at Headquarters

Audit testing revealed the following results by location and fiscal year for compliance with section 34:

	Section 34 Compliance	
	2009-10	2010-11
Headquarters	96%	100%
Atlantic Region	100%	100%
Quebec Region	100%	100%
Ontario Region	94%	100%

APPENDIX C – RISK ASSESSMENT GUIDELINES FOR AUDIT RECOMMENDATIONS

Examples of criteria used for assessing the risk level of audit recommendations are outlined below:

Assessment	Criteria
High	<ul style="list-style-type: none"> • Controls are not in place or are not adequate. • Compliance with legislation and regulations is inadequate. • Important issues are identified that impact the achievement of program/operational objectives.
Medium	<ul style="list-style-type: none"> • Controls are in place but are not being sufficiently complied with. • Compliance with central agency/departmental policies and established procedures is inadequate. • Issues are identified that impact the efficiency and effectiveness of operations
Low	<ul style="list-style-type: none"> • Controls are in place but the level of compliance varies. • Compliance with central agency/departmental policies and established procedures varies. • Opportunities are identified that could enhance operations.

It should be noted that, in applying the above criteria to a recommendation, Internal Audit Branch takes into consideration the nature, scope, and significance of the audit finding(s), the impact of the recommendation on the organization, and the auditors' professional judgment.