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Core Control Audit of the Federal Economic Development Agency for Southern Ontario

June 2016

Office of the Comptroller General

Why this is important

The *Financial Administration Act* designates deputy heads as accounting officers for their department or agency. As accounting officers, deputy heads are accountable for ensuring that resources are organized to deliver departmental objectives in compliance with government policy and procedures.

Core control audits provide deputy heads with assurance regarding the effectiveness of core controls over financial management in their respective organizations. By doing so, core control audits inform deputy heads of their organization's level of compliance with requirements contained in selected financial legislation, policies and directives.

This audit is provided in accordance with a service level agreement between the Regional Development Agencies, including the Federal Economic Development Agency for Southern Ontario (FedDev Ontario), and the Office of the Comptroller General of Canada for the provision of internal audit services.

About the Federal Economic Development Agency for Southern Ontario

In 2009, the Government of Canada created FedDev Ontario to support the competitiveness, innovation and diversification of southern Ontario's economy.

FedDev Ontario's mandate was renewed in Budget 2013 for another five years, with an investment of \$920 million from 2014 to 2019, including \$200 million to administer the Advanced Manufacturing Fund.

According to its 2014–15 Departmental Performance Report, FedDev Ontario had spending of approximately \$206.8 million and human resources of 227 full-time equivalents in fiscal year 2014–15.

FedDev Ontario's headquarters is located in Kitchener–Waterloo and is home to operational branches and directorates responsible for programs, finance and corporate services, and communications. The Agency also has offices in Peterborough, Toronto and Ottawa.

Core Control Audit Objective and Scope

The objective of this audit was to ensure that core controls over financial management¹ within FedDev Ontario result in compliance with key requirements contained in the selected financial legislation, policies and directives.

The scope of this audit included financial transactions, records and processes conducted by FedDev Ontario. Transactions were selected from fiscal year 2014–15. The audit examined a sample of transactions for each of the selected policies and directives. Appendix A provides a complete list of policies and directives included in the scope of the audit and the overall compliance in the areas tested.

¹ See Appendix A for a complete list of policies and directives included in the scope of this audit.

Conformance with Professional Standards

This audit engagement conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

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Audit Findings and Conclusion

Core controls over financial management regarding the transactions tested within FedDev Ontario resulted in full or partial compliance with the key requirements contained in 9 of the 14 policies, directives² and corresponding legislation tested. FedDev Ontario was not in compliance with key requirements contained in the remaining five policies and directives tested.

Sound controls were observed in the management of its transfer payments program. Good practices were noted with respect to the use of tools to assess the financial viability of transfer payment applicants and to assess the financial situation of recipients. FedDev Ontario also established sound controls in its year-end recording of payables, accountable advances and financial management governance structure.

Weaknesses were identified in the areas of contracting, documentation, approval and timeliness.

Contracting

This audit observed that documentation to support contracting instruments used (competitive and non-competitive) was not on file. In particular, the statement of work, justification for sole source, best-value analysis, evaluation criteria and report signed by all evaluators, evidence of security clearance, proof of execution and justification for amendments were not on file. In addition, with respect to approvals, the individuals approving contracts and amendments did not have signature cards to support their delegated authority. The proactive disclosure of contracts or amendments above \$10,000 was not always made in the appropriate amount. Finally, some contracts were approved after FedDev Ontario had already received the services or the goods.

Documentation

Weaknesses were observed in the area of acquisition cards, because documentation to support initial credit limits and cardholder acknowledgement of responsibilities was not always retained on file. It was also observed that some fleet log books were not on file while others were not completed properly. For government travel, supporting justification for reimbursement was not always available when applicable limits were exceeded or when itineraries were modified. Documentation was not on file at the time that approval was provided in the Shared Travel System. Similarly for hospitality, supporting documentation was not on file to substantiate whether the most economical means was used to avoid or minimize hospitality costs. Weaknesses were observed with respect to the proactive disclosure of travel and hospitality

² See Appendix A for FedDev Ontario compliance in the areas tested.

costs. Some travel expenses were not accurately disclosed, and some hospitality expenses were not disclosed on the Agency's website. Documentation for pay administration, overtime and acting assignments, as well as timesheets for some casual assignments, were not on file. In addition, expenditure initiation and account verification were not always supported by complete documentation.

Approval

The delegation of financial signing authorities chart did not reflect the August 2013 changes in relation to approving travel found in the *Directive on Travel, Hospitality, Conference and Event Expenditures* and therefore, travel was approved by an individual without proper delegated authority. In the area of pay administration, departure forms were approved by management after the end of the employee's work period.

Timeliness

Pre-approvals were not always obtained prior to the expenditure initiation, especially in the areas of leave, travel, and acquisition cards. Similarly, account verification was not always performed on a timely basis, or timeliness could not be determined because transactions were not dated by the appropriate authority.

Recommendations

The Deputy Head of the Federal Economic Development of Southern Ontario should ensure that:

1. The delegation of financial signing authorities chart is current and reflects the changes made to the Treasury Board *Directive on Travel, Hospitality, Conference and Event Expenditures* for approving travel.
2. Employees' signature cards are aligned with the delegation of financial signing authorities, are signed by the employees and are approved by the supervisors prior to the effective date.
3. Log books for each vehicle are appropriately completed and kept on file.
4. Proper documentation is retained on file for acquisition cards to substantiate their issuance, approval, modification and condition of use, as well as the acknowledgement of responsibilities by the acquisition cardholder.
5. Contracting business processes are improved and are consistently performed in compliance with the Treasury Board *Contracting Policy*, and that documentation is retained on file.
6. Travel business processes are improved and are consistently performed in compliance with the National Joint Council *Travel Directive*, and that documentation is retained on file.
7. Documentation to support justification for the most economical and appropriate way to facilitate government business is kept on file.
8. Hospitality expenses for designated senior-level employees are proactively disclosed on the Agency's website.

9. Employee leave is approved in a timely manner.
10. Supporting documentation is kept on file to ensure that casual employment respects the 90-day limit in any given calendar year.
11. Departure forms are appropriately completed by applicable authorities prior to the end of the working period.
12. Expenditure initiation is properly documented and performed by an individual who has the appropriate delegated authority before expenses are incurred.
13. Account verification is documented, properly dated, done on a timely basis and supported with proof of execution.

Management Response

Management has accepted the audit findings and has developed an action plan to address the recommendations. It is expected that the management action plan will be fully implemented by June 2017.

The results of the audit and the management action plan have been discussed with the Deputy Head of FedDev Ontario and with the Small Departments Audit Committee. The Office of the Comptroller General of Canada will follow-up on the implementation of the management action plan.

Appendix A: Policies and Directives Tested

| Policies and Directives Tested | Compliance |
|---|-------------------|
| <i>Directive on Delegation of Financial Authorities for Disbursements</i> | Partially Met |
| <i>Policy on Financial Management Governance</i> | Met |
| <i>Directive on Fleet Management: Light Duty Vehicles</i> | Partially Met |
| <i>Directive on Acquisition Cards</i> | Not Met |
| <i>Directive on Accountable Advances</i> | Partially Met |
| <i>Contracting Policy</i> | Not Met |
| <i>National Joint Council Travel Directive</i> | Not Met |
| <i>Directive on Travel, Hospitality, Conferences and Event Expenditures</i> | Not Met |
| <i>Directive on Year End Recording of Payables</i> | Met |
| <i>Directive on Leave and Special Working Arrangements</i> | Partially Met |
| <i>Directive on Financial Management of Pay Administration</i> | Partially Met |
| <i>Policy on Transfer Payments</i> | Met |
| <i>Directive on Expenditure Initiation and Commitment Control</i> | Not Met |
| <i>Directive on Account Verification</i> | Partially Met |

| Legend of Compliance Thresholds³ | |
|--|--|
| Met | Greater than or equal to 98% compliance. |
| Partially met | Greater than or equal to 80% and less than 98% compliance. |
| Not met | Less than 80% compliance. |

³ Compliance thresholds for the transactions tested.