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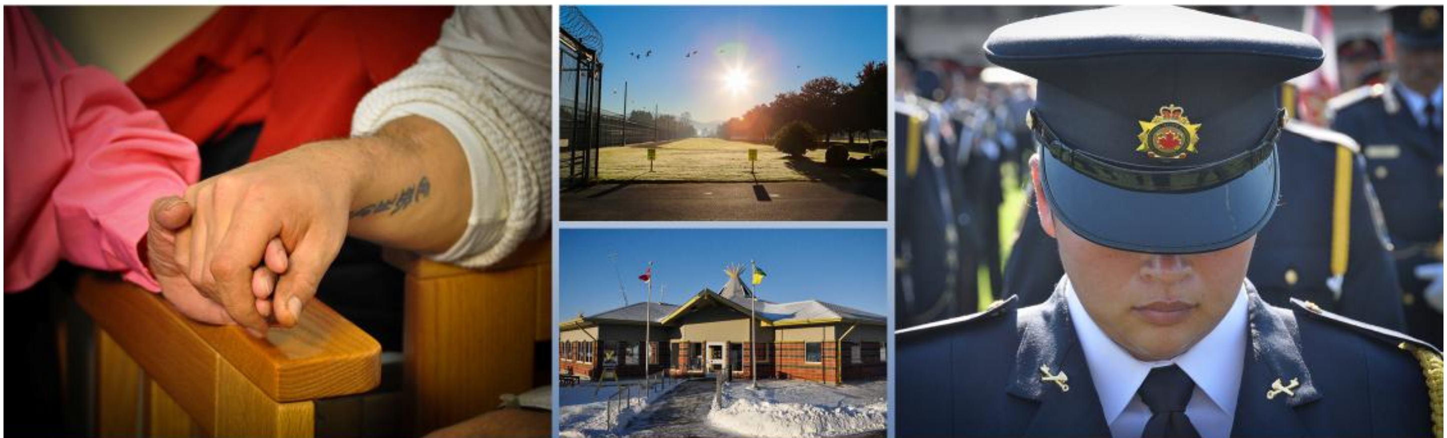

Audit of Asset Management

INTERNAL AUDIT SECTOR

JUNE 1, 2016

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Executive Summary

What We Examined

The Audit of Asset Management was conducted as part of the Correctional Service Canada (CSC) Internal Audit Sector's (IAS) 2014-2017 Risk-Based Audit Plan.

Within CSC, there are three types of materiel assets:

- Capital assets include any item which has been acquired, constructed or developed with the intention of being used in the ordinary course of business and that is not intended to be sold, have an acquisition cost of at least $10,000 and an identified useful life in excess of one year;
- Attractive items are those items which are purchased with operational funding, have an acquisition cost between $1,000 and $10,000, excluding taxes, and have a useful life of greater than one year. These items are commonly used in their present or slightly modified form, can normally be transported by hand, can easily be converted to personal use and are subject to misappropriation. In some specific instances, items below the $1,000 threshold may also be classified as attractive items; and
- Inventory, which was scoped out of the current audit, is material for use, held either in stock at sites or at storage facilities. There are two categories of inventory, namely inventory for resale and inventory not for resale.

The objectives of this audit were to provide assurance that:

- A management framework was in place and complied with Legislative and Treasury Board requirements;
- CSC was complying with relevant policies and directives related to asset management; and
- CSC had addressed the Office of the Auditor General's recommendations with regards to both the 2011-12 and the 2012-13 Audits of the Public Accounts.

The audit was national in scope and included physical verification and tests of capital assets and attractive items held in each of the five regions and at National Headquarters (NHQ). Site visits were conducted at various sites and regional offices across CSC.

The audit examined the framework in place for asset management and tested compliance against the related directives and guidelines. The audit tested the accuracy of the information maintained to account for and track capital assets and attractive items from the time of purchase to disposal. This included both the tracking of the capital assets and attractive items in the fixed asset listing as well as the accurate financial recording of capital assets within IFMMS. The accuracy and process used to conduct the full asset verification, which was completed shortly before the audit visits to the operational units, was reviewed and assessed. Finally, safeguards in place to minimize the possibility of misuse, loss or theft of capital assets and attractive items were also included within the audit.

Why it's Important

The audit linked to CSC's corporate priority of "efficient and effective management practices that reflect values-based leadership" and to the corporate risk "that CSC will not be able to manage significant change related to transformation, legislative changes, and fiscal constraints."

In the context of the Federal Government, the objective of materiel management activities is to ensure that materiel assets are managed by departments and agencies in a sustainable and financially responsible manner in order to support the cost-effective and efficient delivery of government programs.

Within CSC, as of March 31, 2015, the department was tracking 64,687 attractive items and 13,402 capital assets representing a total cost of over $3 billion.

What We Found

Based on the audit findings, the audit team concluded that while aspects of a management framework related to the management of assets were in place, there were a number of areas where further strengthening was required. Some of the identified gaps include:

- The clarity concerns noted in the Financial Directive and the instructions for the yearly verification of assets increases the likelihood that the operational units may not be recording and accounting for all capital assets and attractive items in the methods required by the policy;
- The delimitation between the role and responsibilities of the OPIs asset coordinators versus those of the asset coordinators at the local operating unit is not well understood, not implemented consistently and has created confusion. This causes a risk that asset information related to specific asset classes is either not always added to the fixed asset listing or is entered more than once; and
- The lack of training or awareness sessions provided to asset coordinators and asset custodians to explain their respective roles increases the likelihood that capital assets and attractive items may not be fully safeguarded against loss, theft or misuse.

In relation to compliance, the audit found aspects within the asset management portfolio where operational units were complying with the requirements. The audit did, however, note many compliance issues, including:

- Inaccuracies noted in the asset verification completed for fiscal year 2014-15 challenge the quality, accuracy and usefulness of information used to account for and track capital assets and attractive items;
- Lack of processes in place to safeguard attractive items increases the risk and likelihood of assets being lost or misappropriated and the organization not being able to investigate and determine the cause; and
- The lack of a consistent process and lack of documentation to support the disposal of capital assets and attractive items creates a higher risk of assets not being fully tracked and accounted for, and that the disposals are not occurring through appropriate disposal methods.

With respect to the recommendations raised by the Office of the Auditor General's 2011-12 and 2012-13 Audit of the Public Accounts, the audit found that with the actions which are being implemented by the Comptroller's Branch in the reconciliation of the sub-ledger with the general ledger, CSC is satisfying the first part of the recommendation made by the Office of the Auditor General. In the end, the variance between the capital asset sub-ledger and the general ledger continues to decrease as the discrepancies are found and corrected. However, CSC has not met the target of eliminating the discrepancy by March 31, 2015. With respect to the second recommendation by the Office of the Auditor General, the audit team found that CSC was able to properly account and depreciate capital assets acquired. However, as noted throughout the current audit on asset management, CSC still has a fair amount of work to do with respect to the ongoing management of capital assets, including the safeguarding and disposing of them.

Overall, some risks, which were noted as part of the audit, include the possibility that capital assets and attractive items may be misappropriated and ultimately incorrect information being entered into the financial system, thus possibly influencing the accuracy of the financial statements. In order to mitigate these risks, a number of recommendations have been made to senior management.

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by July 31, 2016.

Acronyms and Abbreviations

ARB: Asset Review Board

ASB: Asset Survey Board

CCC: Community Correctional Centres

CD: Commissioner's Directives

CMS: Contracting and Materiel Services

CSC: Correctional Service Canada

DAC: Departmental Audit Committee

DRB: Disposal Review Board

FD: Financial Directive

IAS: Internal Audit Sector

IFMMS: Integrated Financial and Materiel Management System

NHQ: National Headquarters

OPI: Office of Primary Interest

PIC: Policy on Internal Control

RDC: Regional Deputy Commissioner

RHQ: Regional Headquarters

TB: Treasury Board

1.0 Introduction

1.1 Background

The Audit of Asset Management was conducted as part of the Correctional Service Canada (CSC) Internal Audit Sector's (IAS) 2014-2017 Risk-Based Audit Plan. The audit linked to CSC's corporate priority of "efficient and effective management practices that reflect values-based leadership" and to the corporate risk "that CSC will not be able to manage significant change related to transformation, legislative changes, and fiscal constraints."

In the context of the Federal Government, the objective of materiel management activities is to ensure that materiel assets are managed by departments and agencies in a sustainable and financially responsible manner in order to support the cost-effective and efficient delivery of government programs.

Within CSC, materiel assets are sub-divided into the following categories: capital assets, attractive items, and inventory. Capital assets include any tangible or intangible asset which has been acquired, constructed or developed with the intention of being used in the ordinary course of business and that is not intended to be sold. These assets have an acquisition cost of $10,000 or more, excluding taxes, interest expense or financing costs, and any late payment interest penalty, and have an identified useful life in excess of one year. As per the 2014-15 CSC financial statements, capital assets had a historical cost of $3.5 billion and a net book value of $2.1 billion. **Table 1** below shows the original cost and net book value of the various classes of capital assets.

Table 1: Cost and Net Book Value by Capital Asset Class (as of March 31, 2015[1])

Capital Asset Class	Cost of Assets	Accumulated Amortization	Net Book Value
Land	$14,288,000	$0	$14,288,000
Buildings	$2,325,058,000	$944,312,000	$1,380,746,000
Works and infrastructure	$639,283,000	$406,990,000	$232,293,000
Machinery and equipment	$216,498,000	$133,293,000	$83,205,000
Vehicles	$62,587,000	$39,518,000	$23,069,000
Leasehold improvements	$23,209,000	$12,356,000	$10,853,000
Assets under construction	$431,103,000	$0	$431,103,000
TOTALS	**$3,712,026,000**	**$1,536,469,000**	**$2,175,557,000**

A second category of assets are attractive items. The CSC Financial Directive on Asset Management (hereafter referred to as The Financial Directive) defines attractive items as items that can be transported by hand, can be easily converted to personal use and typically have an acquisition cost between $1,000 and $10,000 excluding tax. In addition, all weapons and firearms, personal protective equipment and audio and video equipment are considered attractive items, irrespective of cost. All attractive items have a record created in CSC's Integrated Financial and Materiel Management System (IFMMS) for control purposes, since they are particularly subject to loss, fraud or theft. Unlike capital assets, these items are

[1] 2014-15 Financial Statements

purchased using operational funds and are neither capitalized nor included within the financial statements as assets. Based on the information available in IFMMS as of March 31, 2015, CSC had over 65,000 items deemed to be attractive. These 65,000 attractive items represented approximately 83% of the total number of items tracked within the Fixed Asset Module at CSC, however, represented only 3.1% of the total cost at time of purchase. **Table 2** presents the number and cost of attractive items in comparison to capital assets.

Table 2: Comparison of Total Cost of Capital Assets and Attractive Items[2]

Type of Asset	Number of Materiel Items at CSC	% of Total Assets	Total Cost at Acquisition	% of Total Cost
Attractive items with a unit cost less than $1,000	39,311	50.3 %	$ 20,649,336	0.6 %
Attractive items with a unit cost between $1,000 and $9,999	25,376	32.5 %	$ 81,062,443	2.5 %
Capital Assets	13,402	17.2 %	$ 3,165,963,546*	96.9%
TOTALS	**78,089**		**$ 3,267,675,325**	

* Assets under construction are not included in this total.

The third broad category of materiel assets is inventory. Inventory, which has been scoped out of the current audit, is defined as materiel for use, held either in stock at sites or at storage facilities, and includes materiel that is undergoing repair or that is recorded in IFMMS. CSC is responsible for inventory for resale (including CORCAN's raw materials, work in progress and finished goods inventories) and inventory not for resale (such as clothing, food and other consumable items). As of March 31, 2015, CSC had a total of $45 million worth of inventory. This included approximately $10 million of inventory for resale and $35 million of inventory not for resale.

1.2 Legislative and Policy Framework

There are a large number of legislative, government central agency, and internal requirements guiding the management of assets throughout the government and at CSC.

Legislation

Financial Administration Act – Establishes the legal authority for the management of assets and liabilities held by the Government of Canada.

Surplus Crown Assets Act – Establishes the legal authority and framework for the management of surplus crown assets held by federal government departments and agencies.

Federal Real Property and Federal Immovable Act – Establishes the legal authority for the acquisition, administration and disposition of real property and immovable by the Government of Canada.

[2] Based on IFMMS FA Module as at 31 March 2015

Central Agency Policy

The Treasury Board Secretariat has developed several policy instruments that provide direction, identify key legislation, and set specific requirements and professional standards for the effective management and control of federal assets. They also establish ultimate accountability and sound stewardship of the materiel entrusted to federal government agencies or used by their organization. Some of the relevant policies include:

- *TB Policy Framework for the Management of Assets and Acquired Services*;
- *TB Policy on Management of Materiel;*
- *TB Directive on the Disposal of Surplus Materiel; and*
- *TB Policy on Internal Control (PIC).*

Internal Requirements

CSC uses the following key internal directives to guide the management of its assets:

Financial Directive (FD) 350 Contracting and Materiel Management – CSC's overarching financial directive for materiel management, with the exception of the financial control of capital assets, and CSC's fleet management.

FD 350-1 Asset Management – Accompanies FD 350 and outlines CSC's framework for the management of assets. It also defines the specific areas of responsibility of certain Offices of Primary Interest (OPIs) for the management of the verification and stocktaking process of certain asset classes, such as information technology hardware, audio and video equipment, fleet vehicles, land and buildings, health related equipment, and consumables (e.g. food services).

CMS-INST-2014-005 Instructions on Physical Asset Verification – Accompanies FD 350-1 and provides detailed instructions for planning and conducting periodic and annual physical verifications of capital assets and attractive items, with some exceptions that are governed by the respective OPIs as outlined above.

FD FOps-DIR-2014-333 Accounting for Capital Assets – Outlines CSC's funding and accounting treatment for all capital asset transactions.

CSC Accounting Manual, Chapter 4, Assets – Sets out the accounting treatment and financial statement presentation of inventories, capital assets and capital leases for CSC. The Director, Financial Accountability and Reports informed the audit team that the requirements outlined in *FD FOps-DIR-2014-333 (see above)* supersede those in the *CSC Accounting Manual*, should discrepancies between the two exist.

1.3 CSC Organization

In accordance with *TB Policy on Internal Control* (PIC) requirements to ensure that an effective system of internal controls exists over financial reporting, the Corporate Services Sector tasked a team, led by the Financial Accountability and Reports Directorate, to document and test key financial processes. As key control areas are completed, the team prepares reports, which include a summary of findings and recommendations to address weaknesses, and status updates to the Departmental Audit Committee (DAC) on progress to date. The last update was provided to the DAC on February 3, 2015.

Although most of the financial processes related to asset management are owned by Corporate Services within National Headquarters (NHQ), certain responsibilities for implementation of the processes have been delegated to the regions. These responsibilities include (but are not limited to): recording in and maintaining of the Fixed Assets Module; conducting the annual capital asset and inventory counts; and maintaining inventory systems/listings.

National Level

The Assistant Commissioner, Corporate Services, provides national direction and expert advice and in consultation with the regions, is responsible for developing the policy and accountability framework surrounding asset management at CSC.

The Contracting and Materiel Services (CMS) Directorate within the National Comptroller's Branch works with stakeholders and various Offices of Primary Interest (OPIs) to develop and maintain overall guidance for asset management at CSC.

The Financial Accountability and Reports Directorate within the National Comptroller's Branch is primarily responsible for ensuring that all capital assets are accurately recorded in the Public Accounts, and are responsible for the ongoing assessment of the design and operating effectiveness of internal controls over financial reporting.

The Financial Directive also assigns departmental OPIs with the responsibility of establishing an acceptable verification and stocktaking process for each asset class type for which they are responsible. Each OPI is required to appoint an asset coordinator who, among other responsibilities, will manage and record the relevant information in the fixed asset listing within IFMMS. OPIs include the Director General, Technical Services and Facilities (fleet vehicles, land and buildings, audio and video surveillance equipment), the Chief Information Officer (information technology hardware, audio and video equipment not used for security purposes) and the Director General, Health Services (health related equipment).

Regional/Local Level

Within the regions, Regional Managers of CMS provide expertise and guidance to front line staff, work with asset coordinators to schedule physical asset verifications and oversee the regional governance structure made up of the three asset review boards discussed below.

Asset Coordinators are the key front line stakeholders with respect to asset management. Their role is to ensure that all capital assets and attractive items at their site are identified, tagged, documented, recorded, and that any change to the status of the assets at their site (transfer, disposal, loss, etc.) is accurately captured in the IFMMS.

Budget Managers are responsible for ensuring that acquisitions made under their authority are justified, necessary and accurately recorded in IFMMS. Further, they are accountable for the sound stewardship of public funds entrusted to them, and must ensure that the assets assigned to their staff are protected and safeguarded.

Asset Custodians include all employees of CSC who have in their possession CSC assets. They are responsible for ensuring that their assets are properly safeguarded and that any change in status to those assets (lost, stolen, broken, transferred, etc.) is reported to ensure information in IFMMS remains accurate.

As per the Financial Directive, there are three different committees that oversee several of the CSC management activities of all capital assets and attractive items, with the exception of fleet.

- ***Asset Review Boards (ARB)*** are in place at the local (site) level and provide an independent assessment of losses and other proposed inventory (of assets) adjustments between $1,000 and

$25,000. For any write-off of less than $10,000, the Asset Review Board will make a recommendation to the budget manager, whereas the board will make recommendations to the regional comptroller for any write-off between $10,000 and $25,000;

- ***Asset Survey Boards (ASB)*** are in place at the regional level and provide an independent assessment of losses and other proposed inventory (of assets) adjustments, of $100,000 or less, as presented by the asset review board; and
- ***Disposal Review Boards (DRB)*** review and challenge proposed disposal strategies and ensure that departmental policies regarding disposal are respected. Disposal review boards are in place at the regional level; however, each Regional Headquarter (RHQ) has the authority to centralize this board or to delegate the approval authorities to sites.

2.0 Objectives and Scope

2.1 Audit Objectives

The objectives of this audit were to provide assurance that:

- A management framework was in place and complied with legislative and Treasury Board requirements;
- CSC was complying with relevant policies and directives related to asset management; and
- CSC had addressed the Office of the Auditor General's recommendations with regards to both the 2011-12 and the 2012-13 Audits of the Public Accounts.

Specific criteria for each objective are included in ***Annex A***.

2.2 Audit Scope

The audit was national in scope and included physical verification and tests of capital assets and attractive items held in each of the five regions and NHQ. Site visits were conducted at various sites and regional offices across CSC.

The audit examined the framework in place for asset management and tested compliance against the related directives and guidelines. The audit tested the accuracy of the information maintained to account for and track capital assets and attractive items from the time of purchase to disposal. This included both the tracking of the capital assets and attractive items in the fixed asset listing as well as the accurate recording of capital assets within IFMMS. The accuracy and process used to conduct the full asset verification, which was completed shortly before the audit visits to the operational units, was reviewed and assessed. Finally, safeguards in place to minimize the possibility of misuse, loss or theft of capital assets and attractive items were also included within the audit.

As the focus of the audit was on materiel assets, real property (including land and buildings), was excluded. In addition, while equipment under the banner of information management was included as part of the audit, the audit did not examine and test the tracking and safeguarding of individual computers, as these do not fall within the definition of attractive items. Finally, the physical verification of consumable inventory, both within CSC and CORCAN, was not examined as part of this audit as this audit focussed on attractive items and capital assets.

3.0 Audit Findings and Recommendations

3.1 Management Framework

The first objective was to provide reasonable assurance that a management framework was in place and that it complied with legislative and Treasury Board requirements.

CSC's framework for the management of assets was examined from four perspectives; policy framework, roles and responsibilities, training and the monitoring present to ensure the accuracy of the process to track and safeguard capital assets and attractive items.

3.1.1 Policy Framework

We expected to find that CSC's policies, directives and guidelines related to asset management were in line with Treasury Board requirements and had been communicated to all relevant staff.

The Financial Directive on asset management was in line with the related Treasury Board policies; however, many users raised concerns that the Financial Directive was not clear.

The Financial Directive on asset management was updated in October 2014. Overall, it was found that the updated Financial Directive is in line with the Treasury Board requirements.

The audit team found that key individuals interviewed, including asset coordinators at the local level, were aware of the new policy and the associated instructions describing the asset verification process. Although asset coordinators acknowledged that consultation took place when the Financial Directive was updated, concerns were raised by the users at the local operating units that aspects of the updated Financial Directive were not always clear to them. Many individuals raised concerns that the Financial Directive was not specific enough in some instances and left too much room for interpretation. One example of this was noted as it relates to the updated definition for attractive items as they felt that it was unclear. Furthermore, it was explained that the Financial Directive did not provide guidance on how to handle the items that were no longer deemed to meet the criteria of attractive items. Another concern raised by interviewees was the lack of clarity in the Financial Directive as it relates to the division of responsibilities between the individual OPIs and local asset coordinators. This included concerns regarding who was ultimately responsible for the capital assets and attractive items, including the process to be implemented for entering the information in the financial systems fixed asset module and for counting the specific items.

The audit team found that confusion existed at the local operating unit level, regarding the requirements to complete the current count of capital assets and attractive items. This additional confusion stemmed from the issuance of specific instructions, which differed from the requirements within the updated Financial Directive. These instructions were promulgated within a few months of the implementation of the updated Financial Directive. These instructions, which superseded the Financial Directive, included specific processes related to the required 100% verification of all assets, regardless of the process laid out by the official OPI as stated in the Financial Directive.

The lack of clear understanding by all users of the Financial Directive and the various individual approaches used at the local level to implement the requirements creates concerns for the organization. Namely, this increases the possibility that sites are not fully complying with the yearly counts instructions, thus creating potential issues on fully accounting for and verifying both capital assets and attractive items.

3.1.2 Roles and Responsibilities

We expected to find that the roles and responsibilities for those involved in asset management were clearly defined and understood.

Roles and responsibilities of the various parties involved in the management of assets were documented within the Financial Directive.

Financial Directive 350-1, Asset Management, defines the roles and responsibilities of all positions involved with the management of assets. This includes positions within the Corporate Services Sector at NHQ and within the Comptroller's Branch at the regional level. Specific roles are also explained for staff at the local level, namely asset coordinators, asset custodians, budget managers and stock takers who are involved in the yearly inventory count. While the roles were documented in the Financial Directive, the audit noted concerns in how certain positions implemented their roles.

Asset coordinators at the local operating units were typically aware of their roles and responsibilities; however, the implementation of those responsibilities varied significantly between sites.

The Financial Directive states that asset coordinators are responsible to ensure that all capital assets and attractive items within their area of responsibility are identified, tagged, documented, recorded and regularly updated in the IFMMS Fixed Asset Module. Some other responsibilities of these individuals include overseeing the periodic and annual inventory counts and providing advice to budget managers on matters dealing with assets, inventories and verifications.

Overall, the audit found that asset coordinators at the local level understood their roles at a high level and for the most part, completed the required tasks; however, there were variations with how they implemented their role. For example, at some sites the asset coordinator took on the responsibility of both completing the Asset Recording and Transaction form and entering the information in the IFMMS Fixed Asset Module, while other asset coordinators required that the budget manager complete the asset recording sheet and provide it to the asset coordinator. As well, there was a strong degree of variation of the asset coordinators involvement with the year-end count. In some sites, asset coordinators were directly involved in the count while in others, they relied on the asset custodians to do and report on the count within their area of responsibility. This can cause concerns in terms of the independence of the recording of the asset and the annual verification in terms of whether the asset or attractive item was properly recorded when acquired or whether the physical count of the item actually took place.

Asset Custodians were generally not aware of their role in the management of assets.

The Financial Directive specifies that asset custodians are ultimately responsible and accountable for assets used by them, ensuring reasonable steps are taken to safeguard the assets and that changes to an asset location or the loss of an asset is reported to the asset coordinator in a timely manner.

The audit found that many of the asset custodians at the local level were not aware that they were responsible for assets. In many cases, they believed their primary role was to count the assets as part of the year-end inventory exercise. The audit team also found that often, the asset custodians did not believe that they were accountable or even aware of the assets assigned to them. For example, the audit team found many cases where the listed asset custodian was under the name of a previous incumbent of the position occupied by the current custodian. Also the audit team found that, in most cases, asset custodians did not verify the existence of assets assigned to them when taking over a new position. If the assets are not found during the year-end count, it is unclear who would be accountable, whether it be the current custodian or the previous one and what should be done to alleviate this situation. This is particularly problematic for those custodians responsible for a large number of assets such as the Chief, Health Care and the Chief, Facilities Management.

The role of the OPIs responsible for individual asset classes creates confusion in the management of assets at the local level.

Financial Directive 350-1, Asset Management, states that certain asset classes have a dedicated OPI who is responsible to implement appropriate control mechanisms to identify and manage assets that fall within their asset class. For example, the Technical Services and Facilities Branch is the OPI for all fleet vehicles, Health Services Branch is the OPI for all health care related equipment and the Chief Information Officer is the OPI for all information technology hardware and non-security related audio and video equipment. The Financial Directive also states that these OPIs must appoint a specific national asset coordinator who, among other responsibilities, must record the asset information within the IFMMS Fixed Asset Module and implement and communicate a risk-based asset verification process specific to their asset class which is to be applied consistently across CSC.

The audit team found instances of errors relating to the entering, transferring or assigning of assets belonging to OPIs. Asset coordinators interviewed at the local operating units explained that it was unclear who between the asset coordinator for the OPI and the asset coordinator at the local operating unit was responsible for entering asset information within IFMMS throughout the lifecycle of the item. For example, the audit team found cases where fleet vehicles were assigned in IFMMS by the OPI to the wrong institution or custodian. The audit team also found some instances where health care assets had the site asset tag removed and a health care asset tag placed on the item instead, without the local asset coordinators being made aware. As this change was not reflected within IFMMS, the asset tag on the item itself no longer matched the tag number listed within the system, and thus created a challenge in validating the existence of these assets.

Asset coordinators at the local level also raised concern that the lack of clarity in the role of the various OPIs contradicts, in their view, their main role, as it now blurs who is ultimately responsible for the assets at the local level. This inconsistent approach to how OPIs entered data also created a duplication of effort as multiple parties were made responsible for the accuracy of the data. For example, at one institution visited, the audit team found that a video conferencing machine had been entered in the system twice and had not been noticed in the previous year-end count. In this case, the Information Technology Branch did a national purchase for many sites and added these video conferencing machines into the IFMMS from NHQ, while the operational unit added it a second time once it was received at the site.

As the highest proportion of assets are located in institutions, institutional management was concerned that they are not in control of the information related to the assets for which they are responsible. Their concerns included the challenges in completing the counts accurately when various OPIs may provide different directions for their asset class. Furthermore, the confusion and duplication between the local asset coordinators and those working with the individual OPI increased the likelihood that errors regarding the acquisition and ultimate disposal of assets would occur. If this information within the fixed asset listing is not reliable and up to date, it can impact the preparation of the financial statements and the ability of CSC to ensure that all capital assets and attractive items are being safeguarded and accounted for as necessary.

3.1.3 Training and Awareness

We expected to find that employees were provided with the necessary training, resources and information to support them in the management of assets.

Although some regions provided ad-hoc training for local asset coordinators, there was no consistent and formal training in place for those directly responsible for the management of assets.

The Regional Comptroller's offices in both the Atlantic and Quebec regions regularly provided ad-hoc training to asset coordinators at the local level within their respective region. In these regions, asset coordinators were provided with instructions on their role, how to create and dispose of capital assets and attractive items and how to ensure the information was recorded accurately within the financial system. Asset coordinators within these two regions felt that they had received some timely training. Staff working in other regions commented that there had been limited training or awareness sessions provided by CSC related to this topic. The audit team found that the training was not formal, had not been vetted by the functional authority and had not been fully updated to reflect the new Financial Directive.

Management within the Corporate Services Sector is currently in the process of developing some training to be provided to those staff members responsible for assets at the local level. It is anticipated that the Corporate Services Sector will develop this training to ensure a consistent message is communicated to the relevant staff across the country, to provide clear information on roles and responsibilities and to provide direction on how to track, dispose and account for capital assets and attractive items.

3.1.4 Monitoring and Reporting

We expected to find that monitoring practices were in place to ensure compliance with asset management policies and directives.

The Comptroller's Branch at National Headquarters has implemented ongoing monitoring to ensure the accurate financial recording of capital assets following their acquisition.

In order to ensure an accurate representation of capital asset related information within the financial statements, following the recommendations made by the Office of the Auditor General's 2011-12 and 2012-13 Audit of the Public Accounts, the Corporate Services Sector has implemented ongoing monitoring of the proper financial treatment of capital assets acquired. This includes reviewing each item to ensure that it satisfies the criteria of a capital asset and that the financial coding applied to the item is accurate in the financial system. Testing of this new process revealed that it is working as expected (see Section 3.3 for details).

Other than a yearly attestation letter signed by management at various levels, there was no consistent monitoring processes in place at the regional level that was related to the management of assets.

Through a review of documentation and through interviews with various individuals at the local, regional and national level, the audit team found minimal evidence of monitoring related to assets taking place. Specifically, the audit team did find that two regions were monitoring purchases processed through either the purchasing or government acquisition card modules within the financial system and following up with the individual operational units to ensure all capital assets and attractive items were added to the fixed asset listing.

In one region, the audit team found that monitoring of the disposal of capital assets and attractive items was occurring to further confirm that information was removed from the fixed asset listing once the asset or attractive item was disposed of.

The Financial Directive requires that attestation letters be completed annually by the institutional head, district director or RDC as applicable, stating that the count was accurate. Overall, the audit team found that while managers were attesting to the completeness of the counts, their accuracy was questionable although attestation letters were being completed as will be described in Section 3.2.3.

The lack of consistent monitoring processes at the regional level minimizes the opportunity for identifying issues and concerns related to the tracking of capital assets and attractive items on an ongoing basis.

Conclusion

Overall, the audit found that elements of a management framework were in place to support the management of assets. Namely, a financial directive on asset management, along with specific instructions on how to complete the yearly asset verification, were created and shared with all relevant staff. In addition, NHQ has implemented monitoring tools to control the quality of the accounting treatment of capital assets.

Notwithstanding the above, the audit noted a number of areas related to the management framework that need further strengthening and to ensure that the risks related to capital assets and attractive items are better managed. These gaps are identified below:

- The clarity concerns noted in the Financial Directive and the instructions for the yearly verification of assets increases the likelihood that the operational units may not be recording and accounting for all capital assets and attractive items in the methods required by the policy;
- The delimitation between the role and responsibilities of the OPIs asset coordinators versus those of the asset coordinators at the local operating unit is not well understood, not implemented consistently and has created confusion. This causes a risk that asset information related to specific asset classes is either not always added to the fixed asset listing or is entered more than once; and
- The lack of training or awareness sessions provided to asset coordinators and asset custodians to explain their respective roles increases the likelihood that capital assets and attractive items may not be fully safeguarded against loss, theft or misuse.

As the issues identified above illustrates the need for improvement of both the framework and the overall compliance in implementing the framework, recommendations have been made within section 4.0 under the Conclusion of this report.

3.2 Compliance with the Financial Directive and Instructions

The second objective for this audit was to provide reasonable assurance that CSC was complying with the relevant policies and directives related to asset management.

Compliance was assessed against primarily the *Financial Directive, 350-1, Asset Management*, and the *Instructions on Physical Asset Verification* (CMS-INST-2014-005). The audit assessed the treatment and accounting for capital assets and attractive items from the time of acquisition, through the physical asset verification, ongoing safeguarding and the ultimate disposal.

3.2.1 Acquisition of Assets

We expected to find that operational units were complying with the Financial Directive to ensure that all capital assets and attractive items acquired by CSC were categorized and tracked accurately once procured.

Sites understood the importance of tracking capital assets and attractive items; however, a risk that items may not be accurately recorded was identified.

The Treasury Board policy on asset management requires that departments retain both quantitative and qualitative information on the life cycle of assets. To ensure all capital assets and attractive items are entered in the financial system at acquisition, the Financial Directive specifies that the asset coordinator, in collaboration with the budget manager, is responsible to ensure that the appropriate information is entered within the asset listing in IFMMS. This list is important as it is the only mechanism in place to allow for the tracking of capital assets and attractive items.

In order to ensure that capital assets and attractive items purchased by CSC are being tracked and recorded as required, accurate recording of these items in the asset listing must occur once it is received by the local operational unit. The audit team found that asset coordinators at the sites were aware of the importance of ensuring capital assets and attractive items were all being recorded. For capital assets and attractive items being received, visited procedures were in place at the majority of institutions requiring that all deliveries be made to the institutional warehouse. This allowed the asset coordinator to ensure that the items were entered into the appropriate asset listing prior to being placed into service. However, for operational units without a warehouse (including non institutional sites) or for instances when assets were being received directly by the custodian, there was a greater risk that the asset coordinators were not informed of these items being acquired. While processes have been created to minimize this from occurring, asset coordinators at all levels stated that when the asset verifications occur, they often find additional assets which are in use but have not yet been entered into the fixed asset listing.

In order to further assist the asset coordinators with entering accurate information within the asset module, it is required that the Asset Recording and Transaction form be completed for each individual asset and attractive item. This form provides the asset coordinator with all of the relevant information to enter into the fixed asset listing. This includes the description of the item, the custodian name, the serial number and the original cost. The Financial Directive requires that it be maintained for each asset and attractive item, and that this form be updated when an asset is being transferred or ultimately disposed of. Overall, the audit team was unable to assess the adequacy of and compliance to this process, as many sites did not have a method to organize their forms and were unable to provide all of the forms for those assets which were included in the sample for verification. The lack of easy access to the forms by the asset coordinators would create a difficulty in updating the required information on the form, as required by policy, for disposal or transfer. While all sites were found to be creating these forms when an asset was being added to the system, the audit was only able to validate the existence of Asset Recording and Transaction forms for 397 of 856 (46%) assets sampled.

Overall, capital assets and attractive items were being coded to the appropriate category within the asset listing.

When capital assets and attractive items are entered into the fixed asset listing within IFMMS, they need to be classified under predetermined categories. There are 10 categories to choose from, of which only one (Category 09 – Custodial) applies to attractive items. Attractive items include items with an acquisition cost between $1,000 and $10,000, excluding taxes, plus other predefined items with an acquisition cost less than $1,000. For items entered as an attractive item, they are automatically expensed and are not recorded as assets in the financial statements. The other categories apply to capital assets and determine the depreciation rate based on useful life.

The audit team validated the use of the 09 Category for all of the attractive items which were placed into service between April 2012 and December 2014. For the 5,074 attractive items entered in the financial system during this period at the local operating units visited, the audit team found that all were correctly placed under a Category 09, thus not being depreciated from a financial standpoint. The audit team also verified the category entered for the 258 capital assets acquired during that same period for the sites visited as part of the audit. Overall, the audit found 6 instances (2%) of the 258 capital assets in the sample where an incorrect category was used. Specifically, three of these assets were video conferencing units purchased by National Headquarters and recorded as an attractive item under Category 09 rather than to the correct capital asset category. In this case, the error would have caused them not to be depreciated, thus effecting the appropriate accounting treatment.

3.2.2 Safeguarding of Assets

We expected to find that procedures were in place to allow for an appropriate level of safeguarding of both capital assets and attractive items to minimize the likelihood of loss, theft or misuse.

Few processes were in place at the local operating units to safeguard capital assets and attractive items.

The Financial Directive states that one of the key roles of asset custodians is to ensure that capital assets and attractive items are protected and that reasonable measures are taken to safeguard them. The audit team found that for many of the larger items and capital assets verified, sites had processes in place to ensure that they were safeguarded. For example, many of these items were permanently affixed or would be otherwise impossible to move. There were, however, many instances where capital assets could not be located by the audit team, thus creating a concern of whether all of these items were being well safeguarded. In relation to attractive items which are most portable and useful to an individual, the audit team found that few safeguards were in place. During interviews, the audit team found that, in many cases, users felt that there was no need to implement safeguarding measures because, in their view, they would notice if these items were missing as they were being used regularly. However, in actuality, by the time an asset or attractive item was found to be missing, it may be too late to properly investigate, as no one would know how long it had been missing, or who may have last used it. In many cases, custodians did not see their role as being responsible to safeguard these assets, as they felt missing items would be discovered during the year-end inventory count. The lack of processes to ensure that capital assets and attractive items are being safeguarded on an ongoing basis increases the risk that assets may be misplaced or otherwise lost, thus costing the organization. Moreover, given the nature of CSC's operations, in some cases it can also present a security risk.

3.2.3 Asset Verification

We expected to find that all sites completed a year-end verification of assets in a consistent manner as required by the Financial Directive.

All sites completed the required year-end count; however, most sites did not fully follow the instructions provided.

The Financial Directive requires an annual verification of capital assets and attractive items on hand as of March 31st. The purpose of the annual verification is to validate the information contained within the fixed asset listing, to identify new capital assets and attractive items which may exist and have not yet been added to the fixed asset listing and to report missing, lost or stolen assets. A set of instructions has been created and promulgated in addition to the Financial Directive to explain the procedures for planning and conducting the annual verification.

The Financial Directive allows for sites to choose the appropriate verification count strategy for their site. They can complete a random sampling count, a wall-to-wall count or a hybrid version of these two. However, for the asset verification of the year ending March 31, 2015, a call letter was issued in January 2015 requiring that all operational units complete a full wall-to-wall count. The audit team was able to confirm that each operational unit visited was aware of this requirement; unfortunately, not all locations completed the verification in line with the instructions. Namely, the instructions required that the count be completed by using a blank listing to record all capital assets and attractive items found. This list, once completed, was to be compared to and reconciled against the fixed asset listing to determine those assets that had not yet been entered and those assets which had either been lost or had since been disposed of. At many of the operational units visited, the audit team found that the asset coordinators were providing the specific listing out of the Fixed Asset Module to the relevant counters for them to complete their count. By using this non-compliant method, the asset counting had a greater risk of not being fully complete, since individuals had the opportunity to just find the assets on their listing and not look fully for assets which may exist but have not yet been entered.

The instructions also required that independent count teams be created to record and validate the capital assets and attractive items. At many sites visited however, the audit team found that those individuals who were listed as the asset custodians were completing the asset verification for the items for which they were responsible. This lack of independence raised concern that the asset verification may not have been fully completed and that not all capital assets and attractive items were physically verified. The audit team did find evidence in some cases where the asset custodian did not complete a review of the assets on the list provided, and simply signed the form saying all assets were accounted for. As discussed in Section 3.1.2, the audit team found that many asset custodians did not fully understand the importance of tracking and safeguarding the assets and the effect this information had on the representation of capital assets within the financial statements.

The audit team could not validate the accuracy of the asset verification.

To validate the accuracy of the full wall-to-wall count that was to occur in March 2015, the audit team took a sample of capital assets and attractive items for all sites visited and compared, in the Spring of 2015, the accuracy of this information against the asset counts completed by the operational units. Overall, of the 661 assets sampled, the audit team could not find 175 (25%) of them. Of greater concern was the finding that of the 175 capital assets and attractive items that the audit team could not locate, the operational units had stated that they were able to find at least 80 of them during their own asset verification. **Table 3** below contains the results of the completed asset verification by region while **Table 4** illustrates the cost distribution of the 175 items not located.

Table 3: Results of Asset Verification by Audit Team

Region	Number of Items Sampled	Number of Items Found	Number of Items Not Found
National Headquarters	54	21 (39%)	33 (61%)
Atlantic Region	97	68 (70%)	29 (30%)
Quebec Region	139	120 (86%)	19 (14%)
Ontario Region	161	107 (66%)	54 (34%)
Prairies Region	114	79 (69%)	35 (31%)
Pacific Region	96	91 (95%)	5 (5 %)
TOTALS	**661**	**486 (74%)**	**175 (26%)**

Table 4: Cost Distribution of Assets Not Found by Audit Team

Original Value of Item	Items Not Found by Audit Team	Aggregate Cost	Net Book Value (as of March 31, 2015)
Less than $999	32	$16,930	N/A
Between $1,000 and $9,999	101	$83,679	N/A
Greater than $10,000	42	$1,211,588	$ 226,466
TOTALS	**175**	**$1,512,197**	

As stated, while all sites complied with conducting a complete asset verification, the accuracy of the count became questionable, even though the operational unit asset verification took place shortly before the audit testing. One reason for this inaccurate count could be the non-compliant nature of the counts as discussed above. As previously stated, the audit team did find instances where the asset custodian sheet was signed attesting that all assets were verified, where in reality there was no evidence to support that a full asset verification occurred.

3.2.4 Disposal of Assets

We expected to find that capital assets and attractive items were being identified and disposed of in accordance with the Financial Directive.

Due to a lack of disposal documentation maintained by the operational units, the audit team was unable to conclude on compliance with the Financial Directive.

The Financial Directive defines disposal as the removal of assets from a department, whether by transfer of ownership into new hands or through recycling as scrap. Within the federal government, any asset which has a value, including disposal of fleet vehicles, is to be disposed of through Public Works and Government Services Canada's GC Surplus site. This site resells government assets to the general public. All net proceeds from the sale are returned to CSC. For computer related equipment being disposed, the approved method is to donate these items to the Computers for School program. Finally, for any asset which is deemed to have no value, these items are to be treated as waste and disposed of accordingly. For capital assets and attractive items deemed to be missing following the yearly asset verification, these items must also be recorded and written-off.

The Financial Directive requires operational units to create two committees to track the disposal of assets. Asset review boards provide for an independent assessment of losses and other proposed adjustments following the physical verification of assets. Disposal review boards are responsible for reviewing and challenging proposed disposal strategies and ensure that departmental policies regarding disposal are respected.

Overall, the audit found that there was no consistency between sites on how the local operational unit managed write-offs and disposals. While asset coordinators were able to explain how they handled disposals and write-offs, the audit team was unable to verify the records of decisions from the various boards as local operational units did not organize this documentation in a useful manner.

The process used for the disposal of assets varied significantly. All sites visited used the appropriate forms and were able to explain their disposal process. Interviewees were generally able to explain where the assets were sent for disposal, whether GC Surplus, Computers for Schools or destroyed as scrap. However, at the majority of operational units there was no documentation to support the approval of, or the method used for disposal.

Furthermore, the audit found that the process to complete the DRBs and ultimately remove the capital assets and attractive items from the fixed asset listing varied significantly by site. For some operational units, the audit team found that DRBs were regularly held, and verified the existence of each item prior to disposal in order to confirm and challenge the proposed disposal method. At other locations, the form was signed by all the required individuals without any evidence to demonstrate that the information was ever verified. Additionally, in some cases, the audit team found evidence of disposal documentation having been prepared; however, the items had already been removed from the fixed asset listing when the board had not yet occurred and the assets were still present at the site. Conversely, the audit team found evidence at one site that a DRB had never been convened, although items were being disposed of.

For the write-off of assets, the audit team found through interviews that sites were unclear of the actual process to record these lost items. At some sites they stated that they would complete the same disposal form as required for a DRB, while other sites stated that they did not need to document this, as they would simply remove it from the fixed asset listing within IFMMS once the loss was investigated.

Overall, the audit team found that the policy framework was not clear related to the disposal process of capital assets and attractive items. Staff responsible to implement the disposal process was unaware of the purpose and effect of completing asset and disposal review boards. Furthermore, the form being used for disposal review boards was outdated and referred to both legislation and positions which no longer existed. Finally, the financial framework did not provide local staff with processes to follow to document the write-off of lost items.

Conclusion

Overall, the audit found aspects within the asset management portfolio where operational units were complying with the requirements. Some of these included the use of an appropriate category within the fixed asset listing and being aware of the requirement to complete a full wall-to-wall verification for the fiscal year ending March 31, 2015. Still a number of compliance issues were noted, specifically surrounding the process implemented by the operational units to ensure a valid and accurate asset count occurred and that the disposal process was followed. Certain risks to the organization were identified and these are further described below:

- Inaccuracies noted in the asset verification completed for fiscal year 2014-15 challenge the quality, accuracy and usefulness in information used to account for and track capital assets and attractive items;
- Lack of processes in place to safeguard attractive items increases the risk and likelihood of assets being lost or misappropriated and the organization not being able to investigate and determine the cause, or be aware of any security implications; and
- The lack of a consistent process and lack of documentation to support the disposal of capital assets and attractive items creates a higher risk that assets are not fully being tracked and accounted for, and that the disposals are not occurring through appropriate disposal methods.

As the issues identified above will impact the need for improvement of both the framework and the overall compliance in implementing the framework, recommendations have been made within Section 4.0 of this report.

3.3 Implementation of Recommendations from both the 2011-12 and 2012-13 Audits of the Public Accounts

The third objective for this audit was to provide reasonable assurance that CSC had addressed recommendations issued with regards to the Office of the Auditor General’s 2011-12 and 2012-13 Audits of the Public Accounts. To assess this criterion, the audit team conducted interviews with staff within the Comptroller’s Branch of the Corporate Services Sector as well as an analysis of transactions for capital assets acquired since April 1, 2012.

Overall, CSC continues to work towards addressing the recommendations made in the Office of the Auditor General’s management letter in relation to their 2011-12 and 2012-13 Audits of the Public Accounts.

In both fiscal years 2011-12 and 2012-13, the Office of the Auditor General conducted audits of CSC’s Public Accounts. The objective of these audits was to obtain reasonable assurance that the summary of financial statements included in the Public Accounts of Canada was free from material misstatements. As part of the audits, it was found that CSC had a large discrepancy between the capital asset sub-ledger and the general ledger. In addition, the audits also raised concern that there was a potential for an understatement of depreciation expense due to the inaccuracies noted in the fixed asset listing.

The recommendation from the 2013 audit was that "*CSC should continue to monitor and reconcile these two systems and put in place target dates to resolve the current differences […] and should position itself appropriately to be able to properly account, depreciate and manage these assets on an ongoing basis".*

In order to respond to the recommendations made by the Office of the Auditor General, CSC is currently reconciling the ledgers for machinery and equipment to minimize the variance. As of September 2015, four of the seven equipment accounts had been fully reconciled. Going forward, the Comptroller's Branch has instituted ongoing processes to ensure that all capital assets acquired are being recorded appropriately in order to ensure that further discrepancy does not occur.

Through the testing of individual capital assets acquired since April 1, 2012, the audit team confirmed that CSC is in a better position to ensure accuracy of their information. Of the 258 capital assets acquired in our scope period, 252 (98%) were coded to the proper category in the fixed asset listing to allow for the correct depreciation expense. Furthermore, the audit team reviewed the financial coding of these 258 capital assets to ensure that they were coded to the correct financial coding. Namely, the audit team wanted to confirm that the appropriate line object to identify the item as a capital asset was used. Overall, it was found that 232 of the 258 (90%) capital assets in our scope period used the correct financial line object. Of note, only one of these errors occurred following the new reconciliation processes that the Corporate Services Sector implemented on April 1, 2014.

The audit team concludes that with the actions which are being implemented by the Comptroller's Branch in the reconciliation of the sub-ledger with the general ledger, CSC is satisfying the first part of the recommendation made by the Office of the Auditor General. In the end, the variance between the capital asset sub-ledger and the general ledger continues to decrease as the discrepancies are found and corrected. However, CSC has not met the target of eliminating the discrepancy by March 31, 2015. With respect to the second recommendation by the Office of the Auditor General, the audit team found that CSC was able to properly account and depreciate capital assets acquired. However, as noted throughout the current audit on asset management, CSC still has a fair amount of work to do with respect to the ongoing management of capital assets, including the safeguarding and disposing of them.

4.0 Conclusion

Based on the audit findings, the audit team concluded that while aspects of a management framework related to the management of assets were in place, there were a number of areas where further strengthening was required. Some of the identified gaps include:

- The clarity concerns noted in the Financial Directive and the instructions for the yearly verification of assets increases the likelihood that the operational units may not be recording and accounting for all capital assets and attractive items in the methods required by the policy;
- The delimitation between the role and responsibilities of the OPIs asset coordinators versus those of the asset coordinators at the local operating unit is not well understood, not implemented consistently and has created confusion. This causes a risk that asset information related to specific asset classes is either not always added to the fixed asset listing or is entered more than once; and
- The lack of training or awareness sessions provided to asset coordinators and asset custodians to explain their respective roles increases the likelihood that capital assets and attractive items may not be fully safeguarded against loss, theft or misuse.

In relation to compliance, the audit found aspects within the asset management portfolio where operational units were complying with the requirements. That said, a number of compliance issues were noted including:

- Inaccuracies noted in the asset verification completed for fiscal year 2014-15 challenge the quality, accuracy and usefulness for information used to account for and track capital assets and attractive items;
- Lack of processes in place to safeguard attractive items increases the risk and likelihood of assets being lost or misappropriated and the organization not being able to investigate and determine the cause; and
- The lack of a consistent process and lack of documentation to support the disposal of capital assets and attractive items creates a higher risk that assets are not fully being tracked and accounted for, and that the disposals are not occurring through appropriate disposal methods.

With respect to the recommendations raised by the Office of the Auditor General's 2011-12 and 2012-13 Audit of the Public Accounts, the audit found that with the actions which are being implemented by the Comptroller's Branch in the reconciliation of the sub-ledger with the general ledger, CSC is satisfying the first part of the recommendation made by the Office of the Auditor General. In the end, the variance between the capital asset sub-ledger and the general ledger continues to decrease as the discrepancies are found and corrected. However, CSC has not met the target of eliminating the discrepancy by March 31, 2015. With respect to the second recommendation by the Office of the Auditor General, the audit team found that CSC was able to properly account and depreciate capital assets acquired. However, as noted throughout the current audit on asset management, CSC still has a fair amount of work to do with respect to the ongoing management of capital assets, including the safeguarding and disposing of them.

Overall, some risks which were noted as part of the audit include the possibility that capital assets and attractive items may be misappropriated and ultimately incorrect information being entered into the financial system, thus impacting the accuracy of the financial statements. In order to mitigate these risks, a number of recommendations have been made to senior management.

Recommendation 1

The Assistant Commissioner, Corporate Services, should clarify the management framework to ensure all aspects related to the acquisition, recording, safeguarding, yearly verification and disposal of assets are clearly defined, understood and implemented. This includes:

- Updating the Financial Directive and yearly count instructions;
- Developing appropriate and consistent training for all relevant staff; and
- Determining methods of monitoring to ensure effective implementation is required by the local operational units and regional and national management.

Management Response:

We agree with this recommendation. By July 31, 2016, the Assistant Commissioner, Corporate Services, will:

- Develop and implement national training for Asset Coordinators, Budget Managers and Custodians for asset management;
- Revise and update the Financial Directive, 350-1 and CMS-INST-2014-005 Physical Asset Verification Instructions to address the audit findings;
- Develop a Contracting and Materiel Services Instructions document on Attractive Items Guidelines to clarify attractive item determination and processes;
- Perform a review and clean up of the asset records in the IFMMS Fixed Asset Module;
- Develop monitoring methodologies for the identification and tracking of assets.

Recommendation 2

The Regional Deputy Commissioners, along with the Assistant Commissioner, Corporate Services, should ensure that all operational units are maintaining accurate and up-to-date asset information within the Fixed Asset Module, are completing full, timely and accurate asset verifications in compliance with the Financial Directive and are ensuring that ongoing adequate safeguarding of assets is taking place, including appropriate disposal.

Management Response:

We agree with this recommendation. By July 31, 2016, the Regional Deputy Commissioners, with support of the Assistant Commissioner, Corporate Services, will:

- Increase communication and reiterate asset management procedures and requirements to all staff involved in asset management; and
- Implement a national monitoring framework to ensure the Fixed Asset Module is accurate and up-to-date.

5.0 Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by July 31, 2016.

6.0 About the Audit

6.1 Approach and Methodology

Audit evidence was gathered through a number of methods such as: review of documentation, detailed testing and interviews with staff at NHQ and in the regions.

Interviews: A total of 53 interviews were conducted with management and staff at the local, regional and national levels. Interviewees consisted of Regional Comptrollers, Regional Managers of Contract and Materiel Management, Assistant Wardens, Management Services, local Asset Coordinators and various budget managers and other individuals at the local level. Interviews were also conducted with various employees at NHQ, including those working in the Corporate Services Sector and in the Information Management Branch.

Review of Documentation: Relevant documentation including TB policies and CSC financial directives and instructions related to the management of assets were reviewed as part of the audit. The audit also examined the asset tracking information maintained within the Integrated Financial Management and Materiel System. Finally, the audit included an examination of records of decisions maintained by disposal review boards which were held at the operational units along with a review of Asset Recording and Transaction sheets and invoices for a sample of assets.

Observations: Walk arounds and observations were conducted at each site visited in order to validate the accuracy of the physical asset verification that all sites were to have completed shortly before the audit visit.

Analytical Review: An analytical review was conducted throughout the audit in order to determine any trends or anomalies found that impacted CSC's ability to effectively track and safeguard their assets.

Site Selection: The audit was national in scope and included visits to sites in all regions. Site visits were conducted at a sample of institutions covering each security level, community offices including District Offices, Area Parole Offices and Community Correctional Centres and both Regional and National Headquarters. A full listing of sites included in this audit is in ***Annex B***.

6.2 Past Audits Related to Asset Management

The IAS has not previously undertaken an audit specifically on asset management; however, a number of previously completed audits include components which are related to the topic.

In 2010, the IAS completed an *Audit of Fleet Life Cycle Management*. One of the criteria of this audit focused on whether physical counts of fleet vehicles were being conducted in accordance with TB standards and CSC directives and guidelines. Overall, the audit found that only 2 of the regions regularly completed the annual physical count. A second relevant criterion of the audit also examined the disposal process for fleet assets. Overall, the audit found that the disposal process complied with relevant TB policies and CSC directives.

An *Audit of Medication Management* was conducted in 2012 and included sections on the safeguarding and tracking of medication inventory at both regional pharmacies and at individual institutions. The audit found that while institutions were compliant with maintaining a perpetual inventory system for narcotics, they were not always being safeguarded in compliance with the policies. Furthermore, the audit noted that regional pharmacies were unable to maintain a complete inventory of non-narcotic medication, as the various pharmacy computer information systems being used across the country did not fully support this.

In 2014, an *Audit of Management of Security Incidents* was completed. As part of this audit, the audit team reviewed controls around the safeguarding of OC spray and ammunition, as well as the inventory activities surrounding firearms. Although the audit found concerns with how sites were tracking the location and the individual user of a specific item on any given day, the audit did not find concerns with how the sites inventoried and tracked these items on an ongoing basis.

In 2014, the IAS completed an *Audit of Core Management Controls*. The overall objective of this audit was to determine whether the key controls in place to support the department's financial statements were operating effectively to mitigate the risk of material misstatement. Overall, the audit found that key controls for the management of capital assets required improvements for both process implementation and documentation in order to ensure that capital assets were reported accurately and according to applicable policies and directives. The audit stated that the lack of documentation was of sufficient concern that the Internal Audit Sector would schedule an audit further examining these areas in the near future. The current Audit of Asset Management will fulfill this commitment.

6.3 Statement of Conformance

In my professional judgment as Chief Audit Executive, 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, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the area examined.

The audit conforms to the Internal Auditing Standards for Government of Canada, as supported by the results of the quality assurance and improvement program. The evidence gathered was sufficient to provide senior management with proof of the opinion derived from the internal audit.

Sylvie Soucy, CIA
Chief Audit Executive

Date

Glossary

Acquisition card: A charge card issued under a contract between card issuers and the Government of Canada for the purchase and the payment of goods and services that are authorized official government business transactions.

Acquisition cost: Costs, in addition to the purchase price, that include those costs directly attributable to the purchase, such as construction, legal fees, delivery, setup, and freight charges. Other costs, such as planning and feasibility costs, are expensed. The goods and services tax (GST) and the harmonized sales tax (HST) are not capitalized. Departments must remain consistent in determining asset costs versus expense items.

Asset: Tangible or intangible things of the Government of Canada. Assets include but are not limited to: information in all forms and media, networks, systems, material, real property, financial resources, employee trust, public confidence and international reputation.

Asset Coordinators: These individuals are responsible to ensure that all capital assets and attractive items within their area of responsibility are identified, tagged, documented and accurately recorded within the Integrated Financial and Materiel Management System. These individuals also oversee periodic and annual verification of assets and participate as members of the Asset Review Boards as appropriate.

Asset Custodians: These individuals are responsible and accountable for assets used by them while employed at CSC. They need to ensure that assets are protected and that reasonable measures are taken to safeguard the items.

Attractive item (*expensed asset*): Item with a unit price of more than $1,000 and less than $10,000, excluding taxes, that are commonly used in their present or slightly modified form. Normally, they can be transported by hand, subject to misappropriation and easily converted to personal use.

Capital asset: For the purpose of this report, generally includes any tangible asset which has been acquired, constructed or developed with the intention of being used on a continuous basis and not intended for sale in the ordinary course of business. Departments will treat as a capital asset any asset that, in addition to meeting the above conditions, has a useful life in excess of one year and a per item cost of greater than $10,000, excluding taxes.

Control: Any action taken by management, the deputy head, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Cost: The amount of consideration given up to acquire, construct, develop, or improve a tangible capital asset, and means all costs directly attributable to the acquisition, construction, development or improvement of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.

Disposal: The removal of assets from a department, whether by transfer of ownership into new hands or through recycling as scrap.

Inventory: Materiel held in stock at a storage facility, including materiel that is undergoing repair or is in the supply system.

Materiel management: All activities necessary to acquire, hold, use, and dispose of material, including the notion of achieving the greatest possible efficiency throughout the life cycle of materiel assets.

Risk: The expected magnitude of an event occurring that will have an impact on the achievement of objectives. Risk is measured as a function of the extent of the event's impact and the likelihood of its occurrence.

Transfer: The conveyance or removal of an asset from one department to another.

Useful life: How long an asset is expected to be in good operational or service order before major modifications or upgrades will have to be made to the asset.

Write-off: The formal documentation process to record the disposition of assets. It applies to all assets purchased or acquired by the Crown, regardless of whether they are tracked assets or not. Appropriate documentation regarding the disposal or loss of assets is required to adjust the inventory record and to support information provided to Public Accounts.

Annex A: Audit Criteria

The following table outlines the audit criteria developed to meet the stated audit objective and audit scope:

Objective	Audit Criteria	Met/ Partially Met/ Not Met
1. Provide reasonable assurance that a management framework is in place and complies with Legislative and Treasury Board requirements.	1.1 – CSC's directives and related guidance are up-to-date, clear, and comply with Legislative and Treasury Board requirements.	Partially Met
	1.2 – CSC's organizational structure, and roles and responsibilities are clearly defined, documented and understood.	Partially Met
	1.3 – Employees are provided with the necessary training and information to support the discharge of their responsibilities.	Not Met
	1.4 – Monitoring practices and controls are in place to ensure compliance with asset management policies and directives. Information is reported and includes a formal follow-up mechanism.	Partially Met
2. Provide reasonable assurance that CSC is complying with relevant policies and directives related to asset management.	2.1 – Processes exist and have been implemented to ensure that all assets and attractive items acquired by CSC are categorized and handled appropriately as per relevant directives.	Partially Met
	2.2 – Controls are in place to ensure that assets and attractive items are appropriately safeguarded against loss, theft and misuse.	Partially Met
	2.3 – Procedures have been developed and implemented at all levels to ensure that verification of assets and attractive items are being completed in a regular, accurate and systematic manner.	Partially Met
	2.4 – Assets and attractive items are being identified for and disposed of in accordance with requirements.	Not Met
3. Provide reasonable assurance that CSC has addressed the Office of the Auditor General's recommendations with regards to the 2012-13 Audit of the Public Accounts.	3.1 - CSC continues to monitor and reconcile the Fixed Asset Module and general ledger in order to resolve the current differences.	Met
	3.2 - CSC puts processes in place to position itself appropriately to be able to properly account, depreciate and manage capital assets on an ongoing basis.	Partially Met

Annex B: Site Selection

Region	Sites
Atlantic	Regional Headquarters Atlantic Dorchester Institution Atlantic District Office Moncton Area Parole Office
Quebec	Regional Headquarters Quebec Centre Fédéral de Formation Établissement Joliette East-West District Office Gatineau Area Parole Office
Ontario	Regional Headquarters Ontario Millhaven Institution Bath Institution Central District Office Toronto West Parole Office Keele CCC
Prairies	Edmonton Institution Grierson Institution Alberta / Northwest Territories District Office Edmonton Area Parole Office
Pacific	Regional Headquarters Pacific Fraser Valley Institution for Women Pacific Institution Regional Supply Warehouse