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Audit of PCH Promotional Items Inventory Process

Office of the Chief Audit Executive
Audit and Assurance Services Directorate

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Executive Summary

Introduction

The mission of the Major Events and Celebrations Branch (MEC) is to promote active citizenship through civic participation, recognize Canadians' shared values and celebrate the people and events that shape Canada. The State Ceremonial and Protocol Directorate is within this branch and has the following main objectives:

- to enable the Minister of Canadian Heritage to fulfil his/her statutory obligations in the field of State Ceremonial; this mission is particularly relevant in the context of the overall mandate of the State Ceremonial and Protocol Directorate to promote pride in Canada; and
- to actively encourage the participation of Canadians in the celebration of their country and, in the process, to heighten an awareness of and pride in Canada by increasing their knowledge of its institutions, heritage, symbols, citizenship, culture and values.

One of the activities of State Ceremonial and Protocol Directorate is to administer the Parliamentary Flag Program. The objective of this program is to enable Canadian parliamentarians to promote national symbols and encourage Canadians to express pride in their symbols.

As part of its mandate, the State Ceremonial and Protocol Directorate is responsible to administer the program and to ensure that the management of the promotional items is well controlled, that the inventory is tracked and items are secured in transit.

The budget of the State Ceremonial and Protocol Directorate for 2012-13 was approximately \$1.8 million Operating and \$836 thousand Grants and Contributions which represents 0,2 % of the Department's total budget of \$1.3 billion.

Authority, Objective and scope

The authority for this audit is derived from the Multi-Year-Risk-Based Audit Plan 2013-14 which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2013.

The objective of this audit was to ensure that inventories of promotional items are subject to effective custodial accountability procedures and physical safeguards, including periodic physical counts. The scope of this audit covered processes and practices covering fiscal years 2012-2013 to the substantial completion of the audit work. Financial information on inventory of promotional items is reported in PCH Financial Statements and was excluded from the scope of the audit.¹

¹ [Canadian Heritage Financial Statements March 31, 2013](#)

Key Finding

Throughout the audit work, the audit team observed several examples of how governance structures, risk management practices, and internal controls are properly designed and applied effectively. This resulted in several observed strengths which are listed below:

- Even though the tracking of assets which cost less than \$1,000 is not mandatory according to the Departmental Directive of the Management on Moveable Assets, the Directorate has implemented inventory tracking system;
- Management regularly receives information on the inventory process in order to be able to respond to the needs;
- There is a monitoring system in place and budgets are reviewed on a monthly basis;
- Roles and responsibilities within the Directorate, as well as for third party inventory management (St-Joseph Group Inc.), are well defined and understood;
- Inventory reports received from third party inventory management are regularly reviewed to ensure proper inventory levels are maintained;
- Cost unit reports are reviewed by 3 members of the State Ceremonial and Protocol Directorate, as well as by Finance;
- Inventory material is kept in a secure environment with limited access.

Governance

Roles and responsibilities related to PCH promotional items inventory process are clear and management receive timely, complete and accurate information for decision making.

Internal Controls

Internal controls are in place to ensure an effective custodial accountability procedures and physical safeguards.

Risk Management

Specific mitigation measures are in place to manage risks that are deemed by management to be unacceptable.

Recommendations

There is no recommendation required.

Statement of Assurance

In my professional judgment as Chief Audit Executive, the audit conforms with the Internal Auditing Standards for the Government of Canada as supported by the results of the quality assurance and improvement program.

Audit Opinion

In my opinion, the Department's inventory process is well managed, with effective governance, internal controls, and risk management practices resulting in no recommendation.

Original signed by

Maria Lapointe-Savoie
Chief Audit Executive
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1.0 Introduction and Context

1.1 Authority for the Project

The authority for this audit is derived from the Multi-Year-Risk-Based Audit Plan 2013-14 which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2013.

1.2 Background

The objectives of the State Ceremonial and Protocol Directorate are to:

- enable the Minister of Canadian Heritage to fulfil his/her statutory obligations in the field of State Ceremonial. This mission is particularly relevant in the context of the overall mandate of the State Ceremonial and Protocol Directorate to promote pride in Canada; and
- actively encourage the participation of Canadians in the celebration of their country by increasing their knowledge of Canada, its institutions, heritage, symbols, citizenship, culture and values.

The State Ceremonial and Protocol Directorate dimensions are as follows:

	PCH Inventory	All Activities ²
	<i>(in thousands of dollars)</i>	
Full-time equivalent (FTE)	3	16.3
Operating Budget	\$854	\$1,800
Grants and Contributions	0	\$836

One of the activities of State Ceremonial and Protocol Directorate is to administer the Parliamentary Flag Program and ensure the management of the promotional items inventory. This audit covered the inventory management process established by the State Ceremonial and Protocol Directorate.

The following table presents the value of promotional items for the year ending March 31:

	2013	2012	2011
	<i>(in thousands of dollars)</i>		
Promotional articles ³	\$2,117	\$3,255	\$1,736

² Source: Finance and Human Resources

³ [Canadian Heritage Financial Statements March 31, 2012](#)
[Canadian Heritage Financial Statements March 31, 2013](#)

This audit was limited to promotional items such as:

- Canadian flag pin (in plastic)
- Paper hand flag (Canadian flag)
- Bookmark with national anthem lyrics
- Canadian flag poster
- Poster promoting Celebrate Canada period
- Blank Canada Day activity poster
- Canada Day stickers

These promotional items are kept in various locations:

- St-Joseph Group Inc. warehouse (under contract with the Department)
- National Headquarters (15 and 25 Eddy Street)

According to the Directive of the Management of Moveable Assets (Capital and Non-Capital), promotional items are considered attractive assets. In other words, these are “assets which cost less than \$1,000 and are not mandatory. Any Responsibility Centre Manager (RCM) who wishes to track those assets (i.e. blackberries, laboratory equipment, softwares, etc.) in the Integrated Financial and Material System (STAR) may do so; this is strictly optional”. State of Ceremonial and Protocol Directorate do not make use of STAR for managing and controlling the inventory of promotional items. They use their own inventory management system as well as the one from St-Joseph Print Group Inc. This audit focused on the systems and practices in the State Ceremonial and Protocol Directorate to manage and control promotional items.

2.0 Objective

The objective of this audit was to ensure that inventories of promotional items are subject to effective custodial accountability procedures and physical safeguards, including periodic physical counts.

3.0 Scope

The scope included processes and practices covering fiscal years 2012-13 to the substantial completion of the audit work. The processes and practices for carrying out periodic physical counts were examined in this audit. Financial information on inventory of promotional items is reported in PCH Financial Statements and was excluded from the scope of the audit⁴

⁴ [Canadian Heritage Financial Statements March 31, 2013](#)

4.0 Approach and Methodology

The audit of the PCH promotional items inventory process was conducted in accordance with the Treasury Board Secretariat's Internal Auditing Standards for the Government of Canada, and Policy on Internal Audit. Audit criteria were developed based on the Treasury Board Secretariat's Management Accountability Framework: A tool for Internal Auditors, policies and directives. The detailed audit criteria are presented in Appendix A.

The audit methodology included:

- A review of the organization's documentation, guidelines and procedures, Terms and Conditions, policy and legislation relevant to the organization;
- Collection of data through interviews and observations with the organization's personnel to examine processes, procedures and practices;
- Mapping the inventory processes;
- Testing a sample of promotional articles; and
- Review the annual inventory count procedures and accounting practices.

5.0 Findings and Recommendations

This section presents the detailed findings of the Audit of Promotional Items Inventory Process. The findings are based on evidence gathered through the examination of documentation, analysis, mapping, file testing and interviews conducted for each of the audit criterion. In addition to the findings presented in the audit report, observations of conditions that were non-systemic and of lower materiality and risk were communicated to management's for consideration and action. Appendix A provides a summary of all findings and conclusions for each criterion assessed. Details of the audit findings are presented below.

5.1 Governance

Roles and responsibilities related to PCH promotional items inventory process are clear and management receive timely, complete and accurate information for decision making.

The Director, State Ceremonial and Protocol Directorate is one of five senior positions reporting directly to the Executive Director, Major Events and Celebrations. As part of its broader responsibility, the director is responsible for providing strategic direction and leadership in the coordination of events of national interest.

He is also responsible for managing the programs of national symbol including the Parliamentary Flag Program, the distribution of promotional material for Celebrate Canada and National Flag of Canada Day including the contract for warehousing and distribution services as well as information products and services relating to national symbols.

The Director is a member of the Major Events and Celebrations Branch Management Committee. The Director must take a corporate view of issues being addressed by the Management Committee and bring the objectives related to the promotion of Canadian symbols and the planning and organization of events of national significance to the Branch decision-

making and planning processes as well as provide related strategic advice and guidance to the Executive Director, the Assistant Deputy Minister, the Deputy Minister and the Minister. The Director is the Chair of the Committee for the use of Parliament Hill, which includes a variety of federal departments and can be called upon to sit on one of the Department's governance committees.

Most of the warehousing and distribution of promotional material is housed with the St-Joseph Print Group Inc., under contract with Canadian Heritage. The Director, State Ceremonial and Protocol, is the departmental representative for whom the work is being carried out and is responsible for all matters concerning work under the contract. The Director is also responsible to certify that the work has been performed in accordance with the contract.

There are three FTEs reporting directly to the Director, State Ceremonial and Protocol. Their main activities consists of distribution of promotional material related to national symbols such as parliamentary flag program, Celebrate Canada National Flag of Canada Day as well as information products and services relating to national symbols. They also initiate and manage contracts related to all areas of responsibility such as flags, pins, etc. as well as ensure that MPs receive promotional materials such as flags and pins for distribution to the general public.

Analysis

The audit team identified that roles and responsibilities are clearly communicated and understood. The Director, State Ceremonial and Protocol, has frequent discussions with his staff. Auditors found that there are no overlaps in terms of roles and responsibilities related to inventory process.

The Director, State Ceremonial and Protocol receive regular inventory reports from St-Joseph Print Group Inc. on the movement of promotional items. This inventory report is regularly reconciled with distribution orders and purchase orders submitted by State Ceremonial and Protocol for processing. These reports along with information from internal staff provide the Director with the information to manage the inventory of promotional items and inform senior management for decision making process.

The Director, State Ceremonial and Protocol, has frequent discussions with the Executive Director and the ADM with respect to his overall responsibilities and uses these opportunities to inform his senior managers on the inventory of promotional items. Since most orders for promotional items are over \$10K and these orders are approved by the ADM, senior management is regularly informed of matters related to inventory of promotional items. In addition, when the Director and his staff identify items for deletion, these actions are discussed with the Executive Director and the rationale for deletion noted on the inventory listing. When the yearly budget is established, a broader discussion is held with Senior Management on future needs such as sending kits to a possible increasing number of MPs.

Conclusion

Auditors found the operational and custodial risk over the inventory of promotional items to be low. The Director had a good understanding of his roles in terms of inventory management as well as good practices for maintain stock levels. Roles and responsibilities over the inventory management are clear and management practices are adequate for the material, value and risks involved with the inventory of promotional material. In addition, management receive timely, complete and accurate information for decision making.

Recommendation

No recommendations as a result of this positive finding.

5.2 Internal Controls

Internal controls are in place to ensure an effective custodial accountability procedures and physical safeguards

5.2.1 Inventory Processes

The audit team identified and mapped the following key inventory processes:

- Distribution to Canadian parliamentarians & lieutenant governors;
- Distribution to Schools & Organizations;
- Distribution to Public and other requests; and
- Purchases of promotional material.

The mapping represents the actual processes and they were confirmed with key individuals involved in the process.

Analysis

The audit team tested a sample of transactions through the processes to determine the adequacy of internal controls. The following activities were tested in our sample:

- Purchase and distribution of promotional material;
- Promotional material received to purchase orders;
- Authorization of transactions;
- Verification of Invoices;
- Movement of inventory; and
- Recording of transactions in inventory systems (Access database and Integrated Distribution Management System (IDMS) reports)

Auditors found that:

- Promotional items are correctly recorded in the IDMS at St-Joseph Print Group Inc. warehouse and in Access System at National Headquarters;
- Promotional items received are compared to orders;
- Inventory transactions are recorded on a timely basis;
- Budget is reviewed on monthly basis.

Conclusion

Management relies on three inventory systems: an Excel spreadsheet, an Access database and the inventory management system of St-Joseph Print Group Inc. Our tests did not reveal any serious errors or omissions that would warrant senior management attention.

5.2.2 *Physical Safeguard and Periodic Inventory Count*

Promotional material is stored in two locations, at PCH headquarters and St-Joseph Print Group Inc. At PCH Headquarters there are three areas where promotional material is stored: a) a cage in the basement; b) a cabinet on the State Ceremonial and Protocol Directorate floor and; c) a clerk's desk. St-Joseph Print Group Inc. provides climate control storage for a number of organizations including PCH. Most of PCH's promotional material is stored at St-Joseph Print Group Inc. Once a year, on or near March 31st, an inventory count is carried out of the promotional material at St-Joseph Print Group Inc. This count is done jointly by Accounting Operations, Financial Policy & Systems, and State Ceremonial and Protocol Events Directorate. Financial Policy & Systems leads the year-end inventory count which provides assurance of the value of the inventory to be reported on Departmental Financial Statements.

Analysis

The audit team observed the following security measures over promotional material stored at PCH headquarters:

- Access to premises requires a security pass;
- Inventory material is kept in a secure environment; and
- Access is limited to three employees.

St-Joseph Print Group Inc.:

- Access to premises requires a security pass;
- Inventory material is kept in a secure environment;
- Access is limited to St-Joseph Print Group Inc. employees; and
- Visitors are escorted by a St-Joseph Print Group Inc. employee.

The audit team attended the March 31st inventory count at St-Joseph Print Group Inc. The audit team observed that two teams were formed consisting of an employee from the Finance Directorate and an employee from the State Ceremonial and Protocol Directorate. The teams were escorted by an employee of St-Joseph Print Group Inc. who also assists to locate the items selected for counting. The count proceeded in an orderly fashion with the teams ensuring an accurate count. The method used by the teams to determine quantities was reasonable. When a significant difference was encountered, the material was recounted to ensure the accuracy of the physical count. The inventory observed was in good condition and properly packed making the count convenient.

Conclusion

The audit team examination of the physical safeguard and inventory count found the practices to provide adequate and sufficient controls over the promotional material stored at St-Joseph Print Group Inc. and at PCH Headquarters.

Recommendation

No recommendations as a result of this positive finding.

5.3 Risk Management

Specific mitigation measures are in place to manage risks that are deemed by management to be unacceptable.

State Ceremonial and Protocol Directorate form part of Sport, Major Events and Regions Sector. Sectors/Branch/Region communicates their operational plans through the Integrated Business Planning Process (IBPP). The IBPP covers areas such as; mandate, organization structure, environmental scan, resource allocation, sun setting programs, workforce and workplace, ongoing business, priorities & key initiatives, gap analysis as well as risk assessment and management. Our internal review of the Integrated Business Planning Process (IBPP) found that there was no significant risk with respect to the inventory of promotional material.

Analysis

The audit confirmed with the Directorate that there is no significant risk in managing the inventory process. The manager of promotional items reviews on a yearly basis the inventory material to identify any obsolete items and actions are taken to have them removed from Inventory. Also, on a weekly basis, the manager reviews the inventory items to ensure that level of inventory materiel is adequate for the needs of the State Ceremonial and Protocol. The Director does have discussions on lower risk matters with his superiors when holding budget discussions and throughout the year when inventory materiel are ordered as well as during his bilateral meeting with his supervisor. These discussions take into consideration the contract arrangement for the storage and distribution services provided by St-Joseph Print Group Inc. It was noted that the Director usually orders material based on future needs and in a reasonable economic quantity. With the exception of a small quantity of large flags, the inventory of promotional material is of low value (generally ranging from \$.01 to \$12.00 per item). Specific mitigation measures are in place to manage risks that are deemed by management to be unacceptable for the value and risks involved with the PCH inventory process.

Conclusion

Based on our review of controls in the systems, processes, practices and management of inventory of promotional material, the audit concluded that not only are the risks low with minimal impact, but that management is handling risks appropriately.

Recommendation

No recommendations as a result of this positive finding.

Appendix A - Audit Criteria

The conclusions reached for each of the audit criteria uses in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well controlled	<ul style="list-style-type: none"> • Well managed, no material weaknesses noted; and • Effective.
2	Controlled	<ul style="list-style-type: none"> • Well managed, but minor improvements are needed; and • Effective.
3	Moderate issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> • Control weaknesses, but exposure is limited because likelihood of risk occurring is not high; • Control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> • Financial adjustments material to line item or area or to the department; or • Control deficiencies represent serious exposure; or • Major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAEE and the subjects matter’s Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn.

Audit Objective: to ensure that inventories of promotional items are subject to effective custodial accountability procedures and physical safeguards, including periodic physical counts.			
Criteria	Audit Criteria	Conclusion	Examples of Key Evidence /Observation
1.1	Information regarding purchases and shipments of promotional items are entered correctly in the systems	2	<p>Based on the sample tested:</p> <ul style="list-style-type: none"> Promotional items are correctly recorded in the Responsibility Centre Managers (RCM) System. Promotional items received are compared to orders. Inventory transactions are recorded on a timely basis Out of four samples tested at HQ three were recorded in the Excel Spreadsheet and one was found to be recorded in the Access database.
1.2	Promotional items are kept in a secure location with limited access.	1	<ul style="list-style-type: none"> At PCH headquarters, only authorized employees can have access to the two locations where promotional items are stored. At St-Joseph Print Group Inc. warehouse, a security pass is needed to get access to the warehouse. An addition control is in place for valuable articles. These are stored in a locked cage inside the warehouse.
1.3	A count of promotional items is performed on a periodical basis and it reflected in year-end inventory count.	2	<ul style="list-style-type: none"> Inventory levels for items stored at Headquarters location are reviewed every three months. Inventory levels at St-Joseph Print Group Inc. warehouse are reviewed weekly through the IDMS Report. The Manager of promotional items ensures that levels of items are sufficient for the needs of the State Ceremonial and Protocol Directorate. There is a year-end inventory count to reconcile the information of the physical count with the latest IDMS report. There is no year-end inventory count guide of procedures. All the decisions related to the year-end

			<p>inventory count are taken on the site.</p> <ul style="list-style-type: none"> • Calculation of inventory records is verified by 3 people from the State Ceremonial and Protocol Directorate as well as one person from Finance.
1.4	Management receives timely, complete and accurate information for decision-making.	2	<ul style="list-style-type: none"> • At St-Joseph Print Group Inc. warehouse, there is an integrated distribution System in place for the inventory management. • Once a week, an IDMS report on state of inventory is transmitted to the State of Ceremonial and Protocol Directorate for decision making. • Even though there are minor issues with the Headquarter data system, information is regularly collected and shared with management.
1.5	Responsibility for the inventory process is clearly communicated and understood.	1	<ul style="list-style-type: none"> • The Director, State Ceremonial and Protocol has frequent discussions with his staff. Auditors found that there are no overlaps in terms of roles and responsibilities related to inventory process. • The Director, State Ceremonial and Protocol, has frequent discussions with the Executive Director and the Assistant Deputy Minister (ADM) with respect to his overall responsibilities and uses these opportunities to inform his senior managers on the inventory of promotional items.
1.6	Management identifies and assesses the existing controls that are in place to manage its risks associated with the inventory process.	1	<ul style="list-style-type: none"> • Director of State Ceremonial and Protocol Events has discussions on lower risk matters with his superiors when holding budget discussions and throughout the year when inventory material are ordered as well as during his bilateral meeting with his supervisor.

Appendix B – Acronyms

ADM	Assistant Deputy Minister
DAC	Departmental Audit Committee
FIS	Financial Information Strategy
FTE	Full-time equivalent
IBPP	the Integrated Business Planning Process
IDMS	Integrated Distribution Management System
MP	Member of parliament
RBAP	Risk-Based Audit Plan
RCM	Responsibility Centre Manager
STAR	Integrated Financial and Material System