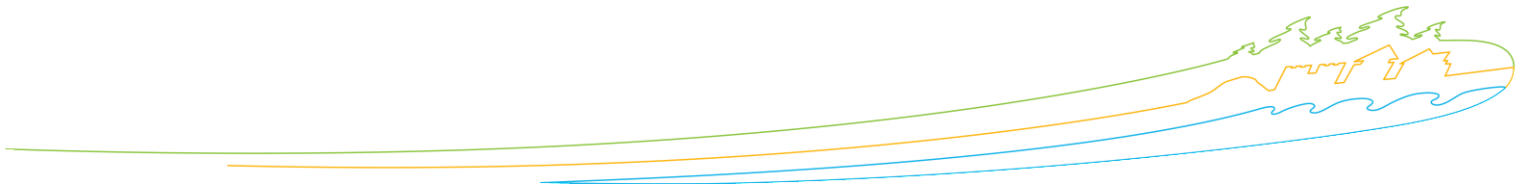




Parks Canada
Parcs Canada



Internal Audit of Financial and Administrative Processes

Ontario Waterways Field Unit

Final Report
July 2016

Office of Internal Audit and Evaluation

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SUMMARY

The purpose of this compliance audit is to provide senior management with the assurance that the Ontario Waterways Field Unit has a control framework in place that will allow procurement activities to be carried out effectively, fairly and transparently in accordance with the requirements and policies of the Treasury Board Secretariat (TBS) and the Parks Canada Agency. To meet this objective, we carried out audit work at the Field Unit for two primary processes, that of contracting and procurement done using acquisition cards.

The audit review period was for the entire 2014–2015 fiscal year. The audit method included a visit to the Ontario Waterways Field Unit office, interviews with the personnel concerned and the review of transactions carried out within the processes identified.

We also analyzed the financial data, reviewed the current policies, guidelines, directives and procedures relevant to the procurement processes, including contracting and acquisition cards.

The audit complies with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program.

The audit revealed that the financial functions and contract management require significant improvements. Overall, acquisition cards are used diligently, but the audit team observed an inadequate management control framework to ensure compliance with the guidelines of the Treasury Board Secretariat (TBS) on acquisition cards and financial authorities. The recommendations identified in our report are opportunities to improve the control environment and process efficiency, and to demonstrate compliance with policies and guidelines.

Table 1: Ratings attributed to audited processes

Section No.:	Title	Rating
9.1	Procurement - Contracting	ORANGE - Significant improvements needed
9.2	Procurement - Acquisition cards	YELLOW – Moderate improvements needed

The table below presents the recommendations from the audit ranked in order of priority based on the rating system presented in Appendix B of this document.

Table 2: Summary of internal audit recommendations in order of priority**High Priority - Management should initiate immediate action to address the comment.**

1	<p>The Field Unit Superintendent should establish monitoring mechanisms to ensure full compliance with policies and procedures on procurement and contracting activities, particularly for the following:</p> <ul style="list-style-type: none"> • The awarding of non-competitive contracts must be justified and well documented; • Competitive contracting files must include proof of competition; • The contracting mechanism must reflect the type of services/goods and take into account the attributed value; • The requirements must be correctly entered in the Material Management (MM) module of the STAR financial system; • The financial coding (general ledger account) must reflect the type and category of expenses incurred; • Contracts and/or contract requests are established before delivery of the goods or services; • Invoices are paid within a 30-day period calculated starting on the date the invoice is received, or the goods or services are accepted, whichever is later.
2	<p>The Field Unit Superintendent must ensure that the guidelines issued by the Agency concerning the organization of records are followed to facilitate the identification of support documents and validation of the process used.</p>
3	<p>The Field Unit Superintendent must ensure that the specimen signature cards comply with all procedures issued by the Directorate of the Chief Financial Officer.</p>

Moderate Priority - Management should initiate timely action to address the comment.

4	<p>In order to comply with TBS and Agency directives regarding the use of acquisition cards, the Field Unit Superintendent must ensure that managers perform their duties with due diligence:</p> <ul style="list-style-type: none"> • By ensuring that approval forms are duly authorized; • By assessing needs periodically (e.g. reviewing limits annually); • By validating the nature of purchases using appropriate substantiating documents.
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1 INTRODUCTION

The 2015-2016 to 2017-2018 Parks Canada Multi-Year Internal Audit Plan includes compliance audits of financial and administrative processes at the field unit level, including the Waterways. Based on the priorities and risks identified, the financial and administrative practices to be audited may vary from one entity to the other and from one year to the next.

2 BACKGROUND

From 2004 to 2015, several field units were audited on various aspects of their financial and administrative processes. In relation to the annual internal audit plan, audits are carried out as needed to provide senior management with assurance that the financial and administrative practices in place comply with the policies, directives and standards of the Federal Government and the Parks Canada Agency.

3 PURPOSE AND SCOPE

The purpose of this audit is to provide senior management with assurance that there is a control framework that allows procurement activities to be carried out effectively, fairly and transparently in accordance with the requirements and policies of the TBS and the Parks Canada Agency. For the 2015-2016 fiscal year, the Ontario Waterways Field Unit was selected for the audit.

The audit period covered the 2014-2015 fiscal year. The primary administrative and financial processes examined were:

- Procurement - Contracts
- Procurement - Acquisition cards

4 LEGISLATIVE FRAMEWORK AND POLICIES

The following sources were used to develop the audit criteria employed during the conduct phase of the audit:

- [Financial Administration Act](#)
- Public Works and Government Services Canada
Policies and procedures, as well as references to relevant acts, conditions and directives for the purchase of goods, services and construction services.
<https://buyandsell.gc.ca/policy-and-guidelines/Supply-Manual>
- Treasury Board of Canada Secretariat
 - [Contracting Policy](#)
 - [Procurement Review Policy](#)
 - [Directive on Expenditure Initiation and Commitment Control](#)
 - [Directive on Account Verification](#)
 - [Directive on Delegation of Financial Authorities for Disbursements](#)
 - [Directive on Acquisition Cards](#)

5 METHODOLOGY

Part of the approach used to achieve the audit objective is to develop audit criteria to serve as the basis for observations, assessments, and conclusions. The audit criteria developed for this audit can be found in Appendix A.

1. PLANNING

- Review of policies, directives, procedures and other relevant documents;
- Analysis of data and transactions, including those from the STAR financial system and the Bank of Montreal (BMO) website for acquisition cards;
- Development of the audit plan and program;
- Development of tools and methodology used during the review and sampling plan;
- Sample selection (contracting and acquisition cards);
- Approval of the audit program by the Chief Finance Officer and the Executive Director, Waterways.

2. EXAMINATION

The audit examination phase included a combination of interviews and analyses (transactional and documentary), and included the following activities:

- Conduct interviews with key personnel to obtain an understanding of the control environment and the administrative processes in place in the Field Unit and at the Cornwall office;
- Perform tests on selected samples of transactions for contracts and acquisition cards.

3. REPORTING

- Discussion with the representative of the audited entity;
- Preparation of a draft report;
- Revision of the draft report by internal audit managers;
- Revision of the report by the representative of the audited entity;
- Final updated report, including action plan;
- Submission of the final report to the Internal Audit Committee;
- Approval by the Agency CEO;
- Publication of the report;
- Follow-up of the implementation of the action plan, if applicable.

6 SAMPLING METHOD

Audit sampling – Contracting

Various factors influence the choice of sampling methodology, in particular representativeness and risk factors. A preliminary analysis of data housed in the STAR financial system was completed to identify trends and the nature of activities recorded for contracts awarded in the fiscal year 2014-2015.

The Office of Internal Audit and Evaluation (OIAE) examined 69 contracting files opened during fiscal year 2014-2015 totalling an overall value of \$623,485, which represents 6.3% of the total value of contracts recorded in the material management (MM) module of the STAR financial system. However, one contract from this selection was cancelled, which left us 68 contracts to verify.

The auditors defined a contracting file as a commitment (contract) that was entered into the MM module of the STAR financial system for a request for goods and/or services.

Sampling was created using data extracted from the MM module of the STAR financial system. (See Table 3, Appendix D).

In order to obtain a representative sample, three different sampling procedures were used to account for the monetary value, the method of solicitation and the type of contract.

- 1) We conducted a sampling using the professional judgment of the auditor, which consists of selecting files based on the possibility of duplication or contract splitting. (See Table 6, Appendix D).
- 2) The OIAE chose a stratified approach, allowing it to select 100% of the total population for two types of contract used, given the low number of contracts awarded. (See Table 5, Appendix D).
- 3) Finally, a random selection was used for 38 files. Table 4 in Appendix D provides the breakdown represented in numbers and dollars, as well as by type of contract.

Audit sampling – Acquisition cards

A total of 44 account statements were selected for sampling, representing 7.5% of all monthly statements. However, it is important to specify that each monthly statement includes multiple transactions that were audited individually.

The sampling was subdivided into two parts: 14 monthly statements were selected based on the auditor's professional judgement and 30 monthly statements were selected at random. (See Table 7, Appendix E).

The judgmental sampling is based on the experience of the internal auditors, which relies on the data from reports extracted from the BMO system. The data was processed and sorted using the ACL software to identify potentially duplicated operations (in terms of the value and suppliers) and also to identify the nature of expenditures that could potentially be ineligible.

7 STATEMENT OF ASSURANCE

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

Brian Evans
Chief Audit and Evaluation Executive, Parks Canada Agency

8 AUDITOR OPINION

Overall, we noted that the control framework in place does not include key elements that promote the application of transparent and effective procurement activities in compliance with the relevant laws and policies. Significant improvements are required to ensure due diligence in the application of the management processes examined and to provide senior management with assurance that the controls introduced in the Ontario Waterways Field Unit limit the risk of non-compliance with TBS and Parks Canada Agency policies and directives. The recommendations included in this report are intended to produce avenues for improving these processes.

The observations and recommendations presented in this report are in accordance with the OIAE Rating System. (See Table 8 below).

Table 8: Rating system used for audit reports

RED	Unsatisfactory	Controls are not functioning or are non-existent. Immediate management actions need to be taken to correct the situation.
ORANGE	Significant Improvements Needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, important issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
GREEN	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

9 OBSERVATIONS AND RECOMMENDATIONS

9.1 PROCUREMENT – CONTRACTING

ORANGE	Significant Improvements Needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
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Background

The following is a summary of all contracts awarded during the audited period (see Table 9). The breakdown of the number of contracts and their value, according to the solicitation method, may be found in Appendix C.

Table 9: Overview of contracts according to solicitation method

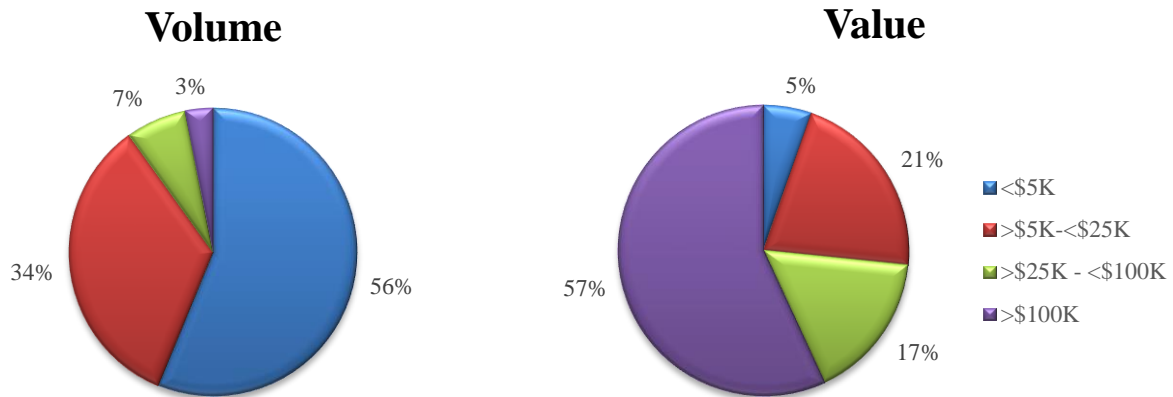
Solicitation Method	Number of Contracts	Value*
Open bid (<i>posted on Buy & Sell</i>)	14	\$1,089,512
Competitive	402	\$8,264,228
Non-competitive	98	\$602,882
Total	514	\$9,956,622

*Value rounded to the nearest dollar.

The Field Unit awarded 289 contracts of low-dollar value (less than \$5,000). This valued \$534,783 and represents 5.4% of the value and 56.2% of the volume of their contracts.

In all, 174 contracts were awarded with a value between \$5,000 and \$25,000 for a total amount of \$2,115,056, which represents 21.2% of the value and 33.9% of the volume of their contracts.

As for contracts valued greater than \$25,000, the Field Unit awarded 51 contracts which totalled \$7,306,783 which represents 73.4% of the total value and 9.9% of the total volume of their contracts. Of this number, 16 were over \$100,000, including one contract valued at \$1,106,490.



Directives, guidelines and training

Background

The OIAE expects employees to have the knowledge and understanding required to execute contracting policy and directives. The auditors expect to see relevant, accessible and accurate information on contracting activities, and for it to be communicated in a timely manner to contracting officers and to all employees assigned to contracting.

The orientation documents, such as policies, procedures and directives, provide a reference point for those who procure goods and services. They also help to ensure compliance with the relevant policies of the central agencies, such as Treasury Board's *Contracting Policy*. The Parks Canada intranet site, the site for Public Services and Procurement Canada (PSPC), formerly known as Public Works and Government Services Canada (PWGSC) and the TBS site include frequently asked questions on subjects ranging from launching a purchasing process to types of solicitations. Furthermore, there is a detailed guide on contracting on the PSPC website. The Agency bases its operations on the TBS *Contracting Policy* and on the policies, procedures and references to the legislation and directives relevant to the purchase of goods and services in order to orient its procurement and contracting activities.

Observation

Guidelines and procedures from the National Office are communicated and published on the Parks Canada Agency intranet site. It provides information on updates to policies, changes to procedures and amendments to the threshold established in terms of delegation of financial authorities and contracting. It includes employee tools, such as the PSPC procurement guide and the forms to use. The intranet site also contains instructions regarding data recording in the MM module of the STAR financial system.

In case of questions, the employees assigned to contracting communicate with the financial manager in the field unit for verbal clarification on the methods for implementation. If there are more specific questions, the financial manager communicates with procurement experts in Cornwall to obtain clarifications and/or guidance for the performance of contractual activities.

As there is no reference manual that documents the administrative requirements and procedures of the Agency, the financial manager in the field unit developed and communicated various tools and checklists regarding the execution of contracts, more specifically regarding contracts with a value below \$5,000. During the examination phase, we found that forms and templates from the National Office (that are available on the Parks Canada intranet site as well as on the PSPC website) are being used, depending on the type of contract to be awarded.

The finance manager introduced information sessions on contracts in 2014 and subsequently developed procedures to support project managers and financial clerks in the execution of their responsibilities. Employees who have worked in the organization for many years have participated during the years prior to 2014-2015 in specific training on contracting, as well as in finance, such as Finance 101, Finance 201 and PC 110. It should be noted that the mandatory training to obtain financial delegation, also deals with the *Contracting Policy*. Employees have at hand the necessary instructions and tools to carry out their contracting responsibilities.

Following various deficiencies observed in contracting activities in 2013 within the Field Unit, an action plan was implemented by the Directorate to remedy procurement practices, including contract splitting. The Field Unit established a sampling plan for low-value goods and services contracts in order to ensure that employees assigned to contracting, comply with the guidelines and procedures in place. The results of this sampling helped understand the training requirements. In response they delivered information sessions and developed monitoring mechanisms.

Despite the corrective measures that have been implemented, the team of auditors noted significant gaps in the management of files, including the lack of documents to support the decisions in a fair and transparent manner. Our file review suggests that the controls in place, from both technical and financial points of view, are not sufficient to ensure compliance with the various guidelines, procedures and mechanisms to be used for contract allocation and management. For a number of files, the documentation was produced by the Field Unit after the internal audit team had completed its review of the files selected for sampling. The responses to subsequent requests for information from the OIAE showed that the Field Unit does not meet the guidelines for the organization of procurement and contracting files issued by Parks Canada and available on the Intranet site.

The absence of due diligence and the fact that there is not enough activity monitoring to detect breaches, leads to a lack of compliance with several essential criteria, for meeting all contracting requirements. This situation gives rise to the award of contracts that are not aligned with the procurement policies and procedures in place, thereby compromising the Agency's ability to ensure that all procurement activities are conducted in an open, fair and transparent manner. This may hinder the achievement of savings and does not demonstrate efficient procedure.

Contracting as a method of procurement

Background

Depending on the good or service purchased, the appropriate contracting method may be a standing offer, a supply arrangement, or a contract. In addition to compliance with legislative, policy and regulatory authorities, government contracting is required to be conducted in such a way that it meets operational requirements, stands the test of public scrutiny, encourages competition, and reflects value for money.

To respect these authorizations, requirements for contracting must be clearly defined and documented at the outset of the contracting process. Procurement decisions must be recorded in order to demonstrate transparency and support fairness in decision making. All required actions must be justified by management to demonstrate due process and consideration of overall contracting objectives. All non-competitive contracts in excess of \$5,000 (sole source) must be accompanied by a written justification.

Observation

Of the 68 contracts sampled, we were unable to evaluate three files, since the contracts were missing. These were identified as non-competitive. Our observations were based on screen shots extracted from the MM module of the STAR financial system that the contracting team, in Cornwall, provided us on site.

The review showed that 10 contracts (16.2%) had not been established using an appropriate contracting mechanism.

- Among these, we identified seven cases for which construction contracts or a purchase order (PO) were used instead of a professional service contract (PS2). As the value of these contracts is less than \$10,000, PS2s should have been given preference for obtaining the services, more specifically for needs related to heavy machinery rental, industrial gas and maintenance of furnaces and air conditioners.
- Regarding the use of Local Purchase Order Authoritys (LPOA), three contracts were established using this mechanism. Among these, we observed the purchase of printed material, where a Call-up Against a Standing Offer (942) could have been used instead. More appropriately, professional services (PS2) contracts should have been selected for these two other requirements: the hiring of a trainer; and the retention of security/surveillance services for a parking lot. LPOAs should never be used for the acquisition of services.

A recommendation was made to the Chief Financial Officer (CFO) during the previous audit to clarify the position of the Agency and to issue directives as to the acceptable use of LPOAs given the risks associated with this type of transaction and the payment options available to field units.

The auditing team evaluated whether the contract awarding process is fair and transparent. We observed 35 nonconforming contracts out of 68, representing 51.5% of the contracts examined. However, it is important to remember that the Field Unit and the Cornwall Accounting Operation's office were not able to provide three contract files, which were identified as non-competitive.

- Of the 32 contracts verified, we observed three cases of contract splitting, involving seven individual contracts. In all these cases, the splitting caused the avoidance of an approval threshold. The details are as follows:
 - 1) The Field Unit confirmed that three construction contracts were drawn up for a single project with a total value of \$8,689.70. In addition, the contracts were identified in the STAR financial system as competitive although we found no evidence to support this.
 - 2) In the second case two purchase orders were used with a total value of \$9,665.56, identified in the STAR financial system as non-competitive. The Field Unit confirmed that these two contracts (for identical amounts of \$4,832.78) were created to remove and re-insert canal

lock gates. If the Field Unit had used a single contract, it should have justified the choice of the sole source since the total value of the contract exceeds \$5,000.

- 3) Finally, two construction contracts, each valued at \$13,221 were created. One contract is identified in the STAR financial system as competitive and the other as non-competitive. The Field Unit provided us with additional information confirming that the initial service request was to repair the roofs of two buildings, 400m away from each other. The Field Unit established two individual contracts because together the total amount exceeds \$25,000. The request for this contract should have been processed by the procurement officers in Cornwall under a single contract.
- We could not find evidence of competition in the files for 13 contracts identified as competitive. After our review of the files was completed, we requested additional documentation concerning 14 files, selected from all sampled contracts. The supporting documents and documentation produced thereafter showed that only three of these 13 contracts were actually competitive, as indicated in the STAR financial system.
 - We observed nine contracts where there were data entry errors in the STAR financial system regarding the solicitation process. The mechanism used for five of these contracts is in reality a competitive process used for granting these projects using Call-ups Against a Standing Offer (942). It is important to note that these are generally still competitive because they have been pre-selected as a qualified supplier at specified prices.
 - Regarding non-competitive contracts, three sole-source contracts valued greater than \$5,000 had no documented justification as required by the *Contracting Policy*, nor any supporting documentation.

Each contract that is awarded must contain the signatures and be duly dated by a person with appropriate authority before the delivery of goods or services. In light of the audit review, 36 contracts representing 52.9% of the examined files received the goods and/or services before a contract or requisition was established; the contracts were therefore established after the fact for payment. Of these, 25 contracts representing 69.5% of the examined files corresponded to a value of less than \$5,000.

Each contracting file must include a statement of work and/or a description of requirements. We found that five contracts, representing 7.2% of the examined files, did not have a sufficient and adequate description of the goods or services. This information is essential as it forms the basis of the contracts and outlines the work to be carried out, the objectives to be attained and the execution timelines.

Regarding the value of contracts and their amendments, we observed one contract where its amendment was above the allowed threshold (greater than 50%). All amended contracts contained the proper documentation and authorization.

It is essential to establish an adequate level of transparency at all stages of the contracting cycle to ensure fair and equal treatment of potential suppliers. To ensure the quality of the competitive approach, the Field Unit must implement the rules and procedures provided by the Procurement, Contracting and Contributions Branch regarding the selection of the appropriate method and the contract award mechanism. This choice can be guided primarily by the value and nature of the contract, that is to say, by applying different awarding methods for goods and professional services in order to ensure sufficient transparency for all procurement activities. The fact that the contracts designated as competitive in the

STAR financial system do not have supporting documentation tends to demonstrate a lack of transparency. Entry errors in the STAR financial system regarding the mechanisms used and the solicitation process influence the accuracy of the data provided for the preparation of reports. If contracting practices do not conform to the Policy and the directives, the TBS can impose sanctions against persons and organizations. Even if the contracting officers within the Field Unit evaluate bids fairly, there are no documents to prove this. The absence of evidence showing that the most appropriate contracting method was used does not demonstrate a sufficient level of transparency and fairness of the process as specified by the requirements of the *Contracting Policy*.

A sole-source contract must only be allocated in specific circumstances. When there are no appropriate justification documents, there is increased risk that the Field Unit will not be able to adequately demonstrate its intent and rationale for selecting these contracting mechanisms and show that their use meets approved, acceptable circumstances. Without periodic analysis or comparison, or certification that a fair price has been negotiated, there is increased risk that the Agency will not be able to continue to obtain fair value for goods and services purchased.

The TBS *Contracting Policy* establishes that contracting authorities must not split contracts or propose contract amendments to avoid having to obtain the approval required by law or by the *Contracting Policy*, or the appropriate management approval within the Agency. Each case of splitting identified caused the avoidance of a threshold requiring approval and/or the justification for the use of a sole source supplier. Without monitoring, this method allows most of the control mechanisms of the contracting function to be bypassed, which prevents the Agency from complying with the Policy and obtaining the best possible value (more competitive market).

Some risks remain regarding the relatively high number of contracts awarded after the fact or for work already undertaken. Establishing contracts after the goods or services are rendered contravenes Section 12.1.2 of the *Contracting Policy*, which indicates that the terms of a contract issued pursuant to the *Government Contracts Regulations* and the *Contracting Policy* should be formulated in writing.

As a good practice and to alleviate the administrative burden, contracting officers should favour the use of "acquisition cards," which provide an easy and practical way to procure goods and services while ensuring effective financial control. The acquisition cards are designed to eliminate paper from the purchasing process. It is government policy to favour the use of acquisition cards to supply the Agency with goods and services and to pay for them. Finally, using this procurement method promotes efficiency and reduced costs from an operational point of view.

Signing authority

Background

In the audited sample, the auditors expected to find that delegated Expenditure Initiation and Commitment of Funds (*Financial Administration Act* (FAA) Section 32) is obtained prior to issuing the contract and that Authority to Confirm Contract Performance and Price, Eligibility, or Entitlement (FAA Section 34) is obtained before payment is issued.

The fund commitment authority under Section 32 of the FAA completes a "Request for Contract Action" form, based on which the contracting authority proceeds with the initiation of the contracting process.

Then, the appropriate authorizations must be obtained in accordance with the FAA and the TBS *Contracting Policy*.

The verification of accounts provides a means to ensure that the work has been performed, the goods have been supplied or the services rendered, relevant contract or agreement terms and conditions have been met, the transaction is accurate, and all authorities have been complied with. Finally, it is important to emphasize that the quality of the financial coding has a direct impact on the accuracy of the reports produced by the STAR financial system.

The TBS also established a directive to ensure that goods and services suppliers are paid by the deadline. This directive states that a 30-day payment term is used and calculated from the date an invoice is received or the goods or services are accepted, whichever is later, to avoid the Agency paying interest charges.

Observation

The appropriate controls must be in place and applied in accordance with the legislation for contracting. Our sample of files revealed lack of compliance regarding the prior approval of funds to exercise financial authorities under Section 32 and also the approval of the payment under Section 34. Overall, 66.1% of the files examined had not been authorized appropriately by the designated authority under Sections 32 and 34, more specifically for the following cases:

- One payment did not contain the Section 34 signature;
- Six signatures were not dated for Sections 32 and 34;
- There were 10 cases where the cost centre was not identified on its specimen signature card;
- For 28 signatures, the corresponding specimen signature cards show that the delegation was not in force when the transactions were authorized.

The majority of these transactions should have been intercepted at the Cornwall Accounting Operation's office. The system used to validate the electronic signature of financial delegations has several restrictions and has forced the Accounting Operations office to limit its validation, to avoid interfering with operations.

The problems observed in accessing signature delegations through the STAR financial system were discussed with the managers of the Finance Department, who confirmed that a new system has been developed and will be implemented over the course of 2016. A letter to management will be sent to the CFO, regarding the need to establish guidelines on the minimum requirements for validating financial delegation and alternatives in case of system failure.

In general, all the contract files contained supporting and relevant documents that adequately supported the payment, except for the goods receipts and an expense recorded in the STAR financial system for which we could not obtain documentation. Goods receipts confirm the receipt of the good and/or service as described in the procurement documents. This is a preliminary step in the system when making a payment associated with different types of transactions. In this case, several goods receipts were completed by employees of the Cornwall Accounting Operation's office to proceed with the payment, when they could not attest to the receipt of the good and/or service.

Following the centralization of payments at the Agency, no guidelines have been issued regarding the mandatory documentation requirements to support a payment and responsibility for completing these documents. The letter to management issued to the CFO also includes a request for clarification in this regard.

The audit revealed 29 exceptions representing 42.6% of the sample:

- The auditors found that improper financial coding was used for six payments (20.7% of non-compliance). The Agency has developed an accounting plan that meets its financial and administrative needs while complying with government requirements. The use of the appropriate general ledger accounts facilitates decision making by offering assurance that the financial data accurately reflects reality within the Field Unit and Agency.
- Overall, 23 payments were identified (representing 79.3% of the exceptions) that were made late, that is, after 30 days.

Conclusion

The control framework and contract management practices for the Ontario Waterways Field Unit for allocating and administering contracts are insufficient to ensure compliance with the *Contracting Policy*.

The lack of due diligence, rigour and oversight in the management of contracts does not allow us to conclude with confidence that procurement activities are carried out effectively. In addition, the documentation is not sufficient to prove that contracts are awarded in an open, fair and transparent manner in accordance with the established laws, policies, directives and procedures.

The following recommendations were made for the Ontario Waterways Field Unit:

Recommendation

- 1) The Field Unit Superintendent should establish monitoring mechanisms to ensure full compliance with policies and procedures on procurement and contracting activities, particularly for the following:
 - The award of non-competitive contracts must be justified and well documented;
 - Competitive contracting files must contain proof of competition;
 - The contracting mechanism must reflect the type of services/goods and take into account the attributed value;
 - The requirement must be correctly entered in the MM module of the STAR financial system;
 - The financial coding (general ledger account) must reflect the type and category of expenses incurred;
 - Contracts and/or contract requests are established before delivery of the goods or services;
 - Invoices are paid within a 30-day period calculated starting on the date the invoice is received or the goods or services are accepted, whichever is later.

Management response1) Agree: The Field Unit will take the following actions:

- The Director, Ontario Waterways will restrict cost center manager's contracting authorities effective June 6, 2016 to \$5 K as an interim measure and will strengthen the review process for non-competitive purchases. All competitive purchases of goods or services over \$5 K that are processed within the Field Unit will be prepared by the Finance and Administration unit with a mandatory review by the Manager, Finance and Administration. All non-competitive contracts over \$5 K will require a further approval from the Director, Ontario Waterways prior to the contract being awarded.
- The Manager, Finance and Administration has developed and implemented a procurement reference tool based on the observations of the audit for cost center managers that includes a documentation checklist for non-competitive and competitive contracts.
- The Field Unit agrees with some of the observations but some interpretations around the use of service and construction contracts differ from the advice received from the Parks Canada contracting group. The Manager, Finance and Administration will request clarification on the use of service and construction contracts from CFOD including the appropriate entry into STAR. The Field Unit agrees that LPOAs are for goods purchases only and this is already reflected in the contracting tools and training.
- Administrative staff received training on proper entry of MM documents into the STAR system in April 2016 and a review of the document entry will be incorporated into the contract sampling process.
- The Manager, Finance and Administration will provide cost center managers and administrative staff with tools/training to ensure the proper use of general ledger accounts by Sept 1, 2016.
- Mandatory contract training will be delivered by Parks Canada Contracting to all cost center and project managers on June 6-10, 2016 and will include sections on the correct processing and documentation of competitive and non-competitive contracts. This training is included as part of the Field Unit's mandatory training profiles for cost center managers.
- As part of the Field Unit Audit Plan, the Manager, Finance and Administration will conduct sampling of low dollar contracts less than \$5 K on a quarterly basis and provide a report to the Director, Ontario Waterways. The report will be used to ensure that:
 - appropriate documentation is in place for all competitive and non-competitive contracts;
 - that documents are entered correctly in the MM system;
 - that the financial coding reflects the type and category of expenses;
 - that contracts are in place prior to the goods and services being received; and
 - that invoices are processed within the 30 day period.

In addition to the actions noted above, the Director, Ontario Waterways will take the following actions:

- Conformance to contracting policies will be included as a performance indicator on cost center manager performance appraisals for 2016/17 and their evaluation will include the results of the procurement audit observations and of ongoing sampling activities. The consequences (mandatory retraining, loss of signing authority, disciplinary action) of failing to comply with contracting policies has been communicated to cost managers through the Field Unit's Direct Payment Procedure and will be reiterated through a presentation to the management team on the procurement audit results.

- The Director Ontario Waterways has implemented disciplinary measures for managers responsible for contracting infractions and outlined future expectations with regard to contracting practices to all members of the management team.
- Due to the asset base and scope of operations for two large waterways, there is a significant amount of procurement required and additional professional purchasing capacity is required to support the Field Unit in ensuring that contracting is conducted appropriately. The Field Unit will engage the Parks Canada contracting group and senior management to determine what this capacity is and where it is best situated within the organization.

Recommendation

- 2) The Field Unit Superintendent must ensure that the guidelines issued by the Agency concerning the organization of records are followed to facilitate the identification of support documents and validation of the process used.

Management response

- 2) The Field Unit agrees and will take the following actions:
 - Cost center and project managers will attend mandatory contract training on June 6-10, 2016 which will include information on the correct processing and documentation requirements for procurement;
 - The Field Unit has developed and implemented an updated reference tool based on the observations of the audit for cost center managers that includes a document checklist for all types of contracting;
 - The Manager, Finance and Administration will conduct sampling of procurement documents less than \$5 K on a quarterly basis and provide a report to the Director, Ontario Waterways to ensure that contract documentation is in place.

Recommendation

- 3) The Field Unit Superintendent must ensure that the specimen signatures cards comply with all procedures issued by the Directorate of the Chief Financial Officer.

Management response

- 3) The Field Unit agrees and will take the following actions:
 - The Agency is implementing a new signature card system during the summer of 2016. The Manager, Finance and Administration will work with CFOD to ensure that all specimen signature cards are properly reflected in the system. Written standard operating procedure will be put in place (including information management requirements for storing signature cards) and all finance staff will receive training upon implementation of the new system.

9.2 PROCUREMENT - ACQUISITION CARDS

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, important issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
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Background

Acquisition cards used by the Agency are used as a method of procuring and paying for day-to-day expense items for standard maintenance, repair and operational goods and services under \$5,000. They are intended to simplify the procurement process and that of paying for goods and services while generating savings in the processing of these transactions. Although the use of acquisition cards is not mandatory, it is strongly encouraged when the purchase is within delegated transaction authority and when it is efficient, economical and operationally feasible. In accordance with section 5.2 of the TBS *Directive on Acquisition Cards*, the expected result of the use of acquisition cards is that:

- *“Financial resources are used appropriately, based on the right authority, and losses due to waste, abuse, mismanagement, errors, frauds, omissions and other irregularities are minimized.”*
- *“The reduction or elimination of more costly and burdensome transaction procurement and payment methods such as the use of Receiver General cheques, requisitions and purchase orders.”*

The Ontario Waterways Field Unit had 72 active account numbers for acquisition cards in 2014-2015. We counted 590 monthly statements for this same period, with a total value of these purchases in the amount of \$1,409,856. The monthly purchase amounts for the fiscal year in question appear in Table 10, Appendix E.

Review, issuance, renewal and cancellation process for acquisition cards

Observation

During a meeting with personnel, the team of auditors confirmed that cards are issued by the regional coordinator in accordance with approved practices. The team consulted the regional coordinator to obtain information on cardholders. The BMO website provides various reports on the use of acquisition cards by cardholders that could be used to facilitate analysis of the transactions made using the cards and to identify any anomalies faster. The interviews conducted during the audit, confirmed that at present no monitoring mechanism exists to validate the number of acquisition cards in circulation and their use.

Under the Agency's directive on acquisition cards, the cardholder and the manager must sign and date an acknowledgment of responsibilities and obligations form highlighting the terms and conditions of purchases made with the card before it is given to the cardholder. The Field Unit did not use the “Employee Acknowledgment of Responsibilities and Obligations” form available on the Agency's intranet site according to the instructions provided for this purpose. Only three forms (on 22 selected accounts)

were signed by the cardholders and their manager, as required by the Parks Canada Agency. In addition, for one cardholder, we were unable to obtain a copy of this form.

The monthly statements selected for review were downloaded from the BMO website, and the monthly activities were compared to the limit granted for each account holder. The managers of the responsibility centre should recommend reasonable credit limits, depending on the intended use, the available budget, and periodically recurring needs or changing responsibilities. From our interviews and our review of acquisition cards, we could not establish the existence of any documented communication or a procedure to support the managers' decision on the amount of the monthly limit granted for acquisition card holders. In one interview, it was confirmed that it is systematically granted at the request of the manager. The manager usually sets monthly limits at \$5,000, but for some project managers, the limit may increase up to \$20,000. The audit revealed that the periodic review of transactions and credit limits on acquisition cards had not been conducted under the current regime. In this regard, Chapter 9 of the Receiver General Manual recommends a periodic audit of the use of cards and of the justification of credit limits for cardholders. The fact that there is no process in place for validating the rationale for granting the purchase ceiling makes it difficult to determine if the limits are based on the operational needs of the cardholders.

Use of acquisition and payment cards

Observation

According to the TBS *Directive on Acquisition Cards*, acquisition card holders have a responsibility to make purchases and payments in compliance with the limits set out in the Agency's delegation of authority document. The Parks Canada Directive stipulates that the amount of individual transactions must not exceed \$5,000 unless the purchase is already pre-approved or justified by the manager for certain exceptions. The auditors extracted a report from the BMO website for which the data had been filtered and processed by the ACL software to identify transactions above the maximum threshold of \$5,000. We identified seven monthly statements within our judgmental sampling that exceeded the allowable limit of \$5,000. Our review showed that a total of five monthly statements contained no justification for these transactions exceeding the authorized threshold. In addition, during our meeting with personnel, we found that there is no procedure in place for the periodic review of transactions exceeding the allowable limit of \$5,000 so that remedial measures can be taken for this purpose.

The directives on acquisition cards require that the cardholder protects the information on the card and ensures that it is kept in a secure location at all times. During our interview with one cardholder, it was confirmed to us that the BMO acquisition card was kept in a safe location according to the directives set out and received to this effect.

Treasury Board and Parks Canada Agency directives and guidelines clearly indicate that the acquisition cards must be used exclusively for purchases of authorized goods and services, and for payment of pre-approved hospitality expenses for government business. The auditors verified the nature of the purchases on 44 monthly statements. Two monthly statements could not be evaluated. One of them was missing all the supporting documents (receipts, invoices, etc.) and the other was not accessible, having been archived the previous year. It was found that three other statements contained the following transactions that should not have been made using an acquisition card:

- Two monthly statements indicated expenditures related to maintenance of fleet vehicles;

- A 50% deposit for the purchase of motors.

Cardholders use their card to make pre-authorized purchases in accordance with established policies and procedures. Each purchase transaction is verified by the cardholder. The cardholder reconciles the monthly account statement and the relevant supporting documents and completes a register to obtain the signature of the Section 34 delegated authority for payment. The signatory examines and approves the explanatory documents, the monthly account statement of the acquisition card and the register. All documents are then forwarded to the Cornwall Accounting Operation's office for payment.

We observed that 22.7% (10 of 44 monthly statements) contained at least one transaction that did not have sufficient supporting documents for its purchase.

- As previously mentioned, one account statement was paid despite the fact there were no supporting documents;
- Four account statements contained one or two transactions that were not justified;
- Four account statements contained documents (receipts) that were illegible or had insufficient detail on the receipts to justify the transaction; and
- The purchase of food at an event (exhibition), which did not include any hospitality form demonstrating pre-authorization for this transaction.

It is important to note that during our interview with the Cornwall Accounting Operation's office, the financial officers informed us of their inability to validate Section 34 signatures for issuing payment in accordance with the requirements of the TBS *Directive on Account Verification*, due to the slowness of the STAR financial system and the lack of an up-to-date register of specimen signature cards. Therefore the auditing team had to initiate additional steps to validate the financial delegations of contracts and invoices, to compensate for the weaknesses of the system.

Payment of acquisition card statements must be approved by a person duly authorized under Section 34 and carried out in a timely manner. In this regard, we considered two aspects to evaluate compliance with this criterion. We first confirmed 1) the validity of signatures and 2) the timeliness of the payment that should have been carried out by the statement due date.

Of the 44 audited accounts, 27 (representing 61.4%) were not compliant. Of these, 11 did not meet more than one requirement in regard to Section 34 and the payment deadline.

These exceptions are allotted as follows:

- Four account statements (14.8%) were signed by a person who did not have valid financial delegation at the time of the transaction. Of this number, one acquisition card holder also signed the FAA Section 34 for the expenses associated with his or her own acquisition card;
- The documents bearing the FAA Section 34 signatures for 20 account statements (74.1%) was not duly dated;
- A total of 16 account statements (59.3%) were not paid on time.

Conclusion

The control measures in place should be strengthened to ensure that the use of acquisition cards complies with the requirements of the *Directive on Acquisition Cards*, and the TBS and FAA *Directive on Account Verification*.

Since the method of payment of acquisition cards was modified at the Agency since the audit period, namely the automatic payment of card balances, no recommendation will be formulated regarding the observed late payments.

The following recommendation was made for the Ontario Waterways Field Unit:

Recommendation

- 4) In order to comply with TBS and Agency directives regarding the use of acquisition cards, the Field Unit Superintendent must ensure that managers perform their duties with due diligence:
 - By ensuring that the approval forms are duly authorized;
 - By assessing needs periodically (e.g. reviewing limits annually); and
 - By validating the nature of purchases using appropriate substantiating documents.

Management response

- 4) The Field Unit agrees and will take the following actions:
 - A full review of approval forms and acquisition card limits will be done for current acquisition card holders will be conducted by the Manager, Finance and Administration by Aug 30, 2016. Missing or incorrect forms will be completed and signed off by cardholders and cost center managers.
 - The Field Unit currently reviews acquisition card limits on a request basis. A written standard operating procedure will be put in place to document the process (including information management requirements for approval forms and incorporate an annual review of acquisition card limits) and all administration staff involved in the processing of acquisition card applications will receive training on the procedure by Sept 1, 2016.
 - The Manager, Finance and Administration will continue the existing sampling program for acquisition card statements and provide a report to the Director, Ontario Waterways on a quarterly basis. The report will be used to validate cardholders understanding and implementation of the acquisition card policy.
 - The Agency does not currently have a training module specifically for acquisition card holders. The Manager, Finance and Administration will work with CFOD to develop and put a training module in place. In the interim, training will be delivered locally to all cardholders by Sept 30, 2016 and will be a requirement for all new cardholders and those getting renewed.

APPENDIX A: AUDIT PROGRAM CRITERIA AND SUB-CRITERIA

CONTRACTS

***Criteria:* The control framework that is in place has key elements that promotes the application of transparent and efficient procurement activities according to related legislation and policies**

Sub-criteria

Existing policies, directives and procedures are communicated and in compliance with Treasury Board policies:

- The guidelines, procedures and templates related to procurement and contracting exist and are compliant to authorities, Parks Canada and Treasury Board policies and directives as well as Government of Canada regulations
- The Field Unit is informed by the National Office of Parks Canada, in a timely manner of updates and procurement requirements

Sub-criteria

Adequate training exists to ensure understanding and application of policies and directives on procurement:

- Training and procedures are communicated in a timely manner, to the employees responsible for awarding contracts and are sufficient to ensure the understanding of the requirements of the *Contracting Policy*
- Policies and directives on procurement are generally clear and understood by employees

Sub-criteria

The contract initiation process is fair and transparent:

- The appropriate mechanism is used to establish the contract
- The contract award process is fair and transparent

Sub-criteria

The management of contracts reflects due diligence:

- The contract contains the required signatures and is duly dated by the authorized delegation, before services are provided or the goods are received
- The description of goods or services to be provided is clear and complete
- The value of the contract and/or amendment is equal to or below the permitted threshold
- The amendments to the contract are documented and the appropriate authorizations are obtained

Sub-criteria

The appropriate financial controls are in place and applied in compliance to legislation that relates to contract management:

- The commitment of funds is signed by the person with the authority to perform the functions of Section 32
- Payment is supported by adequate and relevant documentation
- Payment is authorized under the authority of Section 34
- The expenditures against the contract activity is recorded in STAR with the appropriate financial coding and payments are made within a period of 30 days, calculated from the date of receipt of the invoice or acceptance of goods/services, whichever is later

ACQUISITION CARDS

Criteria: The use of acquisition cards adheres to the Treasury Board directive and the financial processes in place are adequate

Sub-criteria

The use of acquisition cards is carried out in accordance with the directive and within authorized thresholds:

- Acquisition cards are issued, renewed and/or cancelled in accordance to approved practices
- Prior to issuing an acquisition card, the regional coordinator for acquisition cards provides a written confirmation of the responsibilities and obligations to the new cardholder and obtains their signature to confirm their understanding
- The acquisition card limit is reasonably based on the intended use by the cardholder
- The individual transactions are conducted within authorized thresholds
- The nature of the purchases respect the restrictions outlined in the Treasury Board *Directive on Acquisition Cards*

Sub-criteria

Appropriate financial controls are in place and applied in compliance to legislation that relates to the management of acquisition cards:

- All purchases are supported by receipts or invoices
- The acquisition card is used securely and all purchases are controlled by the cardholder
- The acquisition cardholders process a monthly reconciliation against the account statements
- The payment of acquisition card statements are approved by a duly authorized person under Section 34 and processed in a timely manner

APPENDIX B: RECOMMENDATION PRIORITIZATION SYSTEM

Priority	Condition
High	Management should initiate immediate action to address the comment
1	Major internal control weakness
2	Major policy or procedure exceptions
3	Significant risk exposure
4	Major financial exceptions – loss, misstatement, errors, fraud
5	Significant law or regulatory violations
6	Significant potential opportunity – revenue, savings, efficiencies
Moderate	Management should initiate timely action to address the comment
1	Substantial internal control weakness
2	Substantial policy or procedure exceptions
3	Substantial risk exposure
4	Substantial financial exceptions – loss, misstatement, errors, fraud
5	Substantial law or regulatory violations
6	Substantial potential opportunity – revenue, savings, efficiencies
Low	Management should initiate reasonable action to incorporate a plan to address the comment in the normal course of business
1	Minor internal control weakness
2	Minor policy or procedure exceptions
3	Limited risk exposure
4	Minor financial exceptions – loss, misstatement, errors, fraud
5	Minor law or regulatory violations
6	Limited potential opportunity – revenue, savings, efficiencies

APPENDIX C: TYPE OF CONTRACT AND PROCEDURE FOR INVITATION TO BID NUMBER AND VALUES

Contract Type	Open bidding	Traditional competitive contracts	Traditional non-competitive contracts	Total
PWGSC Purchase Order (9200)	2	4	3	9
Call-up Against a Standing Offer (942)	5	139	15	159
Standard Purchase Order (PO)	0	132	41	173
Professional Services > \$10,000 (PS1)	4	10	5	19
Professional Services < \$10,000 (PS2)	1	34	11	46
Local Purchase Order < \$5K (LPOA)	0	3	1	4
Construction	2	80	22	104
Total	14	402	98	514
PWGSC Purchase Order (9200)	\$641,447.34	\$1,543,004.75	\$229,068.97	\$2,413,521.06
Call-up Against a Standing Offer (942)	\$466.52	\$2,989,736.69	\$27,440.72	\$3,017,643.93
Standard Purchase Order (PO)	-	\$1,158,798.44	\$145,741.95	\$1,304,540.39
Professional Services > \$10,000 (PS1)	\$121,811.91	\$190,462.83	\$69,411.10	\$381,685.84
Professional Services < \$10,000 (PS2)	\$339.00	\$85,192.51	\$30,181.36	\$115,712.87
Local Purchase Order < \$5K (LPOA)	-	\$6,604.80	\$2,493.91	\$9,098.71
Construction	\$325,447.26	\$2,290,427.74	\$98,543.80	\$2,714,418.80
Total	\$1,089,512.03	\$8,264,227.76	\$602,881.81	\$9,956,621.60

APPENDIX D: TABLES - OVERVIEW OF CONTRACT SAMPLING (CONTRACTS)

Table 3: Overview of contract sampling

Value* of contracts	Competitive contracts		Non-competitive contracts	
	Number of selected contracts	Value* of selected contracts	Number of selected contracts	Value* of selected contracts
Under \$5K	15	\$43,762	27	\$67,174
\$5K to < \$10K	5	\$34,908	6	\$47,182
\$10K to < \$25K	7	\$123,014	5	\$66,046
\$25K to < \$100K	2	\$98,536	1	\$26,442
Over \$100K	0	\$0	1	\$116,420
Total	29	\$300,220	40	\$323,264

*Value rounded to the nearest dollar

Table 4: Overview of random contract selection

Type of contract Selected randomly	Number	Solicitation procedure	Value*
Service Contract (PS1) > \$10K	2	Competitive	\$98,536
Service Contract (PS2) < \$10K	4	Competitive (1) Non-competitive (3)	\$20,792
Purchase Order (PO) Goods <\$25K	13	Competitive (5) Non-competitive (8)	\$91,712
Call-up Against a Standing Offer (942)	5	Competitive (2) Non-competitive (3)	\$33,528
Contract issued by PWGSC (9200)	1	Non-competitive	\$116,420
Construction Contract	13	Competitive (5) Non-competitive (8)	\$114,467
Total	38		\$475,455

*Value rounded to the nearest dollar.

Table 5: Overview of the stratified approach used for contract selection

Type of contract selected at 100%	Number	Solicitation procedure	Value*
Service Contract (PS1) > \$10K	5	Non-competitive	\$69,411
Local Purchase Order Authority (LPOA)	4	Competitive (3) Non-competitive (1)	\$9,099
Total	9		\$78,510

*Value rounded to the nearest dollar.

Table 6: Overview of the contract selection by judgement

Type of contract selected by judgement	Number	Solicitation procedure	Value*
Call-up Against a Standing Offer (942)	2	Non-competitive	\$5,966
Purchase Order < \$25K	6	Competitive (2) Non-competitive (4)	\$22,478
Construction Contract	14	Competitive (9) Non-competitive (5)	\$41,076
Total	22		\$69,520

*Value rounded to the nearest dollar.

APPENDIX E: TABLES - OVERVIEW OF SAMPLING AND PURCHASES (ACQUISITION CARDS)

Table 7: Overview of sampling of acquisition cards

Selection	Amount*	% in value* of the total
Judgement	\$164,651	11.7%
Random	\$106,742	7.6%
Total	\$271,393	19.3%

*Value rounded to the nearest dollar.

Table 10: Overview of monthly purchases

Month	Amount
April 2014	\$48,490
May 2014	\$68,264
June 2014	\$77,536
July 2014	\$82,530
August 2014	\$73,692
September 2014	\$119,407
October 2014	\$132,836
November 2014	\$106,512
December 2014	\$112,164
January 2015	\$151,375
February 2015	\$137,019
March 2015	\$299,581
Total	\$1,409,856

*Value rounded to the nearest dollar.

