



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Canada

Core Control Audit of the National Energy Board

February 2018

Office of the Comptroller General

Why This Is Important

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

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

About the National Energy Board

The National Energy Board (NEB) is an independent federal, quasi-judicial regulator established in 1959 to promote safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament for the regulation of pipelines, energy development and trade.¹

The main responsibilities of the NEB are established in the NEB Act and include regulating:

- The construction, operation, and abandonment of pipelines that cross international borders or provincial/territorial boundaries, as well as the associated pipeline tolls and tariffs;
- The construction and operation of international power lines and designated inter-provincial power lines; and
- Imports of natural gas and exports of crude oil, natural gas liquids (NGL), natural gas, refined petroleum products and electricity.²

The NEB conducts environmental assessments (EA) during its review of applications for projects under its jurisdiction. For certain projects, an EA is also required by federal legislation, such as the Canadian Environmental Assessment Act, 2012 (CEAA 2012), the Mackenzie Valley Resource Management Act, the Inuvialuit Final Agreement or the Nunavut Land Claims Agreement. Certain Board inspectors are designated Health and Safety Officers by the Minister of Labour to administer Part II of the Canada Labour Code as it applies to NEB-regulated facilities and activities.³

The Board also monitors aspects of energy supply, demand, production, development and trade. The Board reports to Parliament through the Minister of Natural Resources.⁴

For fiscal year 2015-16, the NEB had spending of approximately \$82 million and human resources of 458 full-time equivalents.⁵

¹ Source: NEB Report on Plans and Priorities (RPP) for 2015-16, Section I (“Raison d’être”)

² Source: NEB Report on Plans and Priorities (RPP) for 2015-16, Section I (“Responsibilities”)

³ Ibid

⁴ Ibid

⁵ Source: NEB Departmental Performance Report (DPR) for 2015-16, Section II (“Actual Expenditures”)

Core Control Audit Objective and Scope

The objective of this audit was to ensure that core controls over financial management⁶ within the NEB result in compliance with key requirements contained in the selected financial legislation, policies, and directives.

The scope of this audit included financial transactions, records, and processes conducted by the NEB. Transactions were selected from fiscal year 2015-16. The audit examined a sample of transactions for each of the selected policies and directives. The Appendix provides a complete list of policies and directives included in the scope of the audit and the overall compliance in the areas tested.

Conformance with Professional Standards

This audit engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Mike Milito, MBA, CIA, CRMA
Assistant Comptroller General, Internal Audit Sector
Office of the Comptroller General of Canada

Audit Findings and Conclusion

Core controls over financial management regarding the transactions tested within the NEB resulted in partial compliance with the key requirements contained in 5 of the 13 policies, directives,⁷ and corresponding legislation tested. The NEB was not in compliance with key requirements contained in the remaining eight policies and directives tested.

The NEB had established a sound transfer payment process to achieve an effective, risk-based approach to the design and delivery of its transfer payment programs. In the area of financial management governance, the NEB had established an integrated budgeting process, effectively using a salary forecasting tool and considering relevant risks in their planning processes. Sound controls were also observed in delegation of financial authorities of disbursements, receivables management, and year-end recording of payables.

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

Contracting

The audit observed that documentation to support contracting methods used (competitive and non-competitive) was not always on file. In particular, sole-source justification, best-value analysis, bid selection method and evaluation criteria, bid evaluation reports signed by all evaluators, security clearances, and justification for contract amendments were not consistently prepared or retained on file. Moreover, the procurement methods chosen were not always used in compliance with their terms and conditions. With respect to contract issuance, some contracts and contract amendments were approved after related work by the contractor had already begun.

⁶ See Appendix for a complete list of policies and directives included in the scope of this audit.

⁷ See Appendix for the ORSCC compliance in the areas tested.

Documentation

For acquisition cards, documentation to support their issuance, approval, modification, and conditions of use, as well as the acknowledgment of responsibilities by the acquisition cardholder was not always retained on file. Furthermore, account verification was not always properly supported with proof of execution and cost.

In the area of travel, an explanation was not always present when accommodations were not selected from the pre-approved government suppliers list and the cost exceeded the approved rate limit. Similarly, supporting justification was also not always on file for rental vehicles above the standard mid-sized vehicle or above the daily rate limit.

For financial management governance, documentation to support the approval of the organizational budget by both the Deputy Head and Chief Financial Officer (CFO) was not on file. In the area of year-end recording of payables, sufficient documentation to support the payable expenses entered into the financial system was not always on file. Best-value analysis was not always documented for hospitality expenses while pre-approval for overtime under pay administration was almost always not documented. With respect to fleet management, the NEB did not keep a log book on file for the executive vehicle for the purpose of tracking personal use.

Approval

Account verification was not always approved by an individual with the appropriate delegated authority in the areas of travel, hospitality, and pay administration. More specifically, in regards to travel, approval was not made by an individual at the senior departmental manager level or higher. In addition, commitments were not always recorded as part of the expenditure initiation process in the areas of acquisition cards and hospitality.

Recommendations

The Deputy Head / Chief Executive Officer of the National Energy Board should ensure that:

1. The authority to approve travel is not delegated to managers below the Senior Departmental Manager level; and all employees with delegated financial authorities receive mandatory training before they exercise their delegated authority and revalidate their knowledge to maintain their delegated authorities before they continue to exercise their delegated authority.
2. The organizational budget is signed by both the CFO and the Deputy Head at the start of the fiscal year.
3. Documentation is retained on file for acquisition cards to substantiate their issuance, approval, modification, and conditions of use, as well as the acknowledgment of responsibilities by the acquisition cardholder.
4. A complete, documented audit trail exists for all payable expenses entered into the financial system.
5. Fleet log books are on file and systemically monitored, and that log data is periodically analyzed in order to track personal usage.
6. Business processes are improved and consistently performed in compliance with the Treasury Board Contracting Policy, and that sufficient documentation is retained on file.

7. Business processes are improved and are consistently performed in compliance with the National Joint Council Travel Directive, and that sufficient documentation is retained on file.
8. Business processes are improved and are consistently performed in compliance with the Treasury Board Directive on Travel, Hospitality, Conference and Event Expenditures, and that sufficient documentation is retained on file.
9. Result-based measurement mechanisms are established and monitored regularly for accounts receivable.
10. Funds commitment availability is certified, signed, and dated by an individual with the appropriate delegated authority prior to the expenditure initiation, and that documentation is retained on file to demonstrate that this had occurred; expenditure initiation is performed prior to the event; and commitments are established and entered into the financial system in a timely manner, at the value expected to be incurred.
11. Account verification is documented, duly signed, dated in a timely manner by the appropriate delegated authority, and is supported by sufficient evidence to demonstrate that goods and services had in fact been received.

Management Response

Management has accepted the audit findings and has developed an action plan to address the recommendations. It is expected that the management action plan will be fully implemented by March 31, 2019.

The results of the audit and the Management Action Plan have been discussed with the Deputy Head / Chief Executive Officer of the National Energy Board and with the Small Departments Audit Committee. The Office of the Comptroller General of Canada will follow-up on the implementation of the Management Action Plan.

Appendix: Policies and Directives Tested

Policies and Directives Tested	Compliance
Directive on Delegation of Financial Authorities for Disbursements	Partially Met
Policy on Financial Management Governance	Not Met
Directive on Acquisition Cards	Not Met
Directive on Year-End Recording of Payables	Partially Met
Directive on Fleet Management – Light Duty Vehicle	Not Met
Contracting Policy	Not Met
National Joint Council Travel Directive	Partially Met
Directive on Travel, Hospitality, Conference and Event Expenditures	Not Met
Directive on Financial Management of Pay Administration	Not Met
Directive on Receivables Management	Partially Met
Directive on Transfer Payments	Partially Met
Directive on Expenditure Initiation and Commitment Control	Not Met
Directive on Account Verification	Not Met

Legend of Compliance Thresholds⁸	
Met	Greater than or equal to 98% compliance
Partially Met	Greater than or equal to 80% and less than 98% compliance
Not Met	Less than 80% compliance

⁸ Compliance thresholds for the transactions tested.