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STATEMENT OF ASSURANCE

We have completed the internal audit of materiel management. The overall objective of the audit was to review and assess the framework within which services are delivered by materiel management and to recommend improvements.

The internal audit was conducted in accordance with the Treasury Board Secretariat (TBS) Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

The audit team assessed the management control framework against criteria derived from the Treasury Board Secretariat (TBS) 2003 Management Accountability Framework as well as TBS audit guides.

In our professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time of the audit and against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

ABBREVIATIONS

Acronym	Explanation
AO	Administrative Officer
AS	Administrative Services Group (per Collective Agreement)
CFS	Computers for Schools
CMMD	Contracting and Materiel Management Division
CPU	Central Processing Unit
CR	Clerical Group (per Collective Agreement)
HDD	Hard Disk Drive
IFMS/SAP	Integrated Finance and Materiel System (SAP)
IMB	Information Management Branch
IT	Information Technology
MM	Materiel Management
PG	Purchasing Group (per Collective Agreement)
PWGSC	Public Works and Government Services Canada
RAM	Random Access Memory
ROS	Report of Surplus
SOTAD	Security, Operations, Telecommunications and Accommodations Division
SUD	System-Under-Development
TBS	Treasury Board of Canada Secretariat
TSD	Technology Services Division

EXECUTIVE SUMMARY

Introduction

We have completed the internal audit of materiel management at the Department of Justice. Our objective was to review and assess the framework within which services are delivered by materiel management and to recommend improvements.

The federal government's Policy on the Management of Materiel was revised November 1, 2006 and requires that departments manage materiel "in a sustainable and financially responsible manner that supports the cost-effective and efficient delivery of government programs". The policies and guidelines that apply to materiel management include: the Disposal of Surplus Moveable Crown Assets, Materiel Management Policy, Motor Vehicle Policy, and Executive Vehicles Policy, and applicable acts and regulations including the *Surplus Crown Assets Act*, *Public Property Loans Regulations*, and the *Financial Administration Act*.

The Department of Justice delivers the function of materiel management through its Contracting and Materiel Management Division (CMMD) at headquarters. In the regional offices materiel operations is the responsibility of the regional Finance and Administration sections.

The scope of the audit included operations and activities pertaining to materiel management at headquarters, including the key activities of disposal, control, and monitoring of departmental assets. In addition three regions (i.e. Ontario, Atlantic, and Prairie) were consulted regarding functional materiel management responsibilities in regional offices.

Management Framework

The materiel management role must be described by its capacity to provide a consistent and professional level of service across the Department. Management recognizes this requirement and is moving towards a more professionally described role for materiel management staff across the Department, in particular by establishing procurement generalist (PG) positions in all regions. This can only help to improve the effectiveness and efficiency of materiel operations across the Department.

Although the Department's materiel management function operates within the framework of Treasury Board policies, Department-specific policies, procedures, and guidelines to provide the necessary linkages between management's objectives and materiel operations activities have not been developed.

We found that roles and responsibilities need to be clarified with respect to managerial coordination between the materiel management function and key stakeholders. Stakeholder groups include internal service providers (e.g. Information Management Branch) and external service providers (e.g. Crown Assets Distribution Directorate (PWGSC)). We also found that communications with these groups need improvement in order to accomplish more collaboratively materiel management results. We were told that there is a lack of bilateral communications and consultation with CMMD at headquarters.

Formal planning is a key part of the management framework and vital to addressing management priorities. However, planning, particularly operational planning including human resource plans, is largely missing within the materiel management function. Furthermore, an absence of adequate cost and performance information, such as client satisfaction surveys or materiel storage cost data, makes it difficult to institute a planned approach to addressing management priorities, and also limits management's ability to monitor and report against plans.

With respect to the recently-introduced BassetPro inventory system, the audit team found that documentation of user requirements, procedures relating to data input, and processes relating to the interfaces to corporate systems were not adequately specified. As a result, management cannot be assured that inventory and asset information generated through the BassetPro system is reliable.

Operations

Operationally, Justice Canada's materiel requirements are generally subject to a reasonable and cost-effective regime of controls, whereby individual responsibility centre managers, supported by materiel management staff in headquarters, exercise the major materiel acquisition role. In 2006 materiel management led a major effort to conduct a physical inventory in offices in the National Capital Region.

In certain operational processes in materiel handling, particularly with regard to the receipt, control, and disposal of computer equipment, improvements are needed. For example, responsibility for the receipt and handling of computer equipment is shared by MM staff and IT staff in Information Management Branch. We are of the view that this process would be more

efficiently and effectively managed if it were entirely delegated to IMB staff. Furthermore, the audit team found that authorization procedures for the removal of internal computer parts were not evident. For example, in discussions with staff in the Computers for Schools (CFS) Program, the audit team discovered that an unusually high percentage of computer contributions—as much as 82% in 2005/06—had missing memory (RAM) modules. We were told that this was due to departmental efforts to upgrade computers for recycling purposes. A similar, but separate, issue that we uncovered was the high proportion (an average of 68% over three years) of hard disk drives that had been removed for destruction on computers slated for donation to CFS. It was suggested that some of these hard disks drives contained classified data. In the absence of documentation to support this assertion, the auditors could not establish that this was indeed the case. As the CFS Program has the right of first refusal for all departmental computer donations, these removals of inner components marginalize the value of the Department's contribution.

Poor disposal practices were also noted in the handling of non-computer equipment, such as furniture and office items. For example, we found surplus materiel is accumulated to the point of overflow, causing a safety hazard, before disposal agents are called in to remove the surplus. There is also poor segregation of item types. Current practices prevent prospective buyers from adequately assessing the goods and consequently the Department from recovering the optimal value from the sale or reallocation of surplus assets. Potentially and practically poor practices also tarnish the Department's reputation among its disposal agents.

On a positive note, however, materiel management has made special provisions to assist branches to re-use office materiel that may be surplus to another user's needs. In headquarters, for instance, a Surplus Items List is published on JusNet, the Department's Intranet site.

The management response to the recommendations contained in this report was provided by the Director General, Administration.

1. INTRODUCTION

1.1 Background

Materiel management (MM) can be broadly defined within the government's Policy on the Management of Materiel, revised November 1, 2006, which states that departments are to manage materiel "in a sustainable and financially responsible manner that supports the cost-effective and efficient delivery of government programs".

Within the Department of Justice, the function of materiel management is delivered by the Contracting and Materiel Management Division (CMMD) at headquarters. The division comprises three sections: Contracting and Materiel Operations, Contracting Policies and Compliance, and Contraventions. Each Section is headed by a manager who reports to the Director, CMMD. The Contracting and Materiel Operations Section is staffed by five Contracting and Materiel Officers and headed by the Manager. At the time of the audit, the position of Manager, Contracting and Materiel Operations Section was not staffed and the Assistant Director, Special Projects/Emerging Issues who also reports to the Director, was charged with responsibility for materiel operations. In the regional offices across Canada, materiel operations is the responsibility of the regional Finance and Administration sections.

The federal government's policies and guidelines that apply to materiel management include: Disposal of Surplus Moveable Crown Assets, Materiel Management Policy, Motor Vehicle Policy, and Executive Vehicles Policy. The relevant Acts and Regulations comprise *Surplus Crown Assets Act*, *Public Property Loans Regulations*, and *Financial Administration Act*.

Some of the key risks that were identified in selecting the materiel management function for audit included: inaccurate reporting of information pertaining to materiel management; inappropriate use of public funds; non-compliance with key government policies aimed at achieving value for money, supporting employees in their work, and supporting government environmental objectives; and inadequate controls and monitoring of materiel assets.

1.2 Audit Objectives and Scope

The objectives of this audit were to review and assess:

- the adequacy of the management framework in place including processes and practices related to planning, organizing, controlling, directing, communicating, and the management of human, financial, and materiel resources;
- the extent of compliance with Treasury Board policies and legislation/regulations that apply to materiel management;
- the appropriateness of monitoring activities (including performance monitoring reports) and the extent to which the results of monitoring activities are used for management decision-making;
- the reliability of information systems for decision-making;
- the appropriateness of communications with departmental managers and staff;
- the adequacy of functional direction provided to regional offices.

The scope of the audit included operations and activities pertaining to materiel management at Headquarters and, through telephone interviews, a sample of regions (i.e. Ontario, Atlantic, and Prairie) to ascertain regional functional materiel management responsibilities. The audit also included the key activities of disposal, control and monitoring of departmental assets.

An audit planning phase in October 2006 preceded the audit on-site examination phase, which extended from November 2006 to January 2007.

2. OBSERVATIONS—MANAGEMENT FRAMEWORK

2.1 Policies, Roles, and Communications

The materiel management policy and procedural framework is insufficient to provide appropriate direction and a complete set of guidelines for staff activity.

Policies and procedures provide the necessary linkage between management's objectives and the supporting operational activity.

At the time of the audit, there were no departmental policies, procedures, or guidelines with respect to the materiel management function. We were told that management acknowledges this and is starting to develop policies and procedures.

Treasury Board Secretariat policies and central agency resources (such as PWGSC's Customer Manual¹) are known and used throughout the Department. There are, however, gaps in directives that assist departmental personnel in performing their tasks. For instance, there is little in the way of documented procedures, such as a deskbook reference, to assist materiel management staff in both the regions and headquarters. In one region we were told that professional procurement publications, seminars, and TBS documents are the main sources of information. At headquarters, the audit team observed that an employee was required to consult a handwritten listing of asset classification classes to enter data into the inventory system.

Training and knowledge transfer is generally promulgated through verbal undocumented channels, which results in unsatisfactory direction for staff.

¹ The Customer Manual provides federal government buyers and materiel managers with information about PWGSC's purchasing-related services and the department's requisition processing from receipt and tender preparation to contract administration. It also includes links to relevant government documents that are identified in the Manual. (from PWGSC Web site)

Recommendations and Management Response

- 1. It is recommended that the Director General, Administration ensure that a materiel management policy as well as procedures and guidelines specific to the Department of Justice are developed, implemented, and promulgated.**

Agree. Policies, procedures and guidelines will be developed, implemented and promulgated. (Target date: November 2007-September 2008)

Management recognizes the increasing importance of a materiel management role marked by an emphasis on professionalism.

Like many other federal departments and agencies, the Department of Justice has structured materiel management as a functional service that has the capability to deliver materiel operations² within headquarters and at a regional level. The function serves to support the Deputy Minister's leadership in the pursuit of departmental objectives.

We were told that functional management recognizes that the materiel management role must be described by its capacity to provide a consistent and professional level of service across the Department, which requires the establishment of a procurement specialist (PG) role in each region and the upgrading of incumbents' skill sets through the pursuit of professional certification³.

To that end, management has developed some specific plans to upgrade contracting and materiel resource capacity across the country (e.g. classifying positions, resourcing the regions) and will be exploring with the Human Resources Branch the certifying of staff for materiel management.

In our view, a more professionally described role provides materiel management with increased opportunities to impact the efficiency and effectiveness of the Department's materiel operations.

² In the Department the functional service is known as "materiel management", whereas the delivery of the function is referred to as "materiel operations".

³ The Professional Development and Certification Program (for the Procurement, Materiel Management and Real Property Community) is a key human resource renewal initiative in support of Modern Comptrollership, Human Resources Modernization, and the new Policy for Continuous Learning in the Public Service. (from TBS Web site)

Roles and responsibilities are insufficiently specified to provide effective managerial coordination of materiel management with other stakeholders.

The nature of materiel operations requires that logistical coordination exist between CMMD and key stakeholders (internal and external service providers). These stakeholders include:

- Industry Canada, which is responsible for the management of federal computer equipment contributions to the Computers for Schools (CFS) Program and which is entitled to right of first refusal of all surplus personal computers, laptops, servers, monitors, keyboards, network cards, hard drives, etc.;
- PWGSC, which through its Crown Assets Distribution (CAD) Directorate is responsible under the *Surplus Crown Assets Act* for disposal of all surplus materiel;
- IT Client Services, Technology Services Division, Information Management Branch (IMB), which handles all service-related issues for desktop computers, including deployment, upgrade, and retirement of assigned units;
- the departmental Security Officer, who is responsible for providing advice and guidance related to safeguarding assets;
- Accommodations and Telecommunications Section, in the Security Operations, Telecommunications and Accommodations Division (SOTAD), which arranges accommodation requirements and office fit-ups, including utilization of recycled furniture;
- regional coordinators, who are responsible for the delivery of regional materiel operations service.

We found that most of the contact and coordination function is performed by operational staff without significant managerial oversight. For example, in the first nine months of 2006-07, only two Report of Surplus⁴ (ROS) forms were issued for Crown Assets Distribution action. As a result, large quantities of surplus items accumulated at the materiel management holding area of the headquarters complex. It was necessary to remove these items within a short timeframe to clear the congested holding area. To limit such predicaments, the roles and responsibilities for providing effective managerial coordination with key stakeholders should be clarified.

⁴ Departments or federal bodies notify Crown Assets Distribution (CAD) within PWGSC of their surplus assets by filling out a Report of Surplus form and sending it to the nearest Crown Assets Distribution Centre. CAD then handles all aspects of asset disposal from start to finish. (from PWGSC Web site)

Communications with some stakeholder groups need improvement to minimize risks to the reputation of the Department as a collaborative organization.

The above-noted stakeholder groups are often very active participants in materiel operations. Managing stakeholder relationships, which is predicated upon good communications channels, is a good business practice. Yet these groups told us that there is a lack of bilateral communications and consultation with CMMD at headquarters.

Nationally, there is little central direction or formal communication between CMMD and regional staff on MM questions. Nor is CMMD effectively using JUSnet, the Department's Intranet website, as a communications channel. For their part, we were told that regional heads of administrative services are aware of whom to contact in CMMD, but generally consider their regions to be self-reliant for materiel management issues. CMMD maintains contact mostly by e-mail to a distribution list of administrative officers (AO)⁵ and by annual participation at the AO conference in Ottawa.

Likewise, effective communication between CMMD and its partners in the materiel management process is lacking. Departmental groups such as Information Management Branch, Finance, and the regional offices told us of poor consultation on shared systems such as BassetPro—the new asset management system (further detailed under “Inventory System Implementation”). External partners, including disposal agents (i.e. Crown Assets Distribution and the Computers for Schools Program), have also expressed concerns with regard to the limited information exchange with materiel management staff in CMMD on disposal practices. Both partners pointed to a lack of required detail on ROS forms (e.g. description of assets, disposal value, relative age of asset) that causes them unnecessary extra work.

In the audit team's opinion, communications is a crucial element of managing stakeholder relationships and thereby strengthens the Department's stature as a collaborative organization.

⁵ Administrative officers (AO) is the generic term used to describe the community of approximately 300 administrative support staff throughout the Department of Justice who provide a point of contact for the uniform delivery of administrative support services to operational and functional management. Typically AOs may provide services and support of a budgetary, administrative, personnel, or clerical nature.

Recommendations and Management Response

- 2. It is recommended that the Director General, Administration ensure that CMMD further specify and clarify roles and responsibilities in relation to managing stakeholder relationships.**

Agree. The roles and responsibilities in relation to managing stakeholder relationships will be clarified and communicated to employees. (Target date: December 2007-April 2008)

2.2 Planning and Reporting

There is a lack of a formal planning approach for the materiel management function.

Planning is a key element in the management control framework and is important in focusing the attention of management activities toward materiel management priorities.

At the time of the audit an operational plan specifically for the materiel management function did not exist. We noted two examples where the existence of a formal planning approach would have been helpful. Firstly, an observation of the MM basement storage and staging area at headquarters—for furniture items awaiting disposal—indicated an overflow situation of discarded furniture. It was evident that the collection of furniture items (e.g. partial and complete furniture units) had surpassed storage capacity and was posing an evacuation safety concern by blocking fire escape routes. Although the audit team observed this to be an Occupational Health and Safety issue, proper MM planning to ensure the regular clearance of disposal items was not evident in this case.

Secondly, there did not seem to be a clear human resource plan for materiel management. At headquarters, two vacancies had resulted from extended absences of the MM manager and one officer. In addition we were informed of impending retirements. The Assistant Director had been tasked with the MM function on an interim basis, as there was no one else internally who had the experience to manage the MM function. Management has also given consideration to upgrading staff through training and development options like mandatory training and certification programs, but no formal learning and development plans were evident. Without plans and processes to provide for adequate staff resourcing, the MM function is at risk of compromising its operational effectiveness, as has been seen in the loss of capacity to provide MM policy and procedures direction.

Overall, the lack of a formal planning approach within materiel management seriously compromises management's capacity to address priorities.

Recommendations and Management Response

- 3. It is recommended that the Director General, Administration ensure that formal plans including HR plans are established for the materiel management function to address priority areas.**

Agree. Formal plans will be developed and will address priority areas and establish schedules for certain materiel management functions. (Target date: May 2008)

There is a lack of cost and performance information with respect to materiel management activities.

Regular management reporting against plans and cost and performance information are essential to ensure that materiel management priorities are being effectively and efficiently addressed.

Materiel management operational performance standards include indicators by which to measure the results of materiel management activity (e.g. inventory turnover, stockout⁶, overstock). The performance measure for materiel management, as set out in the 2005 Management Accountability Framework Assessment of the Department of Justice, specifies that there should be "an appropriate materiel management framework in place, as evidenced by clear accountabilities consistent with organizational capacity and reliable life-cycle cost and performance information that supports decision-making." At the time of the audit CMMD did not have cost and performance information to support planning and decision-making.

Performance information that includes MM service standards and related service monitoring mechanisms (e.g. client surveys) is an important element of a materiel management framework. These service standards and the service monitoring mechanisms should be communicated from MM functional management to the HQ and regional materiel operations units.

While certain regions have developed and published (on their respective Intranet sites) approved service standards for their regional material operations group, the audit team did not find any approved service standards for materiel operations at headquarters. Furthermore, management information on current service quality does not exist, as user surveys or feedback reports from clients such as AOs are not utilized.

⁶ The point at which inventory levels reach zero and inventory demand exceeds supply.

In addition, the audit team observed that there were inconsistencies across the regions in the classification of positions that have materiel management responsibilities. For example, only the Prairie region had staffed a procurement generalist (PG) position at the time of the audit. The PG classification has responsibility for purchasing and materiel management. In other regions staff with AS and CR classifications were performing materiel management duties. As a result of these different classifications, staff are performing the MM functions in different ways. In order to provide consistent service, the Department should plan to establish PG positions across the Department. This will provide some assurance to the Department that the MM function is being undertaken in an appropriate manner and that related priorities are being effectively addressed. The establishment of PG positions will ensure a standardized approach to implementing MM operations and will facilitate the reporting of cost and performance information.

We were told that management recognizes that more efficient and effective ways of managing materiel operations can be implemented and that consideration has been given to improving immediate business practices. For example, when supplies are requisitioned from either the departmental storage area or outside suppliers through MM at headquarters, a bonded courier company, under contract to Justice Canada, is used to deliver these items to offices within the HQ complex and to the Department's other locations in the NCR. During the audit, MM was considering using its own staff rather than contract staff to deliver materiel supplies within the HQ complex, with the expectation of cost savings and increased staff efficiency.

We were also told that management is considering other propositions to improve cost-effectiveness. For example, the materiel management function at headquarters operates several staging areas, including a basement area used for disposal items, a locked room for printing supplies and cartridge storage, and a store-room. The latter accounts for approximately 65 M² (700 sq ft) of storage space for paper items, file folders, and other predominantly low-value items, many of which may be acquired locally under local purchase orders or standing offers. We were told that other options to make better use of the space for the central store-room were being considered.

In general, the audit team found no evidence of reliable cost and performance information with respect to materiel management activities. This lack of information makes it much more difficult for management to develop a planned approach to decision-making.

Recommendations and Management Response

- 4. It is recommended that the Director General, Administration ensure that processes are developed to ensure that reliable cost and performance information is available for materiel management activities and that there is regular reporting against plans.**

Agree. Processes will be developed to ensure reliable cost and performance information is available, and reported on, for materiel management activities. (Target date: September 2008)

2.3 Inventory System Implementation

Documentation of user requirements, procedures relating to data input, and processes relating to the interfaces to corporate systems are not adequately specified in relation to the BassetPro inventory system to provide assurance as to the reliability of the system to meet materiel management needs.

IFMS/SAP is the Department's main financial system for decision-making and accountability, providing managers with periodic financial reporting. The IFMS/SAP system is shared among 15 government departments that are also licensed to use the Plant Maintenance (PM) Module for cost-centre accounting and all inventory management features. In the search for a replacement for the departmental legacy asset tracking system (AMAX), the Finance and Administration Branch recommended in 2004 that the materiel management function in CMMD adopt the IFMS/SAP Plant Maintenance (PM) module to support asset procurement and tracking. This recommendation was not implemented, but rather the less expensive option of piloting BassetPro was selected by CMMD. No decision has yet been made on the future implementation of the IFMS/SAP PM module.

The BassetPro Asset Management System was approved and acquired at the end of fiscal year 2004-05. Data on assets at headquarters, which was captured through a physical inventory process during 2005-06, has been entered into BassetPro with some information also posted to the Integrated Finance and Materiel System/SAP (IFMS/SAP). BassetPro is the key tool for tracking low-value assets acquired, distributed, and retired within headquarters. Inventoried items include furniture, IT equipment, capital assets, and other items (e.g. BlackBerry devices). It is currently planned that the IFMS/SAP interface with BassetPro will be investigated prior to the headquarters pilot being deployed to the regions.

BassetPro has no automated interface to IFMS/SAP at this time. As a result, financial linkages between the two systems do not exist and considerable duplicate effort is required (e.g. name, date, part number, Asset Class code, quantity, month). Materiel management staff also enter this information into IFMS/SAP. Acquisitions that are entered into BassetPro are charged back to the responsibility (RC) manager. The dollar values are entered by MM staff and also periodically posted to IFMS/SAP. However, no verification of the dollar values entered into the system is done. The RC manager or asset owner must check financial reports to determine the accuracy of the IFMS/SAP data. The extent to which potential errors could occur is not known. BassetPro can produce a large selection of reports. However, the audit team was told that managers do not always have the time to scrutinize these reports, in addition to the monthly IFMS/SAP reports, to verify the accuracy of charges. We were told that management is considering proceeding with an automated interface between BassetPro and IFMS/SAP, but at the time of the audit no decision had been made.

BassetPro's user documentation is sparse. Business rules, field definitions, and data input standards are not evident within the application. For example, there is no context-sensitive help feature and no online data entry assistance. As a result, when the user must select an asset class code, the system does not provide a pick-list of pre-validated values, but rather the user must consult a handwritten reference.

Regions are aware of the BassetPro pilot at headquarters, but told us that there is a lack of communication or consultation with them as potential users. In one region a separate inventory system called "Dashboard" is being used to control computer equipment, while other regions rely on MS-Excel spreadsheets, MS-Access databases, and paper records for inventory control. At headquarters, new major computer asset components (e.g. monitors and CPU cases) are tagged and data entry is done by headquarters MM staff at the time of receipt. IT staff in IMB do not input into BassetPro, but keep their own records in MS-Excel.

Overall, documentation, procedures, and controls surrounding the user side of the BassetPro system lack the rigour necessary to assure management that inventory and asset information is accurate.

Recommendations and Management Response

5. It is recommended that prior to further deployment the Director General, Administration ensure that CMMD undertake an independent system-under-development (SUD) review of the BassetPro initiative that includes:

a) An evaluation of the adequacy of the level of analysis of user requirements.

Agree. A survey distributed to users will be developed and distributed in order to evaluate the satisfaction level of users in regards to the system's capability of addressing their needs. (Target date: March 2008)

b) An assessment of the reliability of BassetPro data.

Agree. An assessment of the reliability of the BassetPro data will be done. Inventory reports will be sent to Managers for verification and validation. (Target date: March 2008)

c) An examination of the business case for BassetPro implementation (including an automated interface) in comparison with IFMS/SAP Plant Maintenance Module implementation.

Agree. A business case will be developed to determine the best scenario to follow for future requirements in asset management. The business case is to determine if further enhancements to BassetPro are viable or if the Plant Maintenance option of SAP would be best in regards to integration with IFMS. (Target date: March 2008)

3. OBSERVATIONS—OPERATIONAL ISSUES

3.1 Materiel Requirements

Reasonable and cost-effective controls over materiel requirements exist, supported by materiel management experts in headquarters.

Materiel requirements are determined by individual responsibility centre managers and goods are acquired under the appropriate delegated authority.

For major expenditures, such as computers, a Request for Volume Discount (RVD) process is now in place to provide for continued evergreening⁷ of computer equipment through bulk-buy arrangements. This is coordinated by IMB on a periodic cycle (e.g. four years). For consumables such as office supplies, most managers at headquarters use local purchase orders or standing offers where required.

Materiel management expertise is available for assisting managers with goods procurement that exceeds individual delegated levels. In June 2006 materiel management staff led a major effort to conduct a physical inventory on an office-by-office basis for all Ottawa locations.

3.2 Safeguarding Computers

The receipt and recording of computer equipment does not encourage effective asset control and efficient use of staff time.

Computer equipment is usually bulk-bought through a Request for Volume Discount (RVD) process. Upon receipt, MM staff initially record the asset on BassetPro, but subsequently IT Client Services' technicians in IMB handle the custody, configuration, distribution, servicing, and retirement of the computer equipment. The only subsequent contribution of MM staff during the life span of the computer equipment is to enter data into BassetPro when requested by IT

⁷ Evergreening is a policy for keeping software and hardware resources up to date. For example, a simple evergreening policy might be to replace all computers older than four years with new models.

Client Services. MM staff do not verify this data but accept it as given by IT Client Services. Finally, at the time of disposal, MM staff organize and transport contributions for the Computers for Schools Program.

After the creation of the initial asset record MM staff have no control over computer assets, since custody of the assets is then transferred to IMB. The relaying of information by IT Client Services staff and the subsequent inputting of changes to the record by MM staff are inefficient uses of staff time. Also, this process increases the risk of errors and delays in the entry of the data into BassetPro.

In order to reduce the risk of errors and increase the effectiveness of asset management, it is the audit team's view that an appropriate approach would be for Technology Services Division, IMB to assume responsibility for the receipt, asset-tagging, and data input for all computer equipment. In this way, IMB would have full managerial control over computer equipment from acquisition to disposal.

Recommendations and Management Response

- 6. It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, explore the possibility of IMB assuming responsibility for the receipt, asset tagging, and inventory system input of all computer equipment for headquarters.**

Agree. Discussions will take place between CMMD and IMB to determine what scenario would best meet business requirements. (Target date: February 2008)

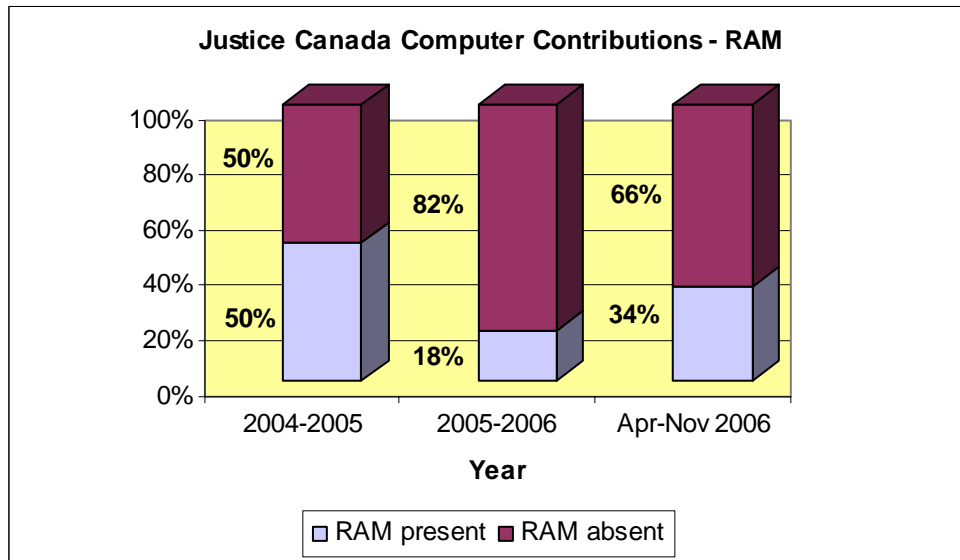
A significant number of used computers have had internal components removed prior to disposal without clear justification or record keeping.

We noted certain issues in the safeguarding of computers with respect to their internal components prior to disposal. In speaking with staff at the Computers for Schools program, the audit team received information that key internal components, particularly computer memory modules (RAM chips), had been removed from departmental computers without documented authorization. Auditors informed Justice Canada management of this during the course of the audit.

In examining Computers for Schools (CFS) records (see Figure 1) for Justice Canada computer contributions in 2004-05, the auditors observed that approximately 50% of departmental computers (or approximately 280 units) received by CFS had no RAM. CFS records for 2005-06

show that approximately 82% (about 700 units) had missing memory (RAM) modules. Between April to November 2006, CFS recorded receiving about 340 units with no RAM, or approximately 65% of the Department’s Computer for Schools contribution. We were told that this was due to departmental efforts to upgrade computers for recycling purposes.

Figure 1



(Note: Percentages shown above have been rounded.)

We found no records in CMMD and IT Client Services or with the Help Centre pertaining to authorization for the removal of internal memory from these computers. We were told that approvals had been given in specific circumstances by the IT Client Services group but these were verbal and not documented. We also found that there were no procedures in place with respect to the removal of internal memory. The continued and unexplained removal of a large percentage of computer memory modules, or similar component parts, prior to disposal reduces the value of the Department’s contribution to the Computers for Schools Program.

Recommendations and Management Response

- It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, ensure that procedures to authorize and report the removal of computer components prior to disposal are developed and implemented.**

Agree. IMB makes every effort to limit the removal of computer components from computers. Clients must identify in the disposal form any sensitive information that renders the components ineligible for re-use and scheduled for destruction.

3.3 Disposal Practices for Surplus Materiel

Headquarters staff are encouraged to recycle surplus materiel by posting such items on a Surplus Items List on the departmental Intranet.

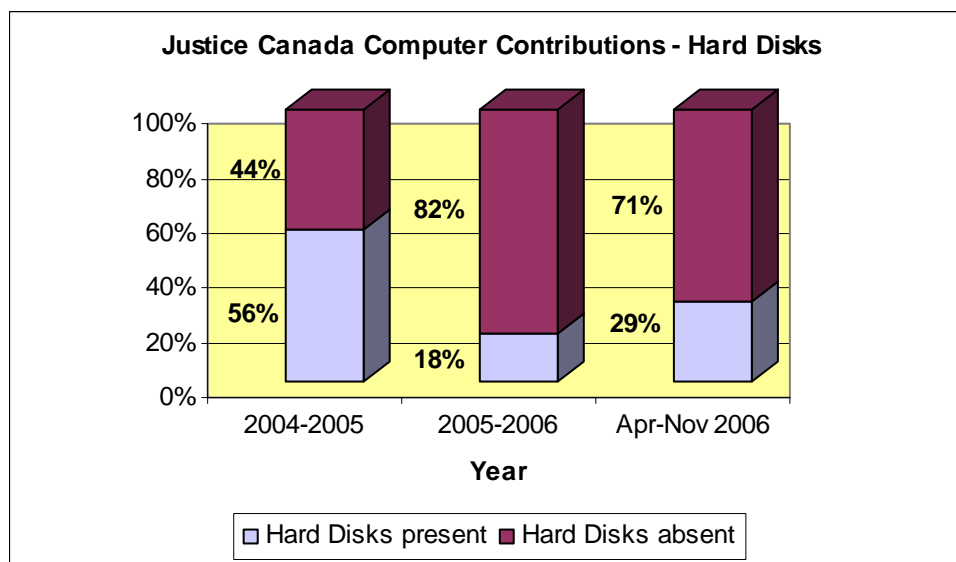
Materiel management staff in CMMD have established a Surplus Items List, available on the departmental Intranet, whereby AOs in the National Capital Region can post usable items that have been deemed surplus in one area, but may be utilized by others.

Such a practice encourages surplus materiel to be recycled throughout the asset's useful life and is a small but positive step in reducing the ultimate environmental impact of waste.

There are no procedures in place to support the removal of hard disk drives prior to donating computers to the Computers for Schools Program.

The value of the Department's computer equipment donations to the Computers for Schools Program (CFS) has been diminished by a large number of missing hard disk drives (HDD). CFS reports (see Figure 2) that of the 573 computer contributions in 2004-05, approximately 44% had no HDDs, and in 2005-06, approximately 82% of 869 computers had no HDDs.

Figure 2



(Note: Percentages shown above have been rounded.)

On average, therefore, over the period described, of the approximately 2000 computers donated to CFS, 1300 HDDs (or 68%) were absent. TBS policy requires that HDDs containing “classified information” (information that, if accessed by unauthorized parties, may cause injury to the national interest) be removed and destroyed by shredding. We found that when a computer is retired from use, there are no procedures in place that require the user to certify and his/her manager to confirm/document that the computer contains classified information. We were told that the practice is to assume that HDDs contain classified information. The auditors are concerned that without proper procedures in place HDDs may be removed unnecessarily which reduces the value of the Department’s contribution to the CFS program.

Recommendations and Management Response

- 8. It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, develop and implement procedures to authorize the removal of hard disk drives as appropriate prior to PCs being donated to the Computer for Schools Program.**

Agree. IMB no longer removes hard drives from PCs unless they are identified by clients as containing Protected C (or above) information prior to donation to the Computer for Schools Program.

Disposal of surplus materiel in the Department of Justice does not occur in a timely or effective manner.

We found that the Department has developed a reputation among its disposal agents for accumulating surplus materiel to the point of storage overflow before arranging for removal.

Crown Assets Distribution Directorate (CAD) reported that in the first nine months of 2006-07 materiel management staff in headquarters raised only two loads (Reports of Surplus), comprising 554 and 718 items respectively. Likewise, Computers for Schools noted that computer equipment donations may be held at the Department of Justice for several weeks, with as many as 10 skids being transported in one load.

The two disposal agents reported that loads are difficult to assess due to poor segregation of item types. For example, in the two CAD loads referred to above, there were respectively 39 and 18 different groupings of individual item types (e.g. chair (wheeled), air purifier, cell phone) interspersed. Such inefficiently organized loads, where furniture and electronics may be co-mingled, for instance, make it difficult for buyers to evaluate the materiel. This in turn limits the price buyers are willing to pay. Buyers are encouraged to bid by being informed in detail of what

is contained in the surplus load. However, information provided on the Reports of Surplus (that is initially sent to CAD) is often scant, frequently providing no assessment of quality or estimated depreciated value. This makes it difficult for CAD to entice buyers to visit.

Potential buyers are subject to further disincentives because of the large volumes involved (i.e. several tractor-trailer loads); the number of potential buyers is limited to only those with the appropriate capacity. These practices discourage buyers and, by limiting competition, result in the Department not achieving best value for its disposals.

According to CAD Directorate's records, total Department of Justice gross sales of surplus assets, nationally, between April and November 2006, were merely \$18,000. Since sales are usually conducted from the Department's premises, there is a nominal return. For example, the CAD commission on furniture is 75%, which amounts, in other words, to 25% for the Department.

The recently revised TBS Directive on Disposal of Surplus Materiel (November 2006) aims at encouraging departments to differentiate between assets (i.e. surplus saleable materiel) and waste items (e.g. broken furniture). The directive states that waste items are to be gratuitously transferred "to another federal organization or to organizations in other levels of government in Canada" or donated "to a recognized charitable or non-profit organization", rather than to be disposed of through disposal agents such as CAD. According to the TBS Policy on Management of Materiel, this disposal of surplus materiel assets must be "concluded as effectively as possible, as soon as possible after they become surplus to the requirements of program delivery, in a manner that obtains highest net value for the Crown, and in compliance with the Treasury Board Directive on Disposal of Surplus Materiel." It is our view that the Department of Justice needs to improve the efficiency and effectiveness of its disposal practices and establish procedures to meet these policy requirements.

Recommendations and Management Response

- 9. It is recommended that the Director General, Administration, in consultation with respective disposal agents, review and revise disposal procedures relating to the Department's surplus and waste assets.**

Agree. New policies, procedures and guidelines will be developed, following consultation with the respective disposal agents, relating to the Department's surplus and waste assets. (Target date: September 2008)

4. OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

The materiel management policy and procedural framework is insufficient to provide appropriate direction and a complete set of guidelines for staff activity.

- 1. It is recommended that the Director General, Administration ensure that a materiel management policy as well as procedures and guidelines specific to the Department of Justice are developed, implemented, and promulgated.8**

Agree. Policies, procedures and guidelines will be developed, implemented and promulgated. (Target date: November 2007-September 2008)

Management recognizes the increasing importance of a materiel management role marked by an emphasis on professionalism.

Roles and responsibilities are insufficiently specified to provide effective managerial coordination of materiel management with other stakeholders.

Communications with some stakeholder groups need improvement to minimize risks to the reputation of the Department as a collaborative organization.

- 2. It is recommended that the Director General, Administration ensure that CMMD further specify and clarify roles and responsibilities in relation to managing stakeholder relationships.....11**

Agree. The roles and responsibilities in relation to managing stakeholder relationships will be clarified and communicated to employees. (Target date: December 2007-April 2008)

There is a lack of a formal planning approach for the materiel management function.

- 3. It is recommended that the Director General, Administration ensure that formal plans including HR plans are established for the materiel management function to address priority areas.....12**

Agree. Formal plans will be developed and will address priority areas and establish schedules for certain materiel management functions. (Target date: May 2008)

There is a lack of cost and performance information with respect to materiel management activities.

- 4. It is recommended that the Director General, Administration ensure that processes are developed to ensure that reliable cost and performance information is available for materiel management activities and that there is regular reporting against plans.14**

Agree. Processes will be developed to ensure reliable cost and performance information is available, and reported on, for materiel management activities. (Target date: September 2008)

Documentation of user requirements, procedures relating to data input, and processes relating to the interfaces to corporate systems are not adequately specified in relation to the BassetPro inventory system to provide assurance as to the reliability of the system to meet materiel management needs.

- 5. It is recommended that prior to further deployment the Director General, Administration ensure that CMMD undertake an independent system-under-development (SUD) review of the BassetPro initiative that includes:.....16**

- a) An evaluation of the adequacy of the level of analysis of user requirements.**

Agree. A survey distributed to users will be developed and distributed in order to evaluate the satisfaction level of users in regards to the system's capability of addressing their needs. (Target date: March 2008)

b) An assessment of the reliability of BassetPro data.

Agree. An assessment of the reliability of the BassetPro data will be done. Inventory reports will be sent to Managers for verification and validation. (Target date: March 2008)

c) An examination of the business case for BassetPro implementation (including an automated interface) in comparison with IFMS/SAP Plant Maintenance Module implementation.

Agree. A business case will be developed to determine the best scenario to follow for future requirements in asset management. The business case is to determine if further enhancements to BassetPro are viable or if the Plant Maintenance option of SAP would be best in regards to integration with IFMS. (Target date: March 2008)

Reasonable and cost-effective controls over materiel requirements exist, supported by materiel management experts in headquarters.

No recommendation.

The receipt and recording of computer equipment does not encourage effective asset control and efficient use of staff time.

6. It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, explore the possibility of IMB assuming responsibility for the receipt, asset tagging, and inventory system input of all computer equipment for headquarters.....18

Agree. Discussions will take place between CMMD and IMB to determine what scenario would best meet business requirements. (Target date: February 2008)

A significant number of used computers have had internal components removed prior to disposal without clear justification or record keeping.

- 7. It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, ensure that procedures to authorize and report the removal of computer components prior to disposal are developed and implemented. 19**

Agree. IMB makes every effort to limit the removal of computer components from computers. Clients must identify in the disposal form any sensitive information that renders the components ineligible for re-use and scheduled for destruction.

Headquarters staff are encouraged to recycle surplus materiel by posting such items on a Surplus Items List on the departmental Intranet.

No recommendation.

There are no procedures in place to support the removal of hard disk drives prior to donating computers to the Computers for Schools Program.

- 8. It is recommended that the Director General, Administration, in consultation with the Chief Information Officer, IMB, develop and implement procedures to authorize the necessary removal of hard disk drives prior to PCs being donated to the Computer for Schools Program.21**

Agree. IMB no longer removes hard drives from PCs unless they are identified by clients as containing Protected C (or above) information prior to donation to the Computer for Schools Program.

Disposal of surplus materiel in the Department of Justice does not occur in a timely or effective manner.

- 9. It is recommended that the Director General, Administration, in consultation with respective disposal agents, review and revise disposal procedures relating to the Department's surplus and waste assets.....23**

Agree. New policies, procedures and guidelines will be developed, following consultation with the respective disposal agents, relating to the Department's surplus and waste assets. (Target date: September 2008)

APPENDIX—AUDIT METHODOLOGY

The methodology for the audit consisted of:

- a risk-based analysis of the management control framework;
- a review of relevant policies at the departmental and central agency level;
- interviews with the Director, the Assistant Director, the Manager of Policies and Compliance, and selected Materiel Operations staff in CMMD;
- telephone interviews with supervisory and management staff in Ontario and Atlantic regional offices;
- interview with Regional Head, Administrative Services, Prairie regional office;
- interviews with the managers from IT Client Services and Accommodations and Telecommunications sections;
- interviews with supervisory and management personnel from Crown Assets Distribution, PWGSC, and Computers for Schools, Industry Canada;
- a review and analysis of approximately 30 pertinent documents;
- testing of procedures and documentation available on the departmental Intranet site and selected track-back of missing PC RAM.