
PHASE 2
FOLLOW-UP REPORT ON
CONTRIBUTIONS AUDIT

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Preface

This report is a phase two follow-up report on the status of actions taken by departmental management to implement the audit recommendations contained in the report on the audit of contributions.

The regular reports we present to Audit Committee on our internal audits provide information about how well the government is performing against its own yardstick—its own objectives, legal requirements, and other relevant standards. We report what is working well and what needs improvement.

The objective of a follow-up assignment is to report on whether departments or managers have taken actions to implement the audit recommendations of previously released audit reports. An audit follow-up is an integral part of good management, and is a shared responsibility of departmental management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of government operations. To be effective, each department or agency should establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems should provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

Government Audit Services' approach to a follow-up audit involves two phases.

In phase one, which is usually carried out a year after a report has been issued, we obtain information and assurance from departments as to the status of the corrective actions taken to implement the audit recommendations. The scope of the follow-up in this phase is limited to interviews and document gathering.

In phase two, which is the basis of this report, we typically carry out the follow-up two years or longer after a report has been issued undertaking an additional step of selecting certain recommendations for audit testing and sampling of transactions to validate the assertions made by management.

After the completion of our follow-ups in either phase one or two, we then report on whether progress has been satisfactorily or unsatisfactorily made to address our audit recommendations. We also draw conclusions on all of the follow-up work done throughout the year on the previous audit reports subject to examination.

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Contributions (2007)

A report on the government-wide audit of contributions (now referred to as a “transfer payment”) was released in 2007. The objective of this audit was to determine whether departments adequately manage and control their transfer payment programs or projects. The audit was originally conducted in five departments and entailed a review of four funded programs and over 90 program and project files. The audit report contained 59 recommendations; 19 of which touched on the policy framework and issues related to the government-wide management of transfer payments; 34 of which referred to the four contribution programs examined and six that focused on general program and project management.

Key events since our audit of 2007

In response to recommendations in the 2007 audit report, the Department of Finance introduced a revised policy and guidelines on government transfers which came into effect April 1, 2008. A 12 month grace period was granted in order for departments to establish the policy and guidelines in day to day transfer payment processes. Management were also to progress the implementation of any departmental specific recommendations.

In 2008 Government Audit Services conducted a phase one follow-up review which required departmental management to self-assess the progress of the implementation of recommendations highlighted. The findings of that exercise were reported to the Audit Committee in June 2008 and there was an indication that more than half of the 59 recommendations had been addressed at that time.

The objective of the 2010 second stage follow up was for the Audit Branch to undertake a detailed verification exercise to independently assess the progress of implementation of recommendations. An additional sample of transfer payment agreements was also reviewed in order to assess the level of adoption of the revised policy on Government Transfers and guidelines in day to day transfer payment administration.

During the course of the audit we debriefed six departments on our specific findings providing them with some recommendations for improvement in line with the existing transfer payment policy and guidelines.

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The verification exercise undertaken on the progress of implementation of departmental specific recommendations confirmed that 85% of recommendations have been implemented in full.

The table below identifies the status of recommendations by department. In some cases the recommendations were considered to have been executed, but opportunities were noted to further improve processes or controls. These opportunities have been communicated to departmental management.

Department	Number of Recommendations	Recommendations Completed	Recommendations Partially Completed
Community Services	15	13	2
Economic Development	10	10	0
Executive Council Office	2	0	2
Finance	21	17	4
Highways & Public Works	1	0	1
Public Service Commission	1	1	0
Tourism & Culture	9	9	0
Total	59	50	9

Given the significant number of recommendations made, the attention afforded by departments to improve processes and controls in the last three years is commendable. There is also a firm commitment by departments to complete the implementation of the remaining recommendations in the near future.

Notwithstanding the above, a review of a small sample of transfer payments identified concerns that some of the key controls recommended in the Government Transfers Policy and Guidelines have not yet been consistently implemented across the government.

Twenty-four transfer payment agreements were reviewed from seven select departments. This included funding program, project and operational type agreements. In order to respect the grace period for the adoption of the government transfer payment policy and guidelines, payments were sampled for the 2009/2010 period only. The key items in the policy and guidelines including agreement risk assessment, treatment of advances, agreement content, monitoring activities and advance payments, were reviewed against current practices.

The following common key issues were noted and have also been communicated to departmental management including the Department of Finance through a series of debriefings:

- Of the 14 project officers interviewed and involved in the set up and administration of agreements:
 - 5/14 (36%) were aware of the Government Transfers policy and guidelines but have not attended any training sessions,
 - 6/14 (43%) have attended the Transfer Payments training sessions,
 - 3/14 (21%) were not aware of the Government Transfers policy and guidelines.
- Evidence of a risk based approach to the assessment of eligibility and approval could not be demonstrated (*i.e., not developed or not documented*) in 6/24 (25%) of agreements sampled. The comprehensiveness of the risk based approaches varied and there was an indication that project officers were struggling with the implementation. Particular weaknesses were noted regarding assessing recipient capacity and consideration of community support.
- There was little evidencing of review of financial reports received from recipients to support payments.
- 7/10 (70%) of project advance payments were not subject to the guidelines cash flow and reporting requirements. It was noted that 5 funding program based agreements had adopted the good practice of requiring cash flow statements for advance payments.
- Not all agreement formats have been subject to review in light of the policy and guidelines or issuance of agreement template for projects. It is acknowledged that the templates are designed for new projects and that templates will be tailored based on the nature of the agreement. However, departments have been advised that the opportunity should be taken to

review agreement templates, in due course, to identify key clauses that may have been omitted or clauses that may be strengthened.

- No department in the sample has developed a risk based audit framework for agreements.
- 3/24 (12.5%) financial reports were not appropriately certified as required by the agreement.
- There still appears to be some confusion over the usage of transfer payment classifications, for example, operational core funding being termed a project, and grant like funding conditions being applied to projects.

Conclusion

As indicated above, significant progress has been made in clearing 85% of recommendations made and departments are committed to complete the implementation of those that are still in progress. Of the nine audit recommendations that are still in progress four fall within the responsibility of the Department of Finance. Since our last follow-up, Finance has facilitated corporate and custom training sessions, worked with Justice to produce agreement templates and is piloting a third tier training session, which includes risk management and the use of the agreement templates.

Our selective testing of transfer payment agreements in departments shows that additional efforts are still needed to improve the management practices. The Department of Finance is fully aware that there is still a demonstrated need for additional training at all levels and this remains a priority in relation to their responsibility in advising on compliance with the policy and guidelines. The review of agreements also indicated that departments would benefit from compliance spot checks by the Department of Finance and tools and checklists to provide further direction. Again, the Department of Finance is committed to this and we have advised them to communicate their plans to provide these training and operational tools in order to give comfort to departments that, in this still transitional stage, support will be on-going.