

GOVERNMENT AUDIT SERVICES

REPORT ON THE REVIEW OF THE FINANCIAL MANAGEMENT PRACTICES IN THE DEPARTMENT OF JUSTICE

JULY 2004

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EXECUTIVE SUMMARY

At the request of the Department of Justice, we undertook a review of the department's financial management practices and assessed whether the financial transactions were processed in accordance with government's financial policies and practices, and whether there had been any material transactions, errors, or errors of omission that may impact the accuracy, completeness or reporting of the department's financial position.

Our review covered the period from April 1, 2000 to November 15, 2002. In conducting our examination we relied on certain audit criteria relevant to sound financial management. Our audit involved interviews with selected management and staff and included such tests of transactions and of the existence and valuation of assets and liabilities, as we considered necessary. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

Our audit was not designed to be a comprehensive review of every aspect of financial management in the department, nor as a means of giving an opinion on the fairness of the department's financial statements. Rather, it focused on the department's financial management control framework and those areas governing:

- a) the allocation and reallocation of resources between and among votes, programs, activities and organizations;
- b) the methods of resource management and control;
- c) the expenditure control system including the delegation of financial authorities, contribution arrangements, procurement practices, commitment control and expenditure processing; and
- d) financial reporting.

In this report, we describe a number of instances where internal financial controls are substandard and require immediate attention. Those controls pertaining to the use of signing and spending authorities and to the proper management of capital projects are the most pressing as some contravene sound principles of accountability and good financial management.

We would like to acknowledge the high level of cooperation that was provided by the staff and management of the Department of Justice, Workers Advocate Office, Management Board Secretariat and the Property Management Agency. Their cooperation was crucial to the success of our work for this audit.

CONCLUSIONS

DEPARTMENT'S FINANCIAL SITUATION

In our review of the department's current state of financial affairs, we examined all budget adjustments, all material transactions, agreements and contracts, all outstanding commitments over \$5,000 and any significant recovery due to the department for the period from April 1, 2002 to November 15, 2002.

Based on the audit work performed up to November 15, 2002, we did not find any material transactions, errors, or errors of omission that may impact the accuracy, completeness or reporting on the department's overall financial position for the fiscal year ending 2002-03.

We conclude that all expenditures and commitments selected for testing were processed in accordance with the government's financial policies and Management Board directives with the exception of those items noted below in this report. All significant transactions requiring Management Board approval including budget adjustments were also processed in a manner prescribed by the Board.

WORKERS ADVOCATE OFFICE (WAO)

During the audit, we tested all expenditures charged to the WAO in the current year up to November 15, 2002 and all items over \$1,000 from April 1, 2000 to March 31, 2002. The objective of this testing was to ensure that expenditures were processed in accordance with government policies and directives.

We conclude that, based on the audit work performed, WAO expenditures were processed satisfactorily in accordance with the government's financial policies, Management Board directives, and procurement policies and guidelines except for the following matters identified as findings in the next section of the report:

- There is no formal arrangement in place that outlines the respective roles, responsibilities and reporting relationships between the Justice Department and the Workers' Compensation Health and Safety Board over the administration of the Workers Advocate program.
- The Workers Advocate's level of financial signing authority is set too low and is not commensurate with the position's program management responsibilities.

WHITEHORSE CORRECTIONAL CENTRE (WCC) REDEVELOPMENT PROJECT

During the audit, we tested 97% of the expenditures charged to the WCC redevelopment project from April 1, 2000 to November 15, 2002. The objective of this testing was to ensure that expenditures were processed in accordance with government policies and directives.

We conclude that, based on the audit work performed, WCC redevelopment expenditures were properly processed in accordance with the government's financial policies, Management Board directives, and procurement policies and guidelines except for the following matters identified as findings in the next section of the report:

- The Management Board Directive approving this project included items that did not meet the definition of a capital expenditure under the Government's financial policies and directives.
- Almost half of the expenditures charged to the WCC redevelopment project were not directly related to the project.
- The corporate guidance on capital project planning and implementation is not specific enough to assist sponsoring departments in managing complex, multiparty capital projects.

TERRITORIAL POLICE SERVICE AGREEMENT

As part of our examination, we tested all transactions charged to the Yukon Territorial Police Service Agreement from April 1, 2000 to November 15, 2002. With the exception of the finding described below, we concluded that, based on the audit work performed, the policing expenditures were processed satisfactorily in accordance with the government's financial policies, Management Board directives, and government procurement policies and guidelines.

- The Community Justice and Public Services Program is not taking adequate responsibility for administering the financial spending aspects of the Territorial Police Service Agreement.

FINDINGS AND RECOMMENDATIONS

WORKERS ADVOCATE OFFICE (WAO)

Background

The Workers Advocate is a unit of the Justice Department that administratively reports to the Assistant Deputy Minister, Community Justice and Public Services. The WAO is funded on a cost recoverable basis under the Management Services Program and each year bills the Workers' Compensation Health and Safety Board for the total cost of its operations. Presently, the WAO consists of four employees and has an operating budget of \$345,000.

Before December 1999, there was no clear process for preparing or approving the WAO budget, an operations budget that increased from \$82,300 in 1998 to over \$300,000 in 2000-01. Following changes to the Workers' Compensation Act in 1999, the Justice Department began the process of consulting with the WCHSB on the WAO budget before approving it.

During the audit, we tested all expenditures charged to the WAO from April 1, 2000 to November 15, 2002. We concluded that, based on the audit work performed, the WAO expenditures were processed satisfactorily in accordance with the government's financial policies, Management Board directives, government procurement policies and guidelines. We also examined how budgets and expenditures were processed and approved, and assessed the adequacy of the consultation between Justice and WCHSB. The findings and recommendations identified below relate to these areas of our examination.

Finding

There is no formal arrangement in place that outlines the respective roles, responsibilities and reporting relationships between the Justice Department and the Workers' Compensation Health and Safety Board over the administration of the Workers Advocate program.

Although the Justice Department is expected to annually consult with the WCHSB on WAO budget matters and the Workers Advocate issues an annual report on its activities, there is no formal written agreement that binds these relationships or the financial arrangements between and among the three parties.

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It is our understanding that during the past five years Justice' officials have met twice with the Board to consult on the WAO program and budget including the budget for 2003-04. We were unable to find any approved plans or budgets agreed to or signed-off by either party in any of those years.

We believe that the lack of a formal planning and budget process can often lead to poor communications and misunderstandings between the parties concerned. The year 2002-03 is a prime example of this. At the start of the year, a capital budget had not been prepared or approved for the WAO. Yet, through the course of the year, the need for several capital items arose and communication between the WAO and Justice's Finance, Systems and Administration intensified. The department finally submitted two Management Board requests for capital funds totalling \$125,000. The Board subsequently approved these requests. Then, in December 2002, the department asked and obtained approval from the Management Board to reverse the two requests for capital funds. By this time, however, the department had already spent about \$45,000 on WAO capital purchases.

Our review of this situation shows that far too many players were involved in decisions that affected the purchase of capital assets for the WAO. This led to considerable confusion within Justice between and among the various players. Had the department taken steps to put into place a proper third-party agreement, plan and budget at the start of the year, this kind of communication among managers and confusion over who had the appropriate authority in making capital purchasing decisions could have been avoided. Fortunately, Justice was told at a meeting held with the WCHSB Board in November that they would be able to recover most, if not all, of the capital monies spent on behalf of the WAO.

Recommendation #1

The Department of Justice should develop a formal agreement between itself and the Workers Compensation Health and Safety Board covering the administration and management of the Workers Advocate Office.

This agreement should include terms and conditions that clearly establish:

- a) The respective roles and responsibilities of key officials within the Justice Department, WCHSB, and WAO including the:
 - Workers Advocate,
 - Workers' Compensation Health and Safety Board,
 - WCHSB President and Chief Financial Officer,
 - Justice Deputy Minister,
 - Assistant Deputy Minister, Community Justice and Public Services, and
 - Director, Finance, Systems and Administration.

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- b) Operating guidelines for the planning and preparation of operating and capital budgets including formal approval.
- c) Operating guidelines that describe Justice's billing process, and the basis and method of payment.
- d) The consultation and reporting process between the three parties during the course of the year.
- e) Inclusions and Exclusions from the agreement (for example, clarity on chargeable or non-chargeable overhead items or charges from the WCHSB to the WAO).
- f) Audit requirements.
- g) The length of the agreement and renewal terms.

In order to help facilitate the budget process while an agreement is being developed, we would suggest that the Workers Advocate, a financial officer from the Justice Department, and a delegate from the WCHSB meet on a quarterly basis to review and monitor the WAO budget.

Management Comments

The Department of Justice agrees with this recommendation. A consultation process was already in place as set out in the Workers' Compensation Act section 13(5) stating, "the Minister of Justice shall prepare an annual budget for the workers advocate and, following consultation with the board, approve the budget, which should be paid out of the compensation fund". The Act also stipulates the billing and reporting requirements as well as the timing of reporting.

The Department met in November 2002 with the Workers' Compensation Health and Safety Board, and put forward a budget that was included in both the WCHSB and Department of Justice's budgets for 2003-04. This process was repeated during the 2004-05 budget year. The unapproved expenditures for the Workers Advocate program in the summer and fall of 2003 was an isolated incident where procedures were not followed.

Finding

The Workers' Advocate level of financial signing authority is set too low and is not commensurate with the position's program management responsibilities.

The Workers Advocate office was originally set up as a one-person office with the thought that once the original work load was dealt with the Workers Advocate position may be reduced to part time. Over time, however, the demand on the Workers Advocate was unprecedented and the actual need surprised most people.

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The size of the office increased exponentially during the first few years until the point now where there are three permanent employees and one term employee.

The Workers Advocate Office is established under Justice's Management Services Program. However, day-to-day this Office reports through the Assistant Deputy Minister, Community Justice and Public Services. The Workers Advocate's financial spending authority is currently set at \$1,000. This level of authority has not changed since the creation of the WAO. Any expenditure initiated above \$1,000 requires the approval of the Deputy Minister. In our view, this level of financial signing authority is set too low and does not reflect the high level of program, management and supervisory responsibilities now required of the Workers Advocate. We believe an increase in financial signing authority would relieve the Assistant Deputy Minister from having to micro manage the WAO, thus giving her more time to focus on broader management issues.

Recommendation #2

The Deputy Minister for the Department of Justice should increase the Workers Advocate's delegated financial spending authority to a level commensurate with those of other program managers.

The department may also wish to conduct a review of the Workers Advocate's job description and overall financial responsibilities while deciding to increase the position's spending authority. Consideration in this regard should be given to the position's financial management, budget preparation and control, expenditure and financial reporting responsibilities.

In line with this review, the department should look at transferring program responsibility over the Workers Advocate Office from Management Services to the Community Justice and Public Services program. This would formalize the relationship between the Workers Advocate and the Assistant Deputy Minister, Community Justice and Public Services.

Management Comments

The Department of Justice agrees with this recommendation. Although it was not the level of signing authority that caused unauthorized spending, the signing authority of the Manager of the Worker Advocate program has since been increased to be similar to those of other program managers in the Department of Justice (i.e., maximum \$25,000).

WHITEHORSE CORRECTIONAL CENTRE REDEVELOPMENT PROJECT

Background

In 1995, the Barr Ryder Engineering Report highlighted several structural deficiencies at the Whitehorse Correctional Centre (WCC) and pointed out that it would be cheaper to build a new facility than to fix the existing one. The report's findings were supported by an occupational health and safety study, which concluded that a number of changes were needed to bring the existing facility to code. Then in 1998, the Fire Marshal identified 28 improvements required to maintain the old Corrections facility based on the caveat by the government that a new facility would be built. The WCC completed 23 of the required improvements.

From 1998 to the present, three different governments have been involved in planning the WCC redevelopment project. Last year the former government announced that it would spend \$3 million in 2002-03 as part of the original \$17 million project. In May 2002 the Justice Department submitted an implementation plan to the Management Board identifying a project cost slightly over \$29 million. The department was then directed to scale back the project and re-evaluate its cost estimates. In June 2002 the project received implementation phase approval from Management Board to proceed with a final design and an all inclusive construction budget of \$24.3 million.

Out of this \$24.3 million budget, \$20.3 million was approved for the design, consulting, construction and associated direct costs of the new facility, all of which was to be administered by the Property Management Agency (PMA) of the Department of Highways and Public Works. The balance of \$4 million was set aside for all other costs to be administered by the Department of Justice. An occupancy date of December 31, 2005 was set with final completion by September 30, 2006.

As of November 2002 almost \$1.5 million had been expended on this project. In January 2003 the WCC redevelopment project was placed on hold for an indeterminate time.

During our audit we tested 97% of the expenditures charged to the WCC redevelopment project from April 1, 2000 to November 15, 2002. Based on the audit work performed, we concluded that the WCC redevelopment expenditures were processed in accordance with the government's financial policies, Management Board directives, and procurement policies and guidelines except for the following matters.

Finding

The Management Board Directive approving the WCC redevelopment project included items that do not meet the definition of a capital expenditure under the Government's financial policies and directives.

The Management Board directive that approved the WCC redevelopment project included items that do not meet the government's definition of a capital expenditure and, as such, created significant confusion in the Department of Justice as to the appropriate means to account for the project.

The following extract from the Minutes of the Management Board, Directive #02-21-12, dated June 26, 2002 shows the approval:

“Management Board granted implementation phase approval (per GAM Dir. 2.17) for a new facility to replace the existing WCC with an all-inclusive target total cost no greater than \$24,300,000, which includes design, construction, furnishings and fixtures, computer infrastructure, security redevelopment, legislative redevelopment, consultation, human resources redevelopment and project co-ordination and facilitation.”

The item that caused the most concern was the human resources redevelopment, which included staff training and inmate programming redevelopment costs as well. The reason for the confusion is that, based on the government's financial policies, these costs do not meet the definition of a capital expenditure. As these costs relate to changes in the department's program delivery they are actually one time or rare operations and maintenance (O&M) costs, but because they were included in the Management Board approval, Justice recorded the cost against the capital appropriation.

In seeking clarification on this issue, the Department consulted the Management Board Secretariat who advised that all costs directly related to a project were to be charged to that project. The direction provided by the Management Board Secretariat agrees with one section of the government's financial policies, which states that program budgets and project estimates should include all direct costs associated with a capital project. These policies, however, also define capital and capital expenditures in a way that appears to be in conflict with the guidance given by, and directives issued by, the Management Board. This is where the confusion over the appropriate accounting for this project arises because there appears to be conflicting interpretations of the definition of a capital expenditure within the context of a capital project.

One interpretation, as supported by the Management Board directive and used by Justice, is to charge all expenditures directly related to a capital project to the capital

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appropriation. In this case, a capital project is defined as all aspects of a project as approved in the Capital Estimates or by the Management Board under the Capital appropriation. In this context, expenditures are charged to a project irrespective of the government's financial definition of a capital expenditure. As such, a project may include costs that are, in essence, non-capital or O&M costs, but are directly related to the project. The human resources redevelopment costs under the WCC redevelopment project, for example, would fit this interpretation.

The other interpretation of the financial policies is to cost to a capital project all expenditures directly related to a project that meets the Government's definition of a capital expenditure. Based on the Financial Administration Manual, a capital expenditure is defined as the outlay of funds in excess of \$1,000 to acquire and/or construct a tangible capital asset (*Section 5.12, 8.7*). The key here is the expenditure's direct relationship to a physical tangible capital asset; only items that are directly related to the asset could be charged to the capital project. From our example above, the human resources redevelopment costs would not have fit this interpretation because the department could have incurred these costs without the construction of the new facility (the tangible capital asset). These costs, as well, would not have met the government's definition and criteria of a capital expenditure.

The distinction here is the difference between the direct costs of a "capital asset" and the direct costs of a "capital project". The government's financial policies support direct costing of expenditures against an asset whereas the Management Board directive and the subsequent direction appear to support direct costing of expenditures against a project approved under the capital vote. These divergent methods of accounting for capital projects affects not only the consistency with which capital projects are accounted for within the government, but also affects the allocation of costs between the Capital and O&M budgets. For WCC redevelopment, the bottom line impact on the project of the different interpretations is estimated to be between \$145,000 and \$300,000. Although not material at this stage of the project, the differences could become quite significant if the project continues to completion.

In reviewing the circumstances of this case, the concerns raised in accounting for the project's costs appear to be the result of inconsistencies in the application of the accounting definitions of capital projects, capital assets and capital expenditures.

Recommendation #3

The Department of Finance in consultation with Management Board should review their respective policies and directives on capital projects to ensure consistent application and understanding of the government's accounting for capital projects and expenditures.

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In reviewing the government's policies on Capital project costing the Management Board and Department of Finance should consider the following:

- Clarify the definition of "capital" for consistent application to the Capital Estimates, Capital Appropriation, Capital Projects, Capital Assets and Capital Expenditures
- Consider a definition of Eligible Capital Expenditures within the context of a capital project
- Clarify the government's policy on Project Cost Accounting
- Consider the inclusion or exclusion of indirect costs within the context of project cost accounting.
- Adjust the government's financial policies to reflect any changes

As the government moves from the expenditure basis of accounting to the expense basis of accounting, wherein it will begin in 2005-06 to capitalize capital assets, these distinctions will be important for the recording and accumulating of capital assets in the Government records and financial statements. In addition, clarifying the Government's project cost accounting policies will reduce the likelihood of a similar situation occurring in the future and will provide clearer guidance for all departments on capital project accounting.

Management Comments

The Department of Finance concurs with this recommendation. This is an area where the budgeting of and accounting for expenditures are sometimes in conflict. The requirement to implement the Public Sector Accounting Board recommendation with respect to tangible capital assets by 2005-06 is providing the opportunity to ensure this is rectified. The Management Board also recently requested the Department of Finance to prepare an analysis on the issue of the classification of expenditures as Capital or O&M, including the impacts on budgeting and financial reporting prior to the 2004-05 budgeting exercise. When this exercise is in process we will consult with Government Audit Services for their advice on this issue.

Finding

Almost half of the expenditures charged to the WCC redevelopment project were not directly related to the project.

As part of the audit we performed an account coding analysis of the expenditures charged to the WCC redevelopment project from April 1, 2000 to November 15, 2002. The results of our analysis is highlighted in the table below:

Table 1 *Summary of Eligible and Ineligible WCC Redevelopment Project Costs*

Nature of Expense	Total Project Costs	Eligible Capital Costs	Ineligible Capital Costs	Ineligible O&M Costs
WCC redevelopment Project				
New Building and Construction Costs	\$790,432	\$790,432		
Community Justice & Correctional Services				
HR Redevelopment/ Legislative Review and Other Programming Costs*	\$145,001			\$145,001*
Capital Costs	\$252,716		\$252,716	
O&M Costs	\$39,575			\$39,575
Justice – Other Programs				
Capital Costs	\$256,699		\$256,699	
Total expended to date	\$1,484,423	\$790,432	\$509,415	\$184,576

* Discussed in the previous Finding.

From our analysis we estimated that about \$694,000 was spent on items that, in our view, were not directly related to the WCC redevelopment project. Of this total, \$46,288 was spent in 2002-03, \$451,783 in 2001-02 and \$187,508 in 2000-01. These expenditures were categorized as follows:

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- Capital & Equipment in Use
- Community Justice & Correctional Services O&M Costs
- Justice Department – Other Program Capital Costs

Capital and Equipment in Use

Over \$252,000 or 17.02% of the costs charged to the WCC redevelopment project were for capital assets purchased and in use at the existing correctional facility or the Community Justice & Public Services building on Jarvis Street. According to the Director of Correctional Services, the rationale for the majority of these purchases was that if the asset could be moved to the new facility it constituted a valid purchase against the redevelopment project. For example, a pool table was purchased for the inmates' recreational use, which is standard Corrections protocol. The pool table was charged to the redevelopment project because it was expected that the asset would be moved to the new facility.

In the absence of an understanding of the life cycle and useful life of an asset from an accounting perspective, the rationale is reasonable. However, when accounting theory is applied to these purchases, it is evident that although these assets are clearly capital assets, they are capital expenditures of the existing facility or the existing Corrections program and are not directly related to the redevelopment project. If the equipment was purchased and set aside until implementation of the new facility, it is more likely that it could be considered equipment related to the redevelopment project.

Other items noted in this category were general capital assets that should have been coded to the general program capital budget such as computers, photocopiers, fax machines and other office equipment.

Community Justice & Correctional Services O&M Costs

Under O&M costs, we identified about \$106,000 charged to WCC programming, human resource redevelopment, and legislative review costs. Another \$39,575 was charged to the O&M costs of the existing corrections facility. As we indicated in the previous finding, these costs do not meet the definition of a capital expenditure.

Included in the \$39,575 were \$20,518 of costs that fall under the "O&M Rule". The O&M Rule is the colloquial term for the application of section 8.7.2.2 of the FAM which states, "*Fixed assets costing less than \$1,000 are purchased out of O&M funds. All such expenditures must be included in an O&M estimates and charged against the O&M appropriation.*" In practice, if an expenditure for a tangible capital asset is less than \$1,000 (each) the expense is charged against the O&M

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appropriation. Examples of these items identified in the WCC expenditures included small “*attractive assets*” such as palm pilots and office furniture.

The remaining balance of \$19,057 of costs charged to WCC redevelopment were for general O&M costs for Correctional Services and Community Justice. These items included furniture moving services, delivery services and two ongoing contracts for consultation services and clinical supervision of the Victim Services/Family Violence Prevention Unit staff.

Justice Department – other program costs

We identified an estimated \$256,699 charged to the WCC redevelopment project that related to other Justice programs or departmental costs. This amount accounts for 17.3% of the costs charged to the project. Examples of these items included internal and external systems support/consultation services, and computer hardware, office equipment, office furniture and Law Centre renovations.

Recommendation #4

The Department of Justice, in conjunction with Department of Finance, should review the expenditures charged to the WCC redevelopment project and adjust, where necessary, the accounting records to accurately reflect the direct costs of this project based on the appropriate application of the government’s financial policies and guidelines.

In conjunction with any clarification provided by the Management Board and the Department of Finance as a result of Recommendation #3, the Department of Justice should review the transactions charged to the WCC redevelopment project to ensure that all expenditures charged to the project are directly related to the project. As necessary, Justice should consult with the Department of Finance to determine the necessity to adjust the accounting records retroactively or determine if a prospective adjustment is more appropriate given that the balances may not be material for financial statement purposes.

Management Comments

The Department of Justice agrees with this recommendation. In January 2003 the WCC project was deferred. When the Department of Justice is instructed to continue with a capital project for construction of a new correctional centre there will be a discussion with the Department of Finance in dealing with project costs. In the meantime, all expenditures up to 2002-03 have been expensed and there is no need for any adjustment. Tangible Capital Assets Guidelines of the Department of Finance have been used to ensure tangible capital assets are recorded appropriately in the Public Accounts, and adjustment have been made to ensure that the

appropriate tangible capital assets are recorded. The work in progress for the WCC project was written-off in 2003-04.

Finding

The Corporate guidance on capital project planning and implementation is not specific enough to assist sponsoring departments in managing complex, multiple party capital projects.

Historically, sponsoring departments have assigned the most significant portion of their capital project responsibilities to the performing department, usually the Property Management Agency (PMA). As such, the majority of the responsibility for project management has rested with the PMA Project Co-ordinators.

A recent development in public capital projects is commonly known as “Three Party Projects”. The most recent “Third Party Project”, prior to the WCC redevelopment project, was the construction of the Copper Ridge Place Continuing Care facility. In these cases, the sponsoring department maintains direct management responsibility for a significant portion of the capital funding for non-construction items such as equipment. In these cases, there are essentially two aspects of a capital project proceeding under separate project management, but under a single Management Board submission.

The concern that arises with these projects is the lack of a standardized capital project framework governing all parties to the project. The General and Administration Manual’s (GAM) Project Planning and Implementation Directive, Section 2.17, is the only corporate direction for capital project management. Issued in 1994, this directive provides a very broad framework for the planning and implementation of projects and is not specific enough in providing guidance to assist departments in managing complex, multiple party capital projects. The Department of Highways and Public Works has the Building Development Projects Procedures Manual, which documents, in detail, capital project procedures for the PMA Project Coordinators. This manual, however, is specific to Infrastructure and sponsoring departments are not obligated to follow it.

Recommendation #5

The Department of Highways and Public Works in consultation with the Management Board and Department of Finance should review and propose changes to the management policy framework governing capital projects to improve project management performance for those departments involved in multiple party projects.

A standardized corporate capital management framework could help minimize project management problems and improve project efficiencies by streamlining

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project management and establishing a standard model for multiple party projects. Such a framework could be incorporated into GAM Directive 2.17 or through the issuance of a new GAM policy. At a minimum, the corporate capital management framework should include guidelines and procedures governing the following:

- Sponsoring and performing departments' roles and responsibilities
- Project reporting requirements and schedules
- Project accountability criteria and benchmarks
- Guidelines for inter-departmental relationships, communications, meetings, conflict resolution
- Capital project plans and budget requirements, variance reporting requirements, approval, Management Board and departmental approvals, etc.
- Project status reporting schedule to the appropriate authoritative body
- Eligible capital expenditures definitions and applicable accounting principals.

Management Comments

The Department of Highways and Public Works agrees with this recommendation. Successful completion of any large project requires a disciplined approach to planning and managing a project. The capital management framework developed prior to 1994 is adequate for the job, but sponsoring departments may not be motivated to follow it. Sponsoring departments in general are inclined to give first priority to their program needs and consider a disciplined cost management regime to be unnecessarily time consuming, expensive, and detrimental to their ability to meet their program needs. The message being conveyed to project managers is that program needs and the relationship with the contracting community are ranked above cost control.

Consistent application of a disciplined capital management framework will require strong leadership and direction. We will work together with the Management Board and Department of Finance to see where improvements, if any, can be made to the existing capital management framework as part of our review of GAM Policy Directive 2.17.

Recommendation #6

Capital project proposals sent to Management Board should clearly delineate the approved funding for multiple party projects where the sponsoring department retains management control of a significant portion of the capital funding.

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As previously mentioned, the Department of Justice retained management responsibility for a significant portion of the funding as approved by Management Board, approximately \$4 million. It was not made clear in the Management Board's funding approvals what portion of the annual or total project funding was to be allocated for the construction costs of the facility and what portion for other costs.

In dealing with this issue, Justice and the Property Management Agency came to an agreement to allocate primary funding to the construction of the facility. However, this issue could have been eliminated at the outset if the funding allocation was clearly delineated in the capital project submission to the Management Board. Furthermore, in addition to reducing allocation issues between the parties, clearly delineating the funding between the components of the project can help assign responsibility and reduce future problems if portions of the project come in over budget.

Management Comments

The Highways and Public Works Department agrees with this recommendation. The capital project management framework contemplates that the project implementation costs presented to Management Board for approval are based on completion of a substantial planning effort, and therefore have a high degree of reliability. Asking the Management Board to approve large lump sums without attaching them to specific elements of a project subverts the intended discipline. In light of the audit comments presented and our response to the previous recommendation, we will bring GAM directive 2.17 forward to the Management Board Secretariat to review the procedures and guidelines for approved funding for multiple party projects.

Recommendation #7

Management Board should be provided with regularly scheduled project updates and reports for major capital projects that it approves.

While researching the Management Board directives and the General and Administration Policy Manual we noted that there is no formal requirement for departments to regularly report to the Management Board on the status of their major capital projects. The only formal requirement for reporting on capital projects appears to be a post completion review.

The risk of not having regularly scheduled status reports is that Management Board cannot monitor the capital projects that it has approved. As such, it may not be advised on a timely basis of matters that require attention at the higher levels of government. In the case of the WCC redevelopment project, if regular status reporting had been required, including a detailed breakdown of expenditures to date,

it is possible that the issues regarding this project could have been identified and resolved earlier.

Management Comments

The Department of Finance (MBS) and Highways and Public Works agree in principle with this recommendation. However, it should be noted that the Management Board role is not one of project sponsor and once a decision is made for project approval the responsibility rests with the program department, their Minister, and senior departmental officials to ensure that the project remains within the approved scope, on time, and within the allocated and authorized project budget.

It should be noted that Management Board is advised, through the annually approved budgetary variance reporting cycle, of project status changes and requisite budgetary reallocations. Furthermore, as demonstrated by past experience, Management Board has on several occasions issued specific direction for more frequent project reporting on large and/or contentious projects (e.g., Whitehorse General Hospital, Copperidge Long Term Care Facility). However, the decision to request more frequent reporting should remain at the discretion of the Management Board on a project-by-project basis.

In summary, the Departments of Highways and Public Works and Finance (MBS) will be observant of this recommendation and will bring this recommendation to the attention of Management Board on future large capital projects. It will also be considered in the review of GAM 2,17.

TERRITORIAL POLICING AGREEMENT

Background

In 1992 the Government of Canada and the Government of the Yukon Territory signed a twenty-year Yukon Territory Police Service Agreement that took effect from April 1, 1992. Under the terms of this agreement, Canada through the Royal Canadian Mounted Police (RCMP) provides and maintains a territorial police service within the Yukon Territory. The Justice Department through Community Justice and Community Services administers the agreement on behalf of the Yukon government.

Subject to normal variances in policing activity the cost of this agreement is over \$10.5 million annually and about one-third of the department's O&M budget. Each quarter the RCMP bills the Yukon government for its portion of the service costs, plus any adjustments in inflation and other costs. During 2002-03, for example, the RCMP reported an annual increase of \$455,000 in salaries for their staff. Accordingly, the department obtained approval from the Management Board to cover this budget increase under the agreement for the current and subsequent years.

During the audit, we tested all transactions charged to the Territorial Police Service Agreement from April 1, 2000 to November 15, 2002. With the exception of the finding described below, we concluded that, based on the audit work performed, the policing expenditures were processed satisfactorily in accordance with government's financial policies, Management Board directives and procurement policies and guidelines.

Finding

The Community Justice and Public Safety Program is not taking adequate responsibility for administering the financial spending aspects of the Territorial Police Service Agreement.

Spending authority under Section 29 of the Financial Administration Act (FAA) is usually delegated to public officers with program responsibilities. Such officers are typically independent of those finance officers granted payment authority under Section 30 of the Act. In our review of the Territorial Police Service Agreement we observed that the Finance, Systems and Administration Branch administered both the spending and payment authorities on invoices submitted for payment under this agreement and other related policing agreements. The responsibility for certifying the financial performance of this agreement and other similar arrangements should, however, rest with the Director of Crime Prevention and Policing. In 1999, this position became vacant. Since then, seconded employees have partially administered the operational duties of the position with the financial duties assigned to the Director, Finance, Systems and Administration. Presently, the Assistant Deputy Minister is taking the lead in managing the programming side of the agreement.

Our concern with this arrangement is that only one person retains knowledge of the financial aspects of the policing agreement and other agreements or contracts that fall within the area of public safety, such as the Tripartite Agreement between the Government of Canada, Yukon Government and the First Nations. If there is no financial oversight role over these types of agreements within the program area, the lines of responsibility and accountability for monitoring their terms and conditions become blurred.

In our view, the Finance, Systems and Administration Branch should not be made responsible for verifying contract performance under Section 29 of the FAA for the department's policing agreements. This action does not allow for the proper segregation of duties between a line and support function and is a clear violation of the Financial Administration Act.

Recommendation #8

Spending and signing authority for the financial aspects of the Territorial Police Service Agreement should be properly assigned to the individual or persons having program responsibility. These individuals should verify contract performance under Section 29 of the Financial Administration Act on all invoices submitted for payment under this agreement and other similar agreements or policing contracts.

If possible, Community Justice and Public Safety should ensure that more than one person understands how the financial aspects of the various policing agreements work to ensure that no knowledge is lost.

Management Comments

The Department of Justice agrees with this recommendation. A working group consisting of policing program staff, a policy staff member and the A/Director of Finance, Systems and Administration, have been working together on policing contracts and services for the past three years. Since November 2002, all invoices relating to policing contracts have been reviewed and approved under Section 29 by staff responsible for the policing program. The Department of Justice's Finance Branch acts as a support function and processes payment once approved for payment by the official in the Department of Justice responsible for the Policing Program.