

Western Economic Diversification Canada
Audit Report
Audit of the Financial Management of Grants and Contributions

Finding Number	Area of Focus Audit Criteria	Finding/Observation/Issue	Evidence	Cause	Effect/Impact	Recommendation	Benefit	Management Response to Finding	Management Response to Recommendation	Management Action Plan
A. Regional Budgets by Program										
A.1	There is a rational process for deciding on Regional Allocations for G&C's	Yes, there is a rational process.	Interviews and budget reports.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A.2	Budgets are established on a multi-year basis to allow for multi-year agreements (commitments)	Multi-year budgets are determined. Although they may fluctuate slightly from year to year as a result of non-core funding, they are relatively stable which allows for some certainty in committing multi-year agreements.	Interviews and sample reports showing the multi-year allocations.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
B. Systems to Manage Agreements										
B.1	Systems for managing agreements are accurate	For the most part, the system accurately reflected agreements and payments. However, instances were found where the information on the files did not match the information on the system.	Sampling. In one region, 2 errors were noted. On one file there was one agreement where the total on the cashflow report exceeded the agreement total (as a result of payment of a PAYE) and in this case the file was correct and the system was not. There were some reconciliation differences for the infrastructure program where the GX report did not match the infrastructure SIMSI program.	Miscoding of a PAYE expenditure caused the difference between the cash flow and the total agreement. For infrastructure, different systems and amendments were in progress; therefore, it was a timing issue.	Only in those instances found, there is the possibility of misstating amounts and using incorrect data as basis for decisions.	Discuss with other regions or headquarters the proper method for recording PAYE's to avoid the discrepancy in the system in the future. For the infrastructure program, since the use of two separate systems is unavoidable at this point, ensure awareness of these possible timing differences.	Accurate system information in all instances.	Agreed. Documentation on file is required to provide clarification if file information and system information differ.	Agreed.	

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B.2	Audit Criteria	Data is downloaded into spreadsheets, new fields added, calculations performed and additional information is entered to assist in the management of agreements.	Interviews and sample copies of spreadsheets obtained. During the interviews, there were references to a certain individual who would have to be consulted as that person kept the information on their spreadsheet.	Not all required data to manage the agreements is captured by the system.	Lack of confidence in the system reports. The use of tailored spreadsheets, which are prone to human error, results in reliance on the individual maintaining that information. Absences or unexpected departures may result in loss of the information. Information is not readily available to all.	Short term: Ensure that these spreadsheets are available to others in the organization on shared network drives. They can be protected to ensure no unauthorized manipulation. Long term: Improve system reports to provide the required information directly from the system.	Short term: Reduces reliance on the presence of the individual maintaining the spreadsheet. Long term: The system will maintain more relevant information reducing reliance on individually developed spreadsheets and increasing confidence in the system. Also, the time presently spent producing spreadsheets will be saved.	Agreed. A number of different reports are used by officers to meet theirs and senior management needs which is relatively easy with the power of Excel. Many of these are ad hoc to serve only a limited audience. The cost of the system generating these reports may outweigh the benefit.	Agreed. Senior management requires the information in an easy to read and clearly understandable format. This may vary by region and consequently it is difficult to develop one standard for all regions. Some reports are available in a shared directory. Consideration will be given to ensuring that these reports are saved in a shared directory so that those that require access to the report have access. Reports that are created on a regular basis will be considered for creation on a permanent basis.	
B.3		Recipient codes in the system are not consistent.	Requested a report for one recipient known to have agreements with other regions and one single report was not available.	No single point for establishing recipient codes.	May not have a complete recipient history or status if information not properly requested from Infoquest. Could result in double funding if a complete history is not readily available.	Develop single recipient list managed centrally. To develop and implement a standard recipient coding system at the department level.	Assurance that the system will provide complete recipient history and information.	Agreed.	Agreed. The department will review the recipient code process within G/X and consider the centralization of recipient codes.	

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B.4	Reports are relevant	Numerous system generated reports are available through Infoquest. However, users download data into spreadsheets and add fields that are not available in the system.	Interviews. Sample spreadsheets created by users provided.	The system does not capture all the data required for the daily management of the agreements.	Lack of confidence in the system reports. The use of tailored spreadsheets, which are prone to human error, results in reliance on the individual maintaining that information. Absences or unexpected departures may result in loss of the information, information is not readily available to all, and unnecessary duplication of effort.	<u>Short term:</u> Ensure that these spreadsheets are available to others in the organization on shared network drives. They can be protected to ensure no unauthorized manipulation. <u>Long term:</u> Improve system reports to provide the required information directly from the system.	<u>Short term:</u> Reduces reliance on the presence of the individual maintaining the spreadsheet. <u>Long term:</u> The system will maintain more relevant information reducing reliance on individually developed spreadsheets and increasing confidence in the system. Also, the time presently spent producing spreadsheets will be saved.	Agreed. Unique reports are created by users in the regions.	Agreed. Reports are shared in the organization through a shared network drive. The IQ reports are reliable, and are manipulated simply to add details.	
B.5	Users are familiar with reports and use them for decision making	Some users are confused by the choices available on Infoquest. Users know that there are numerous reports but are mostly familiar with the few reports which they use regularly for decision making. As mentioned in B.2 and B.4 information is downloaded into spreadsheets for decision making.	Interviews.	As in B.2 and B.4.	As in B.2 and B.4.	As in B.2 and B.4.	As in B.2 and B.4.	Agree with comment regarding confusion over choices of infoquest reporting. There will be occasions where information will need to be extracted into spreadsheets for specific reporting requirements.	Agreed. The department is commencing with a thorough review of existing infoquest reports and will be developing an up to date index by report type for users. Shared network drives are available for those reports that require shared access. The department will also be reviewing an adhoc reporting system that will assist users in preparing specific reports and alleviate downloading reports into excel for formatting.	

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C. Financial Assessments / Risk Assessments of Proposals										
C.1	Financial assessments and risk assessments are prepared and utilized in the decision making process for approval of a project.	Final approval of projects is conducted through a routing process after the due diligence is completed. The due diligence report includes financial and risk assessments; however, this report is routed through the approval process along with the agreement for signing. The impression at the project officer level is that, at this point, the project approval is virtually a "fait accompli".	Interviews and sampling of files.	The due diligence process occurs only after proposals are vetted by the Grants and Contributions Committee. Minutes of the committee do not reflect specifics discussed by project. Senior management does not see the due diligence report until the agreement is routed for approval and signing.	There is heavy reliance that Senior Management is reading all the material prior to signing the project approval record as it is being routed and that they can recall from memory the committee discussions regarding the project. If questions are raised during the routing there is a time consuming "back and forth" process of the file.	Project proposals should be reviewed and recommended for the due diligence process by a committee of managers. The larger Grants and Contributions Committee chaired by the ADM would then review the projects only after the due diligence reports including the financial and risk assessments are completed and all facts are known.	Decisions to proceed with projects or to recommend proceeding are made on the basis of the due diligence report instead of on a preliminary assessment of a project proposal. This would improve due diligence, transparency and accountability in decision making by senior management. Officers would feel better prepared to field difficult questions regarding the report.	Agreed that that may be the impression; however, final decisions on approval of projects are not made until the due diligence process is completed. Management is responsible and reviews due diligence and assessment documents prior to signing them. For projects with WD contribution over \$200,000, this includes a review by the Program Directorate in HQ and signoff by the Deputy Minister. Additional analysis is periodically required as a result of this process and occasionally a proposed project is not approved. The evidence does not support the impression that approval is a virtual "fait accompli" after the decision to proceed with indepth analysis. The system of multiple levels of review provides for transparency within the department and for clear accountabilities regarding project approvals.	Agreed. Management will review the project approval process including role of project review committees in each region and ensure their minutes record areas requiring further analysis.	
C.2	Previous recipient history and/or audit reports are taken into account during the approval process.	Yes however knowledge of the recipient by the program/business officer through experience is relied on. Currently, the larger projects are with ongoing recipients so there is little focus on the viability of the recipient. Financial assessments are more project related rather than recipient focussed. There is no procedure for tracking recipient history between regions. There appears to be no consultation with other departments where other government funding may be provided. Subsequent to the audit, 3 sample due diligence reports were provided in which recipient history was detailed.	Interviews. Sample due diligence reports.	No policy or procedure requiring this as part of due diligence was provided at the time of the audit. However, subsequent to the audit, the Guidepost Manual and Desk Reference Guide was shown to include this. It seems that it is not always applied.	May result in an incorrect decision approving a project which otherwise would not have been approved. This could result in some embarrassment.	Ensure the due diligence includes some assessment of recipient viability and states any issues which may have arisen in previous audit reports.	The risk of entering into agreements with recipients who are not viable is greatly reduced. There is an additional benefit of providing assurance on sustainability after the federal funding terminates.	Agreed that the Guidepost Manual and Desk Reference Guide may not always be applied. The existing data base records previous contributions to recipients and the department's procedures require this experience to be reviewed and other relevant government departments to be consulted before funding is provided.	Agreed. The department will review the project approval process and provide training on the requirement to conduct appropriate financial analysis depending on the case including a review of previous funding and consultations with other relevant government departments.	

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H.	Signing Authorities									
H.1	There is an up to date delegation document appropriately signed by the Minister.	No. The delegation document was out of date and signed by the previous Minister.	The delegation document	No annual review process in place. The incoming Minister was not asked to review the delegations and sign a new delegation document.	As there is no document signed by the current Minister, in effect, the existing document is not in compliance with the <i>Financial Administration Act</i> .	Review the delegations and immediately prepare a new document for the new incoming Minister to sign.	There will be a legal delegation of authority document.	Agreed. The delegation instrument in force at the time of this audit was signed by the Minister on February 23, 2004. The appointment of a new Minister does not automatically nullify existing delegations of authorities. The existing matrix allows the department to continue with its regular operations until a new delegation matrix is signed.	Agreed. The delegation document was signed by our current Minister, Mrs. Carol Skelton on February 9th, 2006.	
H.2		The department has created its own operational signing authority document in addition to the one signed by the Minister. It is signed by the Deputy Minister and is dated 1998. This document is used regularly but seems to, at times, contradict the delegation document signed by the Minister (signing agreements and debt write-off and project approvals). The contradiction seems to stem from a difference in interpretation of the term "contracting authority". The department has deemed this to include grants and contributions instead of strictly contracting for goods and services delegated by the Minister of Public Works and Government Services.	The 1998 document signed by the Deputy Minister. Agreements greater than \$200,000 signed by the ADM when the official delegation document does not delegate the authority to that position.	Administrative requirements to streamline processes and reduce the paper work going to higher levels in the organization; and, difference in the interpretation of the term "contracting authority"	This document has been in place for too long without review. Although it clarifies who can do what administratively, it is at times contradictory to the official delegation document. Agreements/amendments/debt write offs, etc are not signed by the legal authority.	Should the official delegation document be at too high a level, a revised delegation document signed by the Minister as stipulated in the FAA can legally delegate authority to the appropriate levels. An additional delegation document such as the 1998, if considered necessary for administrative purposes, can be more restrictive than the official delegation document above but it cannot be more permissive. The perceived benefit would also be improvement in project/program governance and management.	Legal documents such as contribution agreements will be signed by the individual with the proper legal authority.	Agreed that there is a difference in interpretation of the term "contracting authority". In the signing authorities matrix approved by the Minister there are two columns used for approving projects, signing agreements and making amendments. These are the project approval and contracting authority columns where the Minister has delegated authority to positions at various levels approving projects, signing agreements, amendments etc. It has been recommended that the department consider adding an additional column titled Grant & Contribution Authority to distinguish this authority from the PWGSC contracting authority.	Agreed. A review of the existing delegation matrix and the operational signing authority document is underway. The department has prepared a revised signing authorities document that will now include this additional column "Grant & Contribution Authority" and will continue to use its own operational signing authority document to provide administrative clarification to users. The operational document will be consistent with the existing delegation matrix but may be more restrictive.	

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H.3	Those involved in the process are aware of the delegation levels.	Most were familiar with the 1998 document but not the official delegation document signed by the Minister.	Interviews	The daily use of the 1998 document and not the official delegation document.	Individuals not having delegated authority in the official delegation document are signing official/legal documents.	Once the official delegation document is revised as recommended above, provide training to all staff whether or not they have delegated authorities.	Everyone will be aware of their authorities.	Agreed.	Agreed. Training will be provided to address signing authorities. As new employees join the department, Regional Managers, Finance & Corporate Services are required to ensure that they are provided with the appropriate training.	
H.4		Agreements were signed by the ADM that should have been signed by the Minister. Advances and payment of claims are authorized by the M & P manager and neither the delegation document signed by the Minister nor the 1998 document provides that authority. Amendments not signed by the proper authority levels; however, the department interprets the term "contracting authority" to include grants and contributions	Sampling	The use of the 1998 document rather than the official delegation document. Lack of clarity on the official delegation document for example the use of the term "Project Approval"	Individuals not having delegated authority in the official delegation document are signing and amending official/legal documents. This may render the documents null and void if not signed by legally authorized people.	Once the official delegation document is revised as recommended above, provide training to all staff whether or not they have delegated authorities.	Everyone will be aware of their authorities.	Agreed. In the signing authorities matrix approved by the Minister there are two columns used for approving projects, signing agreements and making amendments. These are the project approval and contracting authority columns where the Minister has delegated authority to positions at various levels approving projects, signing agreements, amendments etc. It has been recommended that the department consider adding an additional column titled Grant & Contribution Authority to distinguish this authority from the PWGSC contracting authority.	Agreed. Training will be provided to address signing authorities and as new employees join the department, Regional Managers, Finance & Corporate Services are required to ensure that they are provided with the appropriate training.	
H.5	S. 34 is properly exercised	Those exercising S.34 understood their responsibilities. The area of authority on the delegation document limits the exercise of S. 34; however, in practice the area of authority is not followed.	Interviews and sampling.	Incorrect identification of "area of authority" for the M&P officers signing S.34.	S.34 signed on documents for a "region" when the delegation limits the area of authority to "own division".	Ensure that the "area of authority" on the revised delegation document reflects the correct area of authority.	S. 34 will be signed within the proper "area of authority", and assurance that S34 requirements are met.	Agreed. The current area of authority for exercising Section 34 for Grants & Contributions is unclear.	Agreed. The department will be updating the matrix to include Manager – M & P. The area of authority will be Region.	

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K. Stacking Provisions										
K.1	Stacking provisions in agreements respect the approved program T&C's	Yes.	Interviews and sampling.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
K.2	In-kind contributions are not inflated to meet stacking provisions	No instances of inflation of in-kind costs were noted in the sample.	No evidence was found of inflated in-kind costs. The Programs Director provided a clarification on what is acceptable as in-kind costs.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
L. Advance payments										
L.1	Advance payments are made in accordance with the policy particularly advances at year end	Although documentation from the recipients were on file providing justification for advances at year end for expenditures to be incurred in April, it was not clear that this was done on an exception basis as required by the policy. At times these payments were made in late March and were not actually received by the recipient until the new year.	Audit reports, sampling.	Possibly this is caused by the desire to use the resources available in a certain fiscal year and avoid lapsing dollars.	Non-compliance with the Transfer Payments policy. Expenditures are overstated in the year the advances occur. The more advances are provided the more funds are available the next year causing the use of more advances to utilize available resources.	Advances should be the exception not the rule. The negative connotations regarding lapsing resources need to be eliminated. Recommend close monitoring of advances particularly at year-end and a requirement for senior management approval of those advances in writing. Compliance with the Transfer Payments Policy.	Compliance with the Treasury Board Policy and Guide.	Disagree. As per the Transfer payment policy, (section 7.6.5) under exceptional circumstances where a department deems it necessary to meet program objectives and is permitted under the agreement, an advance may be made prior to the end of the year, but must not exceed the expenditures expected to be incurred by the recipient during April. This is not a regular practice of the department but where appropriate has been authorized. As part of the regular year-end process, regional offices are reminded by Corporate Finance & Programs of advance payment practices at year-end.	Agreed. Advances are treated as the exception to the rule. Training and communication on the use and treatment of advances will be completed.	
L.2		Many advances are not cleared within the 90 days required by the agreements.	Sampling	Delays in receiving claims from recipients. No clear consequence to recipient for not accounting within the allotted time; particularly if the recipient does not require further resources.	Expenditures are overstated as contributions advances are expensed. Recoveries, if any, are delayed.	Increase use of holdbacks. Provide advances only when it is clear that it is absolutely necessary in order for the project to proceed as stated in the Transfer Payments Policy.	Fewer outstanding advances and a more accurate reflection of expenditures. Lower risk of requiring recovery action.	Agreed that this was the historical practice. Advances were not cleared until claims were fully audited and processed. For 2005/06, departments are now all required to record advances as expenditures. Exceptions are advances in March/April for year-end.	Agreed. With exception to advances in March/April advances are accounted for as expenditures. In 2005/06, the department commenced with a complete review of advances and updates to the financial system were made to accommodate reporting changes.	

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M. Payment of Claims										
M.1	Payments are consistent with the terms of the agreements	Yes. There is a diligent process in place for processing claims.	Interviews and sampling.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
N. Holdbacks										
N.1	Holdbacks are used in accordance with the transfer payments policy or with the approved terms and conditions	Regions did not have a consistent approach. One applied holdbacks with no exceptions and in others holdbacks are limited to Infrastructure or large projects.	Interviews and sampling.	No departmental policy on holdbacks.	Inconsistent approaches to holdbacks across the department.	Develop a policy and establish guidelines for the use of holdbacks.	A consistent approach across the department which addresses the Transfer Payments Policy position on holdbacks.	Agreed. WD will develop a policy to ensure a consistent approach.	Agreed.	
O. Payables at Year-End										
O.1	There is appropriate documentation on file to support the PAYE and they are established in accordance with the policy on PAYE	Yes. PAYEs were supported by documentation on files	Interviews and sampling.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
O.2		Yes, however the clearing of PAYEs varies from region to region. One region stands out with several outstanding PAYEs going back 3 or more years.	PAYE reports	Some recipients slow to submit claims.	Numerous outstanding payables over a number of years in the financial system. More administrative work to follow up and clear these outstanding items. Brings into question the validity of the PAYEs when they were set up.	Regions should share best practices for clearing PAYEs. Particularly for those PAYE's outstanding over a year, send letters with deadlines for reporting to the recipients. If still no reporting is received, delete the payable. Follow up diligently on those PAYEs less than a year. More diligently review any possible PAYEs to be set up for 2005-06.	Confidence in the accounts payable reflected in the system. Greater assurance of the validity of the PAYE in the first place.	Agreed.	Agreed. A more systemic and proactive approach is required to ensure file documentation is current for outstanding PAYEs and that they are cleared in a timely manner.	

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Q.	Recipient Financial Reporting and Monitoring									
Q.1	There is an effective process in place to monitor the use of resources by recipients for the purposes intended	Yes. There is a diligent process in place for processing claims and files are monitored where no recent claim has been received based on report due dates entered into the system.	Interviews and observation.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Q.2	There is a proactive system in place to track when financial reporting is due	No. M&P/Business officers track and follow up manually and this happens more thoroughly as year-end approaches. Recipients do not receive any further funding until reporting is submitted.	Interviews and reports.	The system does not proactively advise a user that a report is due. Reports need to be requested.	Reliance on M&P/Business officers to generate the required reports.	Program the system to generate warnings or reports of upcoming report due dates.	Less reliance on officers to generate these reports.	Agreed.	Agreed. WD will review G/X reporting capability in producing automated reports for monitoring due dates on financial reporting.	

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R.	Recoveries of Overpayments									
R.1	There is a process in place to track and monitor recoveries	Yes.	Interviews and observation.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
R.2	Recoveries, not deducted from other amounts owing, are managed in accordance with the Accounts Receivable policy	Yes.	Interviews and sampling.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
R.3	Recoveries are either credited to the vote or to the Receiver General in accordance with the transfer payments policy	In one region, it was noted that all recoveries (regardless of the fiscal year the expenditure was made) are credited to the vote whether or not the original expenditure occurred in a previous fiscal year. This was not specifically tested in the other regions.	Interviews and sampling.	Lack of understanding between the terms "recoveries" and "overpayments". The TB policy refers to "overpayments".	Use of funds in one fiscal year that have not been authorized by Parliament for use under the Appropriation Act of the year the funds were recovered. Non-compliance with Treasury Board Policy and Guide.	Determine how the other regions are coding these recoveries. Discontinuation of the practice of crediting to the vote recoveries of previous year expenditures.	1. Consistency between regions 2. Adherence to the Transfer Payment Policy	Agreed. The departmental policy requires that all recoveries are either credited to the vote or to the Receiver General in accordance with the transfer payment policy.	Agreed. WD will confirm regional practices and advise regions in writing.	n/a

