WESTERN ECONOMIC DIVERSIFICATION (WD) CANADA
AUDIT AND EVALUATION (A&E) BRANCH
AUDIT REPORT (4 July 2006)
AUDIT OF THE FINANCIAL MANAGEMENT OF GRANTS & CONTRIBUTIONS

Background

WD considers effective management of grants & contributions as key to departmental success.

To add value to the management's goal of achieving continuous improvements, the A&E branch initiated in 2005 continuous auditing of the management of grants & contributions to assess different aspects of the overall management.

Continuous auditing of grants & contributions allows for identification of issues, provision of recommendations and development of management action plans on a timely basis for achieving continuous improvements.

Audit Objective

The overall audit objective of the continuous auditing is to assess the effectiveness of the management of the grants & contributions on an ongoing basis.

Audit Approach

Continuous auditing is achieved through short cyclical audit assignments, each one focusing on a few key management aspects at a time, and presenting the results in template-form reports as good management tools.

The template-form audit report is a spreadsheet presenting various aspects of the results of the audit under the headings: area of focus (line of inquiry), audit criteria, finding (observation/issue), evidence, cause, effect (impact), recommendation, benefit, management response to finding, management response to recommendation and management action plan.

Follow-up

A&E branch will do periodic follow-ups to determine the progress made by management in terms of implementation of recommendations, through the completion of the action items established in the management action plan, and report on the results.

Audit Cycles (Management Aspects)

1. Financial Management (authority and delegation, standards, controls, practices, policies and processes).

2. Non-Financial Management (management of agreements, compliance with terms and conditions, standardization, regional practices, consistencies, streamlining and identification and sharing of best practices).

3. Management of Program by HQ (directives to regions, internal and external communication, documentation, monitoring practices, ongoing assessment of programs for meeting objectives, identification of deviations, realignment or improvements and identification and sharing of best practices).

4. Management of Projects by Regions (compliance with directives, internal and external communication, documentation, monitoring practices, ongoing assessment of projects for meeting objectives, identification of deviations, realignment or improvements, identification and sharing of best practices, standardization and regional variations).

5. Management of Adherence to Relevant Legislation and Treasury Board Secretariat Policy and Guidelines on transfer payments.

6. Management of Financial and Performance Information (documentation, communication, retention/destruction, data update and validation).

First Audit Cycle: Audit of the Financial Management of Grants & Contributions

The audit of the financial management of grants & contributions addressed financial management aspects by focusing on 20 key areas.

Key issues identified pertain to the thematic areas: systems to manage agreements, financial/risk assessment of proposals, signing authorities, advance payments and holdbacks, payables at year end, agreement termination date and risk reassessments.

Management action plan has been developed and progress has been made to address and implement recommendations.

Attached are the template-form audit report and the management action plan.

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		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.	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. 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 dilligence 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 precedures 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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D.	**Agreements**									
D.1	Standard financial terms and conditions are utilized in agreements	Yes with one exception noted in one region, where not all required terms and conditions were utilized in conference support contributions. Letters were used for these contributions under $5,000.	Interviews and review of sample agreements	Internal procedures differing from department standards.	Transfer Payments policy not complied with for the conference support contributions.	The department should use standard clauses in all cases. Consideration should be given to developing a separate, shorter standard for conference support or similar projects.	Compliance with the Treasury Board Policy and Guide.	Agreed.	Agreed. Regions will use standard templates from now on.	
D.2	Special Conditions on the Statement of Work for each agreement do not contradict the standard terms and conditions	Sampling found no instances of non-compliance of terms and conditions; however, there was one instance of non compliance with the Transfer Payments Policy	Sampling. In one instance, the special conditions included a requirement for a "gift" as a result of supporting a conference.	Possible misunderstanding or unawareness of the Transfer Payments Policy.	Non-compliance with the Treasury Board Policy and Guide on Transfer Payments.	Ensure that it is understood that no good or service can be received by the federal government as a result of a contribution or grant. Provide training on the Transfer Payments Policy.	Compliance with the Treasury Board Policy and Guide on Transfer Payments.	Agreed. The finding relates only to the Conference Support sub-program. A new policy is being prepared on Conference Support and this issue will be addressed.	Agreed. The department is preparing a conference support document that will outline the conference support process.	
D.3	Specialists (financial and legal) are consulted during the establishment of terms and conditions	Yes on an as required basis.	Interviews with program/business officers and confirmed with Monitoring and Payments staff and Headquarters staff.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
E.	**Financial Advice during Negotiations**									
E.1	Financial specialists are consulted during negotiations.	Yes on an as required basis and depending on the skill set of the program/business officer.	Interviews with program/business officers and confirmed with Monitoring and Payments.	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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F.	**Repayable Contributions**									
F.1	Repayable Contributions are tracked to ensure that amounts repayable are identified as the conditions for repayability are met.	Yes. Set up in system as agreements are entered into. Reports printed quarterly and forwarded to M & P/Business officers for review and update.	Interviews and review of reports.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
F.2	Amounts due are incorporated into the Accounts Receivable process of the department and collection is appropriately pursued.	Yes, however timing of billing and bad debt write-off relies heavily on the M & P/Business officers and their review of the files.	Interviews.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
G.	**Commitment Control**									
G.1	Those exercising S. 32 of the *FAA* understand their responsibilities.	Yes. Those exercising S. 32 in all the regions understand their responsibilities.	Interviews. Training has since been completed in all regions across the country. In addition, information has been placed on the website for users.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
G.2	There are appropriate controls in place to ensure that budgets are not exceeded.	The system is designed to not allow overcommitment; however, budgets are augmented by a certain amount to allow for overprogramming. This is an acceptable practice where historically not all commitments come to fruition. Through interviews, it was identified that the overprogramming amount is usually reduced to zero by the end of December. At the time of the interviews, those amounts were still in the system.	Interview and system reports. The department has since indicated that during the last quarter, overprogramming has been reduced as reprofiling amendments have been processed.	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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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 *Financial Administration Act*.	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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H.6	S. 33 is properly exercised	Those exercising s.33 understood their responsibilities under the *FAA*.	Interviews.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
H.7		Part of S. 33, is to ensure that S. 34 is carried out properly and the finance unit in one region undertook their own review of the signing authorities. Recommendations were made and improvements were implemented.	Interview and review of their internal report.	Financial staff wanted assurance prior to exercising S. 33	Issues noted in the review were addressed.	Each finance office should regularly do a review to satisfy its requirements under S. 33.	Assurance that the requirements for S. 33 are met.	Agreed.	Agreed.	
I.	**Maximum Amounts Payable**									
I.1	Maximum amounts payable per project are respected and authorized appropriately at different levels.	Yes.	Interviews and sampling of files.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
I.2	Maximum amounts per recipient over a number of projects are respected.	Only a couple of individuals, who participated in the renewal of the program terms and conditions were aware that there was a limit of $ 35 million per recipient. Nobody at the working level reviewing project proposals or in the monitoring and payments function was aware of the limit.	Interviews	This limit was not communicated. The understanding was that the limit was high enough that it would not be reached.	There is a possibility that the limit will be exceeded over the 5 years that the terms and conditions are in place, particularly for those recipients that are provided funding from various regions.	Communication of the limit to all working on G & Cs. Ensure that the system can provide recipient history at the time proposals are being reviewed. Check the standing of recipients to ensure that they have not or are not close to exceeding the limit.	Will comply with the approved program terms and conditions.	Agreed. Management has been aware of the limit but no recipient has been close to this point. We will implement a quarterly report to monitor and assure that if any client begins to get close that management is alerted. First report has been completed confirming no recipient is close.	Agreed. This information is tracked corporately; however, the limit will be communicated, in planned training, to staff working on projects.	
J.	**Multi-Year Funding Agreements**									
J.1	Systems allow for multi-year budgets and commitments	Yes.	Interviews and system reports.	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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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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P.	**Departmental Financial Forecasting and Reporting**									
P.1	There is regular financial forecasting and reporting to senior management	Yes.	Interviews. Reports presented to Senior Executive on a monthly basis.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
P.2	Recipients of agreements are required to forecast their requirements and, if necessary, agreements are amended	Yes. However, some amendments are made after the completion date of the project. Agreements do not clearly provide termination dates. Therefore, there is some confusion about whether or not the agreement is being amended retroactively. Is the termination date the project completion date or the final reporting date?	Interviews and Sampling.	Amendments may be based on claims for payment received after the project completion date or the final reporting date.	Amending of agreements retroactively is not in compliance with the Treasury Board Policy and Guide.	Ensure that the recipient understands the agreement terms and conditions and report earlier rather than later any changes requiring amendments. Provide a clear termination date in the agreements. All dates within the agreement are contractually binding terms and both parties should be fully aware of this.	Compliance with the Treasury Board Policy and Guide.	Agreed. Note that neither the project completion date nor the final reporting date are the termination date and WD has legal opinion that in the absence of a specified termination date "an agreement comes to its natural expiration when all the commitments of the parties have been completed".	Agreed. WD will consider the use of an expiry date in contribution agreements.	
P.3	Public accounts accurately reflect transfer payment files	Yes.	Sampling.	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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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

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S.	**Risk Re-assessments**									
S.1	Risks are reassessed through the life of the agreement	Yes. Risks are reassessed with each claim for payment received.	Interviews and review of sample risk assessments.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
S.2		In one of the samples, there was no documentation on file demonstrating any analysis of externally prepared financial statements submitted by a recipient.	Sample of a community futures file.	In the case noted, lack of capacity to analyse was sited.	Not performing due diligence on these financial statements could result in not being aware of a recipient's financial standing until it is too late - agreement is paid out and the recipient is no longer financially viable. If a recipient later becomes financially not viable, they could point to the fact that they have been submitting statements to WD throughout the agreement as required.	Need to determine if this is a widespread issue. Develop a procedure for reviewing financial statements and provide training to those who are required to analyse them.	Greater assurance of the viability of recipients. Less risk of being caught unawares should a problem arise with a recipient. Low risk of being found not performing due diligence.	Agreed. A risk review and reconciliation are completed as part of the claim process for contribution payments. The department will confirm the review process of financial statements submitted for Community Futures files to determine if changes are needed.	Agreed.	
T.	**Recipient Audit Framework**									
T.1	There is an established audit framework for recipients	Yes. Revised process in place now being managed by Headquarters.	Interviews.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T.2	Those managing agreements cannot waive an audit selected by the framework	Yes.	Interviews.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T.3	Over and above the framework, there is the capacity to audit recipients identified as high risk through the risk reassessment process.	Yes.	Interviews.	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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U.	**Coordination of Audits with other Funding Agencies**									
U.1	Consideration is given to coordination of audits with other funding partners	There has been some discussion but no coordination has occurred to date. In some joint projects, the project lead will conduct the audit on behalf of all.	Interviews.	Issues concerning privacy and sharing information regarding recipients with third parties.	May result in a recipient justifying expenditures with two funding partners using the same documentation.	A clause in the terms and conditions of the agreement that audits and claims for payment may be shared with other funding agencies particularly other federal departments.	The benefit would be to the government as a whole in assuring that there is no double funding of projects. The burden on the recipient would be reduced and there would be cost savings by doing fewer audits.	Agreed. It is the project lead that is usually responsible for conducting audits of joint federal/provincial initiatives.	Agreed. Where possible, this is done. For example, WEPA agreements are monitored by the federal government and the provincial government relies on these reviews and audits.	
V.	**Resolution of Audit Findings**									
V.1	Audit findings are tracked and actioned.	Yes.	Sampling of documents.	n/a	n/a	n/a	n/a	n/a	n/a	n/a