Audit of Monitoring and Payments

WESTERN ECONOMIC DIVERSIFICATION CANADA

Audit & Evaluation Branch

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Audit of Monitoring and Payments - Final Report
1.0 Executive Summary

1.1 The audit of Monitoring and Payments was identified in Western Economic Diversification Canada’s (WD) approved 2011-2014 Risk-Based Audit Plan. The audit was important as monitoring and payments activity is a key function within transfer payment administration that impacts all departmental programs.

1.2 The Treasury Board of Canada made significant changes to its Policy on Transfer Payments in 2008. The policy caused changes in monitoring and payment practices in federal transfer payment programs. In particular, the policy called for reduction in administrative burden, risk management practices commensurate with level of funding risk, recipient engagement and establishment of service standards for programs approved after March 2010.

1.3 The purpose of the audit was to provide assurance to the Deputy Minister that the department has a sound management control framework to manage monitoring and payments of grants and contributions and that the controls are operating as intended.

Findings

1.4 The monitoring and payments control framework established by WD management meets the department’s objectives and it is aligned to the Policy on Transfer Payments and its related directives. There is an appropriate and effective control framework and structure in place that guides operations and resources to enable successful project administration.

1.5 A payment claims process that complied with federal legislation and policy existed. To minimize administrative burden on recipients, the department has implemented two claim processes: comprehensive and expedited. The expedited option reduced the amount of documentation and verification based on risk. Payments were made for eligible costs in accordance with the department’s selection of that funding option out of the three allowed under the Directive on Transfer Payments.

1.6 The audit criteria established were mostly met. The minor exceptions noted were mostly related to non-compliance with departmental standard processes and they were infrequent and immaterial with minimal residual risk.

1.7 The information management and technology plans that we examined indicated that the automation of monitoring and payments has been discussed for the last five years, yet monitoring and payments still remain a relatively manual and labour-intensive process. The opportunity may exist to be more responsive to recipients’ needs and to gain staff efficiencies through the automation of several key monitoring and payments processes.
2.0 Statement of Assurance

2.1 In my professional judgement as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the conclusion that the Grants and Contributions Monitoring and Payments has a sound management control framework in place and the controls are operating as intended, subject to consideration of the opportunities recommended for continuous improvement in serving clients.

2.2 The assurance is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed upon with management. The assurance is applicable to the policies, processes and controls examined. The evidence was gathered in accordance with Treasury Board policies, directives, and standards on internal audit for the Government of Canada. Sufficient evidence was gathered to provide senior management with the proof of the conclusions derived from this audit.
3.0 Introduction

3.1 The administration of grants and contributions, which falls under the Treasury Board’s *Policy on Transfer Payments*, is a core business activity of Western Economic Diversification Canada. Monitoring and Payments is one activity in the management of a contribution project’s life cycle. The department has adopted similar monitoring and payments processes for all departmental programs. Effective monitoring and payment processes and controls help to ensure successful achievement of program objectives.

3.2 Monitoring and payment processes cut across all departmental programs. In 2008, the Treasury Board of Canada made significant changes to its *Policy on Transfer Payments*. This audit examined the department’s responses to the new policy requirements in the area of monitoring and payments.

Audit Objective

3.3 The overall objective of the audit was to provide assurance to the Deputy Minister that the department has a sound management control framework to manage the monitoring and payment of grants and contributions, and that the controls were operating as intended.

Key Risks

3.4 The audit focused on the controls management has designed to mitigate the risks associated with the following areas:

- Clarity of the roles, scope and objectives for monitoring and payments;
- Sufficient monitoring activities that meet Treasury Board and departmental policies;
- Adequate resource capacity (people, tools, money, material, training);
- Reliability of internal and external information, in support of project claims; and
- Sound cash management and payment processing.

Audit Scope

3.5 The audit covered the period from March 2009 to December 2010. The scope of the audit covered all departmental contribution programs except the Community Adjustment Fund and Recreational Infrastructure Canada.

Acknowledgements

3.6 We would like to thank management and staff involved with Grants and Contributions Monitoring and Payments for their timely cooperation and assistance provided to the audit team throughout the engagement.
4.0 Observations and Recommendations

4.1 Governance and Resources

Criteria: WD has established clear direction, roles and responsibilities for Monitoring and Payments; and that required resources are available, and effectively and efficiently managed.

4.1.1 WD performed its monitoring and payments responsibilities primarily through its four regional offices in British Columbia, Alberta, Saskatchewan and Manitoba. Headquarters provided corporate advice, policies and guidelines.

4.1.2 A committee of Directors General and program directors constituted a center of expertise on grants and contributions and provided advice on all facets of project management including monitoring and payment activities. A monitoring and payment working group existed and collaborated with the Director Generals’ Committee in formulating policies, guidelines, and implemented relevant standard practices and processes.

4.1.3 Monitoring and payment officers received adequate training to effectively perform their duties. The department has developed policy manuals, guides, forms, instructions and training material to assist staff with their tasks and these tools are readily available to staff through the intranet and other avenues. The departmental project management system is primarily used as a repository for project administration documents including progress reports, contribution agreements, and amendments.

4.2 Contribution Agreement Monitoring

Criteria: Risk-based approaches have been adopted in monitoring and delivering projects under the various transfer payment programs; management has put in place monitoring activities and reporting mechanisms that enable compliance with funding agreement.

4.2.1 Funding agreements have been standardized in wording and were consistent with the program terms and conditions for the six programs examined. An appropriate funding agreement was used in each of the sample projects examined. Special conditions and reporting requirements were added where necessary, to manage the unique risk of individual recipients or projects. We found the statement of work schedule included in funding agreements to be a useful control tool as it highlighted key elements such as cash flow, milestones, performance indicators, project activities, special conditions and reporting requirements.

4.2.2 There was evidence in project files that indicated officers were actively engaged with the recipients through regular correspondence, telephone conversation, reviews and discussion of recipient progress report and claim. Site visits were limited to instances deemed necessary based on assessed project risk. Staff used standardized templates for risk assessment, progress reporting, and claim payments, resulting in consistency across programs and regions.
4.2.3 The regions contracted out recipient audits for high risk ranked projects in managing risk. In addition, headquarters randomly selected low and moderate risk projects for additional claims audits to be performed by the regions. For the audit period examined, the regions performed recipient audits based on the 2005 departmental recipient audit policy, which was in place up to March 2011. Effective in 2011-12, the department has developed a new Control Based Monitoring Framework to replace this recipient audit policy. This audit did not examine the new framework.

4.2.4 There were 595 amendments to funding agreements in the 151 project files examined. Over 90% were for cash flow re-profiling and extension of project completion dates. Most of the amendments occurred in the later part of the fiscal year, as project progress and completion dates become better known.

4.2.5 The department has yet to automate some monitoring and payment processes. We found that this function relied heavily on labour intensive routine manual processes performed by both the recipient and departmental staff. Opportunities exist to automate some routine processes of the monitoring and payments function, and that would further reduce recipient administrative burden and possibly free up staff time to perform other monitoring activities.

4.2.6 A range of infrequent exceptions were found within the project files examined. The exceptions were assessed to be minor based on magnitude and the relatively immaterial dollar amounts involved. They were:

a. In a few instances, enforcement of special conditions was tardy including six instances where the competitive tendering documentation required under special conditions of the contribution agreement was not consistently applied; two instances where there was no evidence that the project oversight or advisory committee required by the special conditions were created; two instances where the timely submission of audited financial statements and progress reports mentioned in the special conditions were unduly late. Staff explanation was that they were familiar with the recipients and the reports were eventually submitted at the conclusion of the project or before the last claim is paid. For special conditions to be effective in mitigating risk they need to be fully complied with in accordance with the agreement terms.

b. One amendment was completed before the original contribution agreement was signed. Staff explained that this practice is unusual and where required the appropriate authority was received. A signed contribution agreement is a key control and any amendment effected prior to signing the original funding agreement poses potential risk.

c. Three instances where project risk ranking was increased without explanation. As the payment of claim was a risk based process, a clear explanation of why the level of risk changed and any impact on the claims process would have provided information that was key to the processing of that claim.
d. Five instances where the financial system was not updated for changes made to risk. The claim review checklist includes a requirement to update the financial system for changes to risk to ensure the system information is up to date.

e. Two instances where the recipient’s progress reports were not analyzed nor entered into the project management system.

**Recommendation # 1:** The department should assess the automation of routine monitoring and payments processes where clear recipient and/or staff efficiencies can be gained.

**Recommendation # 2:** The department should consistently demonstrate that all aspects of special conditions have been fully met on a timely basis to effectively mitigate unique project risks associated with those special conditions.

### 4.3 Claims Payments

**Criteria:** That appropriate information and expectations are communicated to recipients; that appropriate cash management practices were applied to meet the objective and requirements of the Policy on Transfer Payments; and that project cash management and payments complied with the Financial Administration Act.

4.3.1 When an agreement was signed, the department sent the recipient a formal letter highlighting the provisions of the agreement and a claim package, forms and guidelines on progress reporting. The letter provided instructions to the client to contact officers when clarification is needed. It was evident on files that respective managers and project officers met regularly to discuss client issues. Most issues identified on files were cleared within a reasonable period of time.

4.3.2 The sample payments examined had the approval of staff with proper financial signing authority. Project payments were made in accordance with the Financial Administration Act, the Treasury Board Policy on Transfer Payments and departmental policy.

4.3.3 To manage multi-year funding agreements, the department had established cash flow budgets specific to individual projects and re-profiled the funds as required by the recipients. Advances examined in the audit period were proper and appropriately accounted for within the required dates. Adequate follow-up activities were demonstrated in two instances noted where advances were overdue.

4.3.4 To minimize administrative burden on recipients, the department has implemented two claim processes: comprehensive and expedited. The expedited option reduced the amount of documentation and verification based on risk. Most of the payment claims examined after April, 2010 had adopted the expedited claim option due to their lower level of risk. This reduced administrative burden some recipients faced and minimized the staff time required.
4.3.5 In a few instances, claims were paid before the progress reports were submitted. Project officers explained that they were familiar with the clients and they continued monitoring the progress reports. In all final payments examined, the officers had received the final reports before the final claims were paid. The department had consciously decided to adopt the “reimbursement of eligible expenditures” option from the three funding options allowed under the Treasury Board Directive, namely: a) achievement of the pre-determined performance expectations; b) reimbursement of eligible expenditures; or c) a costing formula. While the basis for making contribution payments is acceptable, it may present a challenge in measuring performance and demonstrating value for money especially for some projects where the milestones and outputs are intangible.

5.0 Conclusion

5.1 Except for the identified minor exceptions, the monitoring and payment management controls in place were sound and working as intended. Eligible project costs were paid in accordance with the funding agreements, Treasury Board and departmental policies. The audit criteria were met in all material respects. The exceptions noted were infrequent and immaterial with minimal residual risk. Opportunities for improvement are provided in this report.

**Summary Conclusions by Criteria and Audit Element**

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6.0 Audit Strategies and Approach

Planning

6.1 Audit planning started in November 2010 and fieldwork was completed in June 2011. Departmental employees were engaged as necessary throughout the audit process to facilitate identification of key risks, audit criteria, control elements and audit strategies. The audit also looked to identify opportunities to assist the department’s implementation of the 2008 Treasury Board Policy on Transfer Payments and related directives.

Standards and Methodology

6.2 Government of Canada internal auditing standards were used for the audit. It was evidence-based and provides audit assurance that is fully supported. The audit examined evidence against criteria that was established based on the 2008 Policy on Transfer Payments and other federal government sources including: departmental monitoring and payments program and procedure guides, control framework process charts, management discussions, Financial Administration Act, and Audit Criteria related to the Management Accountability Framework: A Tool for Internal Auditors. The basis for the audit examination and expectations was communicated and agreed to by management in the terms of reference. The sources of evidence gathered and used included: risk analysis, interviews, regional visits, project file examination, confirmations as necessary, audit analysis, analytical reviews, and cause and effect assessment.

Sampling

6.3 Internal audit used corporate report centre information to identify 576 projects that we considered to be active or current between March 31, 2009 and December 31, 2010. These projects were ranked in the system by project officers in terms of risk as follows: 397 as low risk; 158 as moderate risk; 9 as high risk; and 12 projects were not ranked as their risk profile was assessed by network partners administering the projects on the department’s behalf. We used judgemental sampling to select 151 project files to provide sufficient coverage for all six programs audited in the four regions and risk. Our sample included 81 low, 65 moderate, and 5 unranked projects. We excluded the 9 high-risk projects from our sample as they were subject to recipient audits and/or other comprehensive reviews. We confirmed that these audits and reviews had been performed.

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