
PHASE TWO FOLLOW-UP REPORT
ON THE *AUDIT OF CONTRACTS* (2008)

PREPARED BY:

Government Audit Services Branch
Government of Yukon

APPROVED BY:

Audit Committee
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PREFACE

Government Audit Services produces two types of audit reports: regular audit reports and follow-up audit reports.

Our regular audit reports are designed to provide the Audit Committee with independent and objective information on whether Yukon Government departments are discharging their responsibilities with due regard for effectiveness, economy, and efficiency; and in compliance with relevant legislation, regulations, policies, and standards.

Our follow-up audits aim to provide the Audit Committee with feedback on the extent to which government departments have implemented recommendations from past audits.

We conduct two types of follow-up audits:

- **Phase One Follow-ups**, which are typically performed about a year after the issuance of the initial report. In these engagements, we conduct interviews and review documents to gather management assertions on the implementation status of recommendations; and
- **Phase Two Follow-ups**, which are typically performed about two years after the issuance of the initial report. In these engagements, we conduct substantive testing to assess the validity of management assertions on the implementation status of recommendations.

This report is a Phase Two Follow-up on the status of recommendations from our 2008 *Audit of Contracts*. In this report, we have assessed the implementation status of recommendations as either ‘not implemented,’ ‘partially implemented,’ or ‘fully implemented,’ based on the extent to which recommendations have been addressed, in light of action items and risks. Based on the importance and complexity of the recommendations, we have provided a conclusion on progress at the end of this report.

EXECUTIVE SUMMARY

As explained in our 2008 audit on contracts, the Yukon Government (YG) uses contracting to deliver vital services. The YG spends about 24% of annual expenditures on contracting for services, or \$236 million of about \$1.1 billion in annual expenditures.

In this context, the YG has a responsibility to ensure fairness and transparency in the contracting process, as well as to ensure that sound stewardship and value-for-money objectives are being achieved. Where deficiencies have been identified, the YG has a corresponding obligation to ensure that corrective measures have been taken to support continuous improvement. We premised our follow-up work on these management principles.

The objective of this Phase Two follow-up audit was to assess the status of the 21 audit recommendations from our *Audit of Contracts* (2008) and to determine the extent to which audit recommendations had been implemented.

Main Findings

- The Department of Highways and Public Works (HPW), the Department of Finance, and the Public Service Commission (PSC) have taken some important actions to address the 21 recommendations from our 2008 report. Of the 21 recommendations, one has been fully implemented, 17 have been partially implemented, and three have not been implemented. The original implementation action plans were scheduled for completion in 2008.
- Under its *Purchasing Framework Review Project*, HPW has taken steps to clarify roles and responsibilities for contracting activities. During the audit, initiatives on a revised *Contracting and Procurement Directive*, *Contract Regulations*, and guidance were well underway. While YG departments have received some additional guidance on contracting-related matters since our 2008 audit, the remainder of the guidance is scheduled for release in Fall 2011.
- Although public reporting on contracts for services has been limited to the *Contract Registry* since the *Contracting Summary Report* ceased production in 2007-08, HPW has been working to improve internal reporting and monitoring mechanisms in support of enhanced compliance. This is important, as our review indicated that compliance challenges remain.
- Since 2008, the Department of Finance has opted to focus on training and systems to address internal control. Testing of contract-related transactions has been limited.

- Program officers in departments have not been required to undertake post-completion evaluations on contract performance, though the revised directive will require it. Departmental finance units indicated that they were taking steps to meet account verification requirements for contracts, but documentation on their activities is relatively limited.
- HPW has taken the lead on developing revised course content with a focus on procurement. Finance has also delivered training on financial signing authorities.

In 2008, we concluded that the YG faced challenges in contracting. This Phase Two Follow-up audit indicates that many of those challenges persist, as only one of the 21 audit recommendations has been fully implemented. Recognizing that important work has been undertaken, but that the majority of recommendations have not been fully implemented, we may have to revisit contracting in the future to assess the impacts of these initiatives going forward.

INTRODUCTION

Background

In May 2008, the Audit Committee approved the *Audit of Contracts*. The objective of the audit was to determine whether the Yukon Government's contracting processes were functioning as intended. The audit team examined contracting policies and regulations; conducted structured interviews with Contract Services personnel at the Department of Highways and Public Works; and reviewed contract files across several departments. In Spring/Summer 2009, Government Audit Services conducted its Phase One Follow-up of the *Audit of Contracts* (2008), where we sought feedback from departmental management on progress.

Audit Objective

The objective of this Phase Two Follow-up audit was to assess the status of the 21 recommendations from our *Audit of Contracts* (2008).

Audit Scope and Approach

To validate management assertions provided during our Phase One Follow-up, we employed a variety of evidence-gathering techniques, notably interviews, document review, and data analysis. We focused on initiatives undertaken by HPW, Finance, and the PSC to address our recommendations. We also gathered selected contract files and reviewed them for compliance against criteria to determine, for example, whether or not appropriate authorizations had been obtained; statements of work were sufficiently clear; and change orders were adequately justified.

Because this is a follow-up report, we did not re-audit files against the entire set of criteria employed in 2008. Rather, we identified contract files for further review on the basis of risk, and have presented evidence of ongoing challenges in the appropriate sections of this report. Our audit work was substantially completed in August 2011. Given that several of our 2008 recommendations overlapped, we have opted to discuss the implementation status of related recommendations by theme.

OBSERVATIONS

The contracting policy framework is under revision

The policy framework for contracting in the YG currently consists of the *Contracting Directive*, which is binding on YG employees, and the *Contract Regulations*, which are binding on any person. It is underpinned by the *Financial Administration Act*, and supplemented by some on-line tools and guidance. Our 2008 audit recommended that the contracting policy framework be revised to articulate roles and responsibilities, and that appropriate tools and guidelines be developed. During our Phase One Follow-up, HPW indicated it was planning to revisit accountabilities for the contracting function across government, and that work in this area was ongoing.

Roles and responsibilities have been revised but not formally communicated

In this Phase Two Follow-up, we found that HPW had taken a number of steps to revise the contracting policy framework, primarily under the *Purchasing Framework Review Project*. As one of its first steps, HPW reinforced the need for greater clarity in roles and responsibilities through a presentation to the Deputy Ministers' Review Committee in April 2010. Based on consultations and research carried out across several jurisdictions, HPW has incorporated a 'Roles and Responsibilities' section in the revised directive, scheduled to be released in Fall 2011. It also revisited the roles and responsibilities of Contract Services in relation to YG departments.

The full implementation of the recommendation to clarify roles and responsibilities for contracting requires engagement and co-operation from multiple parties and underpins the success of other recommendations. This recommendation has been partially implemented.

Exhibit 1 – Status of recommendation on roles and responsibilities

Recommendation 1.1	Roles and responsibilities of all key players involved in the contracting process should be clearly described and communicated within the <i>Contracting Directive</i> .
Status of Recommendation	<i>Partially implemented:</i> HPW has reviewed roles and responsibilities and governance accountability frameworks from other jurisdictions, and has consulted with YG contracting authorities. Revised roles and responsibilities are accounted for in the revised directive. For the recommendation to achieve full implementation status, the appropriate steps need to be taken to release the revised rules to relevant parties.

Amendments to the framework have been drafted but not approved, and some additional guidance has been developed

We found that HPW had referenced exemptions to the contracting rules in the directive and had developed some draft guidance for these exemptions. Because the *Contract Regulations* are issued pursuant to the *Financial Administration Act*, and are binding on third parties, we recommended in 2008 that exemptions be embedded in the regulations themselves. We found that HPW had engaged the Department of Justice in the process of determining which provisions should be included in the directive versus the regulations.

We also noticed that HPW had drafted some guidance for those involved in the contracting process, including tools for assessing whether a contract constitutes a high risk; for determining the appropriateness of a value-driven versus a price-driven contract; for evaluating the appropriateness of a direct award versus competitive tender; for developing standing offer agreements; and for determining what types of documentation should be included in a contract file. We found limited evidence of work being undertaken to develop guidance on pre-qualifying contractors. The Department of Justice indicated that it was in the process of ensuring alignment between the directive and regulations, but had not yet reviewed the tools in full.

As well, we noted that the Department of Finance and the Public Service Commission had drafted some guidance specific to contracting. For example, we found that the Department of Finance had updated the *Financial Administration Manual* to reflect the differences between contracts and contributions. Section 5.9.5.1: Decision to use a government transfer of Chapter 5: Accounting and Control of Expenditures of FAM contains a “decision tree” to assist YG employees in determining whether a transfer payment or contract represents the appropriate funding vehicle.

In addition, we found that PSC had developed an *Application Guideline on Employer-Employee Relationships* which it circulated to selected members of the human resources community. This *Application Guideline* restates the four-fold legal test on such relationships including control; ownership of tools; chance of profit; and risk of loss. The guideline is not currently available to those involved in contracting activities.

The full implementation of recommendations to revise the policy framework and develop guidance and tools are key to ensuring members of the YG contracting community have the guidance they need to fulfill their responsibilities and exercise due diligence. We recognize that some tools have been posted online to the ‘Forms’ site, and that many other tools that provide guidance are under development. Important next steps will need to involve releasing these tools at the appropriate time and in such a way that members of the YG contracting community are familiar with their whereabouts. HPW has indicated it plans to make these tools available through an improved website. These recommendations have been partially implemented.

Exhibit 2 – Status of related recommendations on reviewing and amending the regulations and directive

Recommendation 1.3	The Contract Regulations should be reviewed and amended to reflect a sound governance and accountability framework for contracting. Exemptions to the contracting rules should be simplified and embedded in these regulations.
Status of Recommendation	<i>Partially implemented:</i> HPW has been working with Justice to revise the contracting rules. For the recommendation to achieve full implementation status, the appropriate steps need to be taken to ensure that the revised rules are released to relevant parties.

Recommendation 1.4	The Department of Highways and Public Works, through consultation with the Departments of Justice, Finance and other departments, the contracting community and First Nations, should develop a new management directive on contracting. A series of new contracting guidelines, tools techniques should also be developed in support of the new directive.
Status of Recommendation	<i>Partially implemented:</i> HPW undertook a consultation process and has developed a revised directive for contracting, and has drafted and released some tools for use by YG contracting authorities. For the recommendation to achieve full implementation status, the appropriate steps need to be taken to ensure that the revised rules are released to relevant parties.

Exhibit 3 – Status of recommendation on developing guidance on the use of exceptions

Recommendation 2.1	The Department of Highways and Public Works should establish guidelines on the use of any exceptions to the bidding requirement, as established under the <i>Contract Regulations</i> and <i>Contracting Directive</i> . In cases where there is a high risk involved in issuing a sole-source contract that has been exempted from the competitive bidding process, departments should be required to have the contract reviewed by Contract Services and the Department of Justice prior to its issuance.
Status of Recommendation	<i>Partially implemented:</i> HPW has developed revisions to the contracting rules through the directive, as part of its proposal to amend the governance framework for contracting. The directive has been revised to ensure selected high-risk contracts are forwarded for legal review as appropriate. For the recommendation to achieve full implementation status, the appropriate steps need to be taken to ensure that the revised rules are released to relevant parties.

Exhibit 4 – Status of recommendation on developing guidance on contractor pre-qualification

Recommendation 2.2	Highways and Public Works should develop guidelines and standards for pre-qualifying contractors for various types of service contracts, especially where there may be common and recurring contracting activities that would lead to the creation of Standing Offer Agreements.
Status of Recommendation	<i>Not implemented:</i> HPW has commenced talks in this area, but has not yet drafted guidance to assist in pre-qualification of contractors. For this recommendation to achieve full implementation status, this guidance needs to be developed and released to relevant parties.

Exhibit 5 – Status of related recommendations on developing guidance on contract files

Recommendation 2.3	Highways and Public Works should develop standards and guidelines that would assist departments to maintain proper contract files and records that demonstrate fairness and transparency in the tendering process and the evaluation, selection and awarding of contracts.
Status of Recommendation	<i>Partially implemented:</i> HPW has drafted guidance on how to maintain proper files. For the recommendation to achieve full implementation status, this guidance needs to be released to relevant parties.

Recommendation 2.11	Records management guidelines should be developed to assist program managers, finance officers and administrative staff to establish and maintain proper contract files and records.
Status of Recommendation	<i>Partially implemented:</i> HPW has drafted guidance on how to maintain proper files. For the recommendation to achieve full implementation status, this guidance needs to be released to relevant parties.

Exhibit 6 – Status of recommendation on developing guidance that distinguishes contracts from grants and contributions

Recommendation 2.4	Highways and Public Works, in consultation with the Finance department, should develop guidelines that can help explain the nature of contracts versus grants or contributions. This recommendation is currently being looked at by the Department of Finance as a result of the 2007 audit on contributions.
Status of Recommendation	<i>Fully implemented:</i> Finance has developed guidance distinguishing contracts from grants and contributions.

Exhibit 7 – Status of recommendation on developing guidance on employer-employee relationships

Recommendation 2.5	The Public Service Commission should revise GAM Policy 3.41, <i>Contract Employees Terms and Conditions of Employment</i> , or create another policy that provides direction on employer-employee relationships and the use of employment contracts.
Status of Recommendation	<i>Partially implemented:</i> PSC developed an application guideline on employer-employee relationships which it distributed to members of the human resources community. For this recommendation to achieve full implementation status, this guidance needs to be released to relevant parties.

Approaches to contract reporting and monitoring are being revisited

In order to make informed decisions, management requires performance information. Good performance information assists decision-makers in identifying areas for improvement, so that appropriate corrective measures can be taken in support of continuous improvement.

Our 2008 audit found that mechanisms for compliance monitoring and meaningful reporting on contracting activities were lacking. So, we recommended that HPW establish a comprehensive monitoring program for contracting; review the relevance of the *Contracting Summary Report*; and improve internal reporting capabilities. We also recommended that departments complete post-completion evaluations of contractors' performance. During our Phase One Follow-up, HPW indicated that it was working to enhance the scope and quality of its monitoring and reporting activities, and that it was developing tools to assist contracting authorities in exercising their due diligence.

Public reporting on contracts for services remains limited

In this Phase Two Follow-up, HPW indicated that it had held discussions with senior management and elected officials in the Fall of 2009 and January 2010, who indicated that they did not find the *Contract Summary Report* to be particularly useful. In response, we found that HPW had ceased production of the report, which had traditionally being tabled annually in the Legislative Assembly. The 2006-07 report was the last one to be released.

HPW informed us that plans were underway to update the contents of the report by shifting its focus to results-based, compliance-oriented indicators, in line with reporting from other jurisdictions. In the interim, we found that HPW had generated an internal report containing information on the total number of contracts; the total value of contracts; the total number of sole-source contracts; and the total number of sole-source contracts as a percentage of the total number of contracts. It had also generated an internal report containing information on trends in procurement such as the value and number of contracts for goods and services over time. We applaud the shift towards results-based reporting, but also note that there has been

no publicly available information on procurement activities since 2006-07, with the exception of the *Contract Registry*.

From a systems perspective, HPW informed us that it had undertaken a full range of upgrading initiatives designed to improve contracting processes and reporting. For example, we were told that it had migrated the *Contract Registry* to a platform which made the system easier to use and with streamlined reporting capabilities. Also from a systems perspective, Contract Services indicated that it had been working with the Department of Finance and HPW's Information and Communications Technology group on interfacing the *Contract Registry* with Finance's front-end system.

HPW informed us that this integration is designed to eliminate the need for manual data entry into the *Contract Registry*, and to improve the quality and timeliness in the recording of contracting data. At the time of our audit, the testing of this interface had been delayed to Fall 2011. Also over the course of our audit, HPW launched the Tender Management System (TMS), which has been designed to automate the tender requisition and distribution process for all YG departments and the public.

Notwithstanding these developments, we found that the *Contract Registry* has some limitations which could impact its usefulness as an accountability mechanism. For example, the registry defines the number of records it contains as contracts, whereas the number of contracts is actually smaller, given that many contracts have change orders associated with them. We also found that many contracts were categorized as 'general' when they could have been described as 'consulting' or other types. In this context, there may be opportunities to tighten control over data presentation and entry, which could enable the YG to leverage the registry not only as a tool for public reporting, but also as a tool for identifying resource needs and gaps.

The full implementation of the recommendation to revisit public reporting on contracts is key to ensuring enhanced accountability and transparency. We recognize that HPW sought input from elected officials on the usefulness of the *Contract Summary Report*, but did not seek feedback on specific user requirements. We also recognize that the *Contract Registry* is a useful tool for members of the public and YG officials. This recommendation has been partially implemented.

Exhibit 8 – Status of recommendation on assessing the usefulness of the Contracting Summary Report

Recommendation 1.7	The Department of Highways and Public Works should have assessed whether the <i>Contracting Summary Report</i> contains useful and relevant information that can be used by the Legislative Assembly to assess the Yukon government’s contracting performance.
Status of Recommendation	<i>Partially implemented:</i> HPW gathered opinions on the usefulness of the <i>Contracting Summary Report</i> and has drafted materials on a revised approach to public reporting. For this recommendation to achieve full implementation status, the information needs of the Legislative Assembly need to be incorporated into appropriate public reporting mechanisms.

A compliance monitoring framework for contracting is under development

Since 2008 HPW had been providing annual reports to deputy ministers on their sole sourcing activities, as well as instances where change orders exceeded 10% of the original contract value. It had also conducted a pilot review on selected files. As well, HPW indicated that it had undertaken a high-level review of the number and distribution of contracts that were exempted from bidding requirements, in order to identify potential areas where approaches other than direct award may be suitable.

We also found that HPW had undertaken business process reviews to ensure improved oversight in YG contracting activities, and that it was planning to reposition Contract Services as an “Office of Procurement Oversight” with an expanded mandate for compliance monitoring. To support this shift in strategic direction, we found that HPW had analyzed the gaps between the current roles and responsibilities for Contract Services and contracting authorities, and had developed task lists for proposed roles to close these gaps. We found that HPW had engaged in consultation with senior YG officials and the contracting community on areas for improvement in contracting, but note that the consultation did not focus on what Contract Services, as a work unit, could be doing better or differently to meet user needs. HPW indicated that work on repositioning of Contract Services to better meet user needs was ongoing.

We found that HPW had drafted a monitoring framework with provisions to address common areas of non-compliance including the risk of work commencing prior to contract documents having been signed. This is important, as our review noted multiple instances where statements of work were not sufficiently clear to validate delivery; instances where contracting authorities justified why an individual or firm was qualified to perform the task, but not why that individual or firm was uniquely qualified to perform the task; instances where authorizations were not appropriately or inconsistently obtained; instances where the contract was signed after the start date; and instances where contracting authorities did not

always follow-up with vendors to ensure that services were delivered in compliance with contract specifications. We also noted an absence of mechanisms to ensure compliance with contracting-related components of the *Conflict of Interest* policy. Over the course of the audit, a reminder was issued by the Public Service Commission.

We note that HPW's monitoring framework encompasses testing in some of these areas, and we encourage ongoing consultation between HPW and its partners to ensure that the proposed monitoring program addresses the appropriate contracting-related risks including risk indicators often associated with employer-employee relationships. For example, risk indicators could be designed to test for contractors with long-standing relationships with the YG, and contractors whose names appear in the e-mailing system with no corresponding indication of their contractor status. On a related point, we found that HPW had drafted a post-completion evaluation checklist for contracts, but had not yet distributed it to those involved in the contracting process.

The full implementation of recommendations to improve monitoring and reporting is key to enabling better decision-making with respect to contracting. We recognize that HPW has made important progress in this area. These recommendations have been partially implemented.

Exhibit 9 – Status of recommendation on reviewing Contract Services

Recommendation 1.2	The Department of Highways and Public Works should review Contract Services to assess its effectiveness, including challenges and areas for improvement.
Status of Recommendation	<i>Partially implemented:</i> HPW has reviewed the role and mandate of Contract Services, and consulted on challenges in contracting in the YG at a high level. For this recommendation to achieve full implementation status, identifying how Contract Services could, as an organization, better meet client needs requires some additional analysis.

Exhibit 10 – Status of recommendation on ensuring contracts are signed prior to work commencing

Recommendation 2.6	All contract documentation (whether new or renewal) should be completed pursuant to Section 23 of the FAA prior to a contractor commencing delivery of services. Highways and Public Works through its active monitoring program and work with managers should ensure that contracts are signed before the contract start date.
Status of Recommendation	<i>Partially implemented:</i> HPW has incorporated this test into its proposed monitoring program. For this recommendation to achieve full implementation status, members of the YG contracting community need to be made aware of the risks associated with vendors commencing work prior to appropriate signatures having been obtained, and HPW needs to start testing for these and other types of occurrences.

Exhibit 11 – Status of recommendation on requiring post-completion evaluations

Recommendation 3.2	Departments should be required to undertake post-completion evaluations of the service contracts to assess project management, consultant performance, and lessons learned as part of continuous improvement.
Status of Recommendation	<i>Partially implemented:</i> HPW has incorporated a requirement to undertake post-completion evaluations on selected contracts in its draft directive. For this recommendation to achieve full implementation status, the directive needs to be released to relevant parties.

Exhibit 12 – Status of recommendation on compliance monitoring

Recommendation 1.5	The Department of Highways and Public Works, in collaboration with other departments, should have established a comprehensive monitoring program which includes statistical sampling, periodic assessments of contracting practices in departments including assessments of internal financial controls, and the post review of contract performance from a lessons learned perspective.
Status of Recommendation	<i>Partially implemented:</i> HPW has drafted a compliance monitoring framework for contracting. For this recommendation to achieve full implementation status, the appropriate contracting-related risks need to be accounted for, and tested, within the framework.

Exhibit 13 – Status of recommendation on internal reporting

Recommendation 1.8	Highways and Public Works, in consultation with the Department of Finance, should develop a strategy that would improve the future reporting capabilities on contracts for internal management and monitoring purposes.
Status of Recommendation	<i>Partially implemented:</i> HPW has been engaged in improvements to systems and has produced some internal reports on selected indicators. For this recommendation to achieve full implementation status, an internal reporting strategy that addresses the appropriate contracting-related risks needs to be developed.

Exhibit 14 – Status of recommendation on establishing standing offer agreements

Recommendation 3.1	Highways and Public Works should review the government's contracting activity for service contracts for a suitable period (e.g., perhaps over the past two years) to determine if there are patterns that suggest there are opportunities for establishing standing offers.
Status of Recommendation	<i>Partially implemented:</i> HPW indicated that it undertook a high-level review of the number and distribution of contracts that were exempted from bidding requirements, in order to identify potential areas where approaches other than direct award may be suitable. For this recommendation to achieve full implementation status, the appropriate trend analysis needs to be carried out to identify sectors where standing offer agreements would be appropriate.

Gaps remain in financial oversight of contracting

Just as there are numerous process-oriented considerations in contracting activities (to be addressed through HPW's compliance monitoring framework), there are numerous financial considerations in contracting, as well, given that the *Contract Regulations* are issued pursuant to the *Financial Administration Act*. In this context, our 2008 audit identified some challenges with respect to oversight of authorizations under the FAA and recommended that signing authorities be reviewed, and that reviews be conducted within finance units and the Department of Finance to ensure compliance. In our Phase One Follow-up, the Department of Finance indicated that it was continuing to conduct accounts payable post-audit activities, and that finance units were responsible for compliance with the FAA.

In this Phase Two Follow-up, we found that Finance had completed one review of accounts payable transactions since 2008. We note that the review was limited to 23 contract-related transactions, which represents a small proportion of the contracting-related transactions that

are carried out on an annual basis. Over the course of the audit, the Department of Finance indicated that it had shifted its focus from account transactional testing to training and systems controls.

We also found evidence that the Department of Finance had followed-up with departmental finance units to determine if they had reviewed their matrices on financial signing authorities. The Department of Finance indicated that financial officers and clerks have, for administrative reasons, been permitted to sign for such things like utility and telephone payments, which fall outside their operations.

Because we were informed of instances where finance clerks were signing for items outside their operations, but which did not fit Finance's own description of administrative exceptions (notably, in instances where the finance clerk and the program officer work in different locations), we encourage the use of the FAA's "Section 29" stamp, as does the Department of Finance. We also encourage the Department of Finance to continue to test for any anomalies with respect to signing authorities through its accounts payable post-audit activities. The Department of Finance indicated it would continue to do so. Over the course of the audit, the Department of Finance issued a reminder to finance directors to continue to exercise diligence in delegating the FAA's Section 29 authority to financial staff, and to ensure that, where delegation extends beyond the individual's area of operations, applicable restrictions are clearly identified on the delegation form.

As well, departmental finance units indicated to us that they were taking steps to meet account verification requirements for contracts and that they largely relied on close working relationships with relevant program areas to do so. Because departmental finance units are key players in the internal control environment, particularly with respect to challenging the basis for payments, we emphasize the importance of finance officers inquiring into the details of selected payments on a periodic basis, especially where those payments could be deemed to constitute a high risk.

Over the course of the audit, we were informed of some good practices including departmental finance units taking steps to get involved early in the contracting process, in order to provide input and review the statement of work, which drives subsequent payments. Some departmental finance units indicated that payments have not been disbursed where confirmation of deliverables has not been obtained from the appropriate program officer, where confirmation has been defined as evidence of the deliverable itself, in addition to the appropriate signatures.

The full implementation of recommendations to systematically verify compliance with the FAA is essential to providing management with the assurance it needs over contracting-related payments. We recognize the Department of Finance's shift in direction, and note that training and systems rules can lead to improved control. At the same time, we note that adequate levels of testing are prerequisites to assurance. In this context, our monitoring-related recommendations have not been implemented as originally outlined, and the recommendation to review signing authorities has been partially implemented.

Exhibit 15 – Status of related recommendations on monitoring of FAA compliance

Recommendation 2.8	The finance units in departments should conduct random reviews and tests of the account verification procedures and controls that managers have in place to ensure that Section 29 of the FAA is being properly exercised over the administration and management of contracts.
Status of Recommendation	<i>Not implemented (strategy change):</i> In response to this recommendation, the Department of Finance committed to carrying out testing through its accounts payable post-audit activity, so we followed-up accordingly. Finance has carried out a limited amount of account and transactional testing and indicated it has shifted its focus to training and systems controls. For this recommendation to achieve full implementation status, steps need to be taken to ensure that revised approaches provide the desired level of assurance.

Recommendation 2.10	The Department of Finance should periodically monitor and randomly conduct tests in departments to ensure that the financial practices and internal controls that govern Sections 29 and 30 under the <i>Financial Administration Act</i> are functioning adequately, and as intended.
Status of Recommendation	<i>Not implemented (strategy change):</i> As stated above, Finance has carried out a limited amount of testing and indicated it has shifted its focus to training and systems controls. For this recommendation to achieve full implementation status, steps need to be taken to ensure that revised approaches provide the desired level of assurance.

Exhibit 16 – Status of recommendation on signing authorities

Recommendation 2.7	Financial officers and clerks in departments should not be assigned spending authority under Section 29 of the <i>Financial Administration Act</i> unless that authority pertains to their own operations. The Department of Finance should review the Delegation of Financial Signing Authorities in all departments to ensure that this recommendation is implemented within a reasonable timeframe.
Status of Recommendation	<i>Partially implemented:</i> In response to this recommendation, we found evidence that Finance had instructed departments to carry out reviews of their delegation charts, and that Finance received confirmation from departments. Finance indicated that financial officers and clerks have, for administrative reasons, been permitted to sign for things like utilities and telephone payments, which fall outside their operations.

Training on contracting has been delivered, and the approach to contracting-related training is being revisited

Training represents an important component of a control environment for contracting, and is critical to ensuring that contracts are appropriately designed and administered, and that public funds are spent in the most effective, efficient, and economical manner. Our 2008 audit found gaps in training on contracting-related matters. So, we recommended that appropriate training be developed and delivered for those involved in the contracting process. During our Phase One Follow-up, the Public Service Commission indicated that it was developing courseware, and that it had delivered some introductory courses on contracting.

HPW and Finance have developed revised training materials for contracting

In this Phase Two Follow-up, we found that HPW and Finance had worked with PSC to deliver some courses and workshops on contracting. During the audit, we were informed that PSC's role in relation to training on contracting had evolved since the original audit, and that HPW and Finance were leading course development. We were informed that PSC had participated in some committee work where contracting training was discussed.

We found that while a formal training needs analysis was developed for financial management courses, this type of analysis was not developed for contracting courses. HPW informed us that it had determined that a 'bottom up' approach, structured around the value, complexity and risk of procurement activities, was needed to fill the capability gap.

We found that HPW and Finance had worked together to develop a *Financial Management and Procurement Curriculum Framework*, and that HPW researched best practices and leveraged relationships from other jurisdictions to develop computer and classroom-based training courses. Over the course of the audit, Finance released computer-based training courses which focussed on financial signing authorities.

We found that HPW had undertaken a considerable amount of work to identify the target audience for contracting training, but that it faced difficulties in determining which employees fulfilled contracting-related duties. Notwithstanding these challenges, HPW successfully identified prospective participants by reviewing individuals' signing authorities and their inclusion on various e-mail distribution lists, with the first of these courses having yet to be delivered. We found that learning outcomes for HPW's and Finance's for these revised course materials had not been specifically formulated, and that linkages between course offerings and the results of compliance monitoring activities had not been fully articulated. That said, there was agreement that these linkages would assist in developing course content driven by user needs and requirements.

While those departments involved in developing training have indicated that they have enjoyed a relatively good working relationship, we emphasize the importance of co-ordination in an environment where HPW and Finance will be delivering course material on a specialized subject area with overlapping roles and responsibilities. Co-ordination of

corporate training activities is needed to avoid gaps and duplication in course content, and to ensure that members of the YG contracting community are getting the information they need, when they need it, and in a way that complies with accepted best practices in teaching and learning.

Exhibit 17 – Status of related recommendations on training

Recommendation 1.6	The Public Service Commission, in consultation with the Department of Highways and Public Works, should work with other departments to identify needs, develop and deliver appropriate training for staff involved in the contracting process.
Status of Recommendation	<i>Partially implemented:</i> Initial course offerings have been delivered. HPW has taken the lead on developing revised course content for contracting, and Finance has delivered some training on financial signing authorities. For this recommendation to achieve full implementation status, the revised training on contracting needs to be delivered to members of the YG contracting community.
Recommendation 2.9	The Department of Finance should plan a workshop and training session for all senior finance officers in departments that would address the responsibilities for account verification and the general procedures and controls that should apply to this process. This would enable the finance community to develop a common understanding of what is required of them in ensuring a high standard of probity in their payment functions and to share best practices.
Status of Recommendation	<i>Partially implemented:</i> Finance has developed and delivered some training on signing authorities. For this recommendation to achieve full implementation status, the training needs to provide guidance on the account verification procedures and controls that should be undertaken by members of the YG contracting community to ensure that probity standards for procurement are met by those program officers who manage and administer contracts.

CONCLUSION

Since the Yukon Government uses contracts to deliver important services to the public, it requires the mechanisms to ensure compliance with the appropriate legislation, regulations, and policies. As outlined in Exhibit 18 below, one recommendation from our 2008 audit has been fully implemented, 17 have been partially implemented and three have not been implemented.

Exhibit 18 – Overall status of recommendations

Audit Recommendation	Phase Two Result	Responsible Dept. in Original Management Action Plans
1.1 Roles and responsibilities	Partially implemented	HPW
1.2 Contract Services	Partially implemented	HPW
1.3 Contract Regulations	Partially implemented	HPW
1.4 Contracting Directive	Partially implemented	HPW
1.5 Monitoring program	Partially implemented	HPW
1.6 Training	Partially implemented	PSC
1.7 Contract Summary Report	Partially implemented	HPW
1.8 Internal reporting	Partially implemented	HPW
2.1 Contract exemptions	Partially implemented	HPW
2.2 Guidance on pre-qualifying contractors	Not implemented	HPW
2.3 Guidance on records management	Partially implemented	HPW
2.4 Guidance on contracts vs. contributions	Fully implemented	HPW/FIN
2.5 Guidance on employer-employee relationships	Partially implemented	PSC
2.6 Signing prior to work commencing	Partially implemented	HPW
2.7 Delegation of signing authorities	Partially implemented	FIN
2.8 Monitoring by departments	Not implemented (strategy change)	FIN
2.9 Finance training re: contracts	Partially implemented	FIN
2.10 Finance dept. monitoring	Not implemented (strategy change)	FIN
2.11 Guidance on records management	Partially implemented	HPW
3.1 Standing offer agreements	Partially implemented	HPW
3.2 Post-completion evaluations	Partially implemented	HPW

We commend the work that has been undertaken to date, especially in light of the relative importance and complexity of the 21 recommendations from our 2008 audit. That said, we note that progress is behind schedule based on departments' self-identified timelines, and that departments may have underestimated the time required to fully implement some of these very complex changes.

In 2008, we concluded that the government was not making sufficient efforts to ensure its contracting activities were achieving value-for-money objectives. Our Phase Two Follow-up confirms that these challenges remain, as only one of the 21 recommendations has been fully implemented. In this context, we encourage the move towards full implementation, and encourage YG departments to review this (as well as our 2008) report for issue areas that warrant further consideration and treatment.

Recognizing that important work has been undertaken, but that the majority of recommendations have not been fully implemented, we may have to revisit contracting in the future to assess the impacts of these initiatives going forward.

Government Audit Services would like to acknowledge the co-operation of various YG departments involved in the audit and extend our thanks to those individuals who assisted us in our work.