

# **Compliance and Monitoring Annual Progress Report**

Fiscal 2021

Prepared for Comptroller General  
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Ministry of  
Finance

# Contents

- Summary of Compliance and Monitoring Activities ..... 3**
- Mass Payment Monitoring..... 5**
  - Scope and Approach ..... 5
  - Monitoring Outcomes ..... 6
- Compliance and Monitoring Activities..... 7**
  - Scope and Approach ..... 7
  - Predictive Analytics Results ..... 9
  - Document Review Results ..... 9
  - Event Driven Reporting: COVID-19 Pandemic Payments ..... 10
  - CFO Alerts ..... 11
  - Expanding Compliance Coverage..... 12
- Forensic Accounting Services..... 13**
  - Background and Objectives ..... 13
  - Financial Risks Reported ..... 13
  - Fraud Awareness Initiatives ..... 14
- Appendix A: Compliance and Monitoring Initiatives Update ..... 16**

## Summary of Compliance and Monitoring Activities

The Corporate Compliance Branch (3CMB) provides continuous monitoring of government's financial transactions to identify indicators of financial risk and compliance with policy. This report summarises 3CMB activities and outcomes for fiscal year 2021.

### Key Summary

- Effectively adapted compliance approaches and processes during the COVID-19 pandemic
- Mitigated systematic fraud risks of one-time benefit and recovery programs
- Vast majority of government's transactions are low risk and well administered
- Procurement documentation and compliance continues to be a challenging area
- Administration of COVID-19 pandemic expenses is working
- Increased scope of 3CMB coverage and risk indicators
- Rolled out fraud risk management tools across government

### Mass Payment Monitoring

3CMB monitors government's one-time benefit and recovery programs for systemic fraud schemes or unexpected payment patterns acting as the last line of defence to mitigate risks. Over 2.4 million payments totalling nearly \$2 billion were monitored through analytics.

Inherent program risks have been mitigated by ministries and OCG and no fraud schemes or abnormal payment patterns have been identified. All analytic results and outcomes are understood and explainable.

### Compliance and Monitoring Activities

Monitoring and risk-based reviews of government's payments have continued throughout the COVID-19 pandemic.

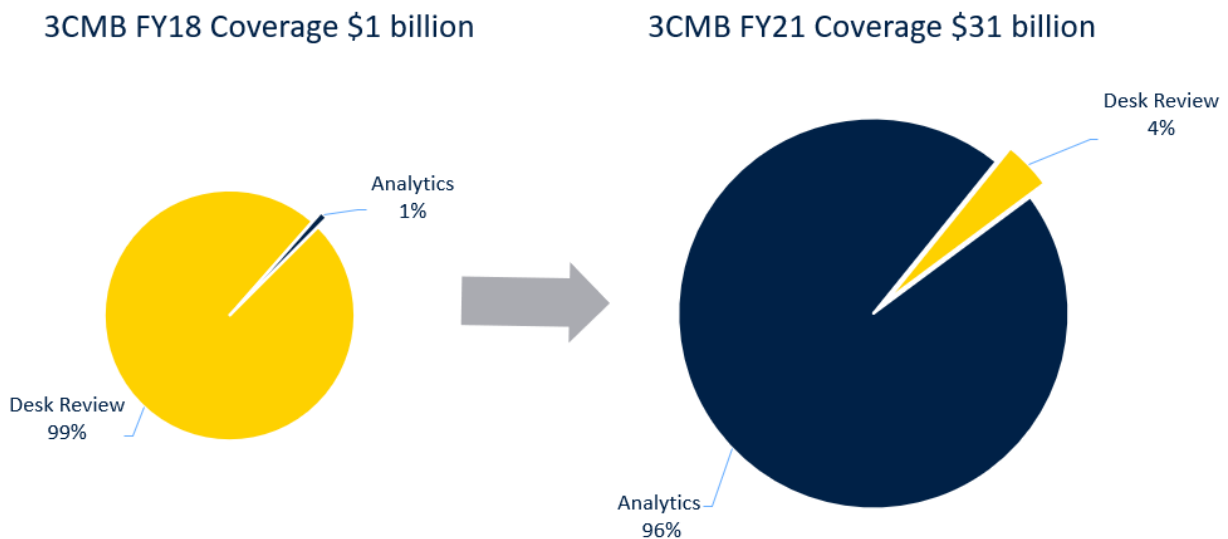
Over 99 percent of low risk payment streams 3CMB monitored during the year were within expectations and did not raise any risks. Most of government's payments fall within this category and during the year 3CMB monitored about \$31 billion of payments. These payments are typically to government's Crown organisations and agencies or long-term service providers of government.

Data analytics is also used to identify indicators of fraud or error, and control weaknesses. All payments are subject to these tests and during the year about 1,100 payments were flagged for 3CMB review.

Most of the findings from 3CMB reviews relate to weaknesses in procurement documentation or approaches. This is not a new or emerging risk and is an inherently challenging area to improve upon and resolve. 3CMB works with ministries to address or mitigate many of these findings and risks.

Starting in May 2020, 3CMB began to analyze and test pandemic payments for compliance and reporting risks. Administration of COVID-19 pandemic expenses is working, and ministries are following OCG reporting requirements. Ninety-nine percent of the payments reviewed by 3CMB were correctly recorded and financial policy compliance was higher for these payments than regular government expense payments.

3CMB continues to build out compliance coverage across government. This year 3CMB expanded to include asset classes and other transaction streams. Data analytics monitoring continues to be the preferred approach due to its effectiveness and efficiency. Document reviews are time-consuming for 3CMB and stakeholders and are only used when there are no alternatives. The graphic below illustrates these changes.



Over the years, 3CMB has continued to invest in data analysis tools and resources. 3CMB will continue this approach as it's the most efficient and effective way to identify and respond to financial risks.

**Forensic Accounting Services**

During the year, 12 concerns about government's financial administration were reported by individuals or BC Public Service employees. Each of these reports are reviewed, assessed, and appropriately actioned. The majority of these incidents have been closed and do not require a forensic accounting engagement to resolve.

Several fraud risk management tools have been provided to BC Public Service employees. These tools are to support employees in identifying and reporting fraud. 3CMB is currently working with ministries to rollout further tools related to fraud risk assessment and mitigation strategies.

## Mass Payment Monitoring

In response to the COVID-19 pandemic, government launched several one-time benefit and recovery payment programs to support individuals and organisations in British Columbia. 3CMB monitors many of these programs for systemic fraud schemes or unexpected payment patterns acting as the last line of defence to mitigate risks.

### Key Summary

- Inherent program risks have been mitigated
- No fraud schemes or abnormal payment patterns have been identified
- 3CMB analytics approach and tests are operating as planned and are effective
- Analytic results and outcomes are understood and explainable

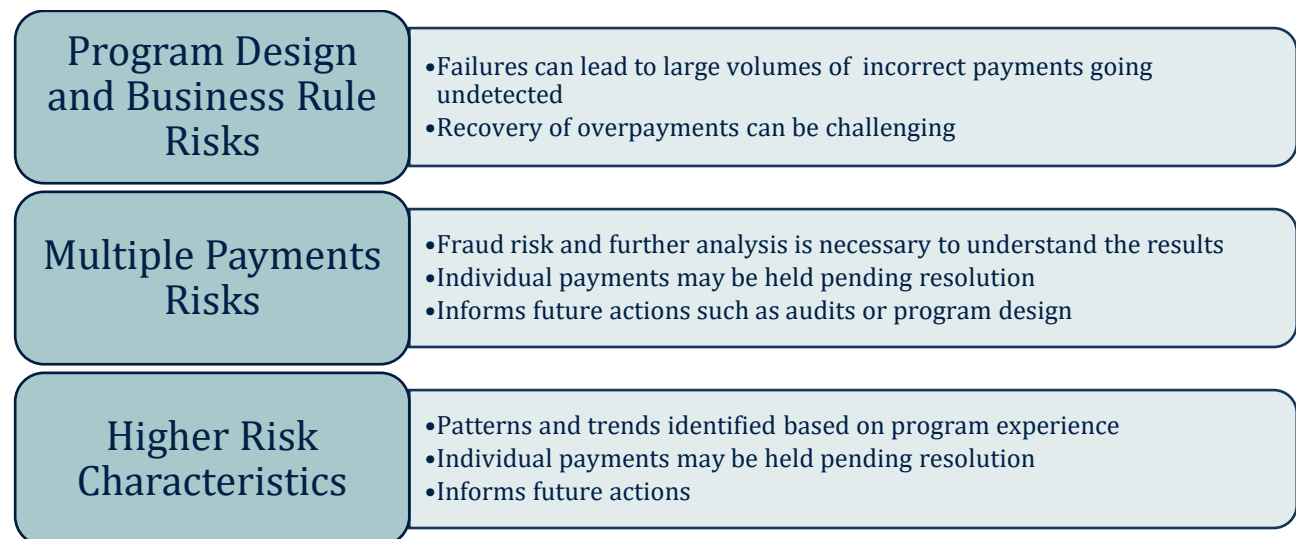
### Scope and Approach

During the year 3CMB worked with ministries to implement monitoring of payments for the following programs:

- BC Emergency Benefit for Workers
- BC Recovery Benefit
- Small and Medium-Sized Business Recovery Grant

These programs have inherent financial risk due to their large scope, multifaceted eligibility criteria and the Province’s limited pre-existing relationship with the intended recipients. These factors and self-application design of such programs makes them an attractive target for fraudsters.

In response to these risks, 3CMB implemented daily analytic tests and reporting to support the programs’ existing financial controls and further mitigate financial risks. The analytic tests assess payments for three risk categories that are described below.



**Monitoring Outcomes**

Monitoring and reporting results shows that the government did mitigate systemic and significant financial risks and still achieve program delivery objectives.

While 3CMB results indicate an overall low level of financial risk, it is reasonable to expect a small volume of ineligible payments did occur. 3CMB works with ministries to understand results in-depth and to mitigate risks. Many ministries are planning audits to further confirm eligibility and recover any ineligible payments.

The table below summarises the results of programs monitored by 3CMB within the fiscal year 2021.

Program	Volume (F2021)	Value (F2021)	Systemic Risk Mitigated
BC Emergency Benefit for Workers	643,322	\$643M	✓
BC Recovery Benefit	1,775,416	\$1,218M	✓
Small and Medium-Sized Business Recovery Grant	1,304	\$34M	✓

3CMB continues to monitor these programs along with several other programs that were launched in fiscal 2022. Monitoring is in place for Circuit Breaker Business Relief Grant, BC PST Rebate on Select Machinery and Equipment, and BC Increased Employment Incentive.

To date, inherent and system fraud risks continue to be mitigated for these existing and newly initiated programs.

## Compliance and Monitoring Activities

### Key Summary

- Vast majority of government’s transactions are low-risk and well administered
- Procurement documentation and compliance continues to be a challenging area
- Administration of COVID-19 pandemic expenses is working
- Increased scope of 3CMB coverage and risk indicators

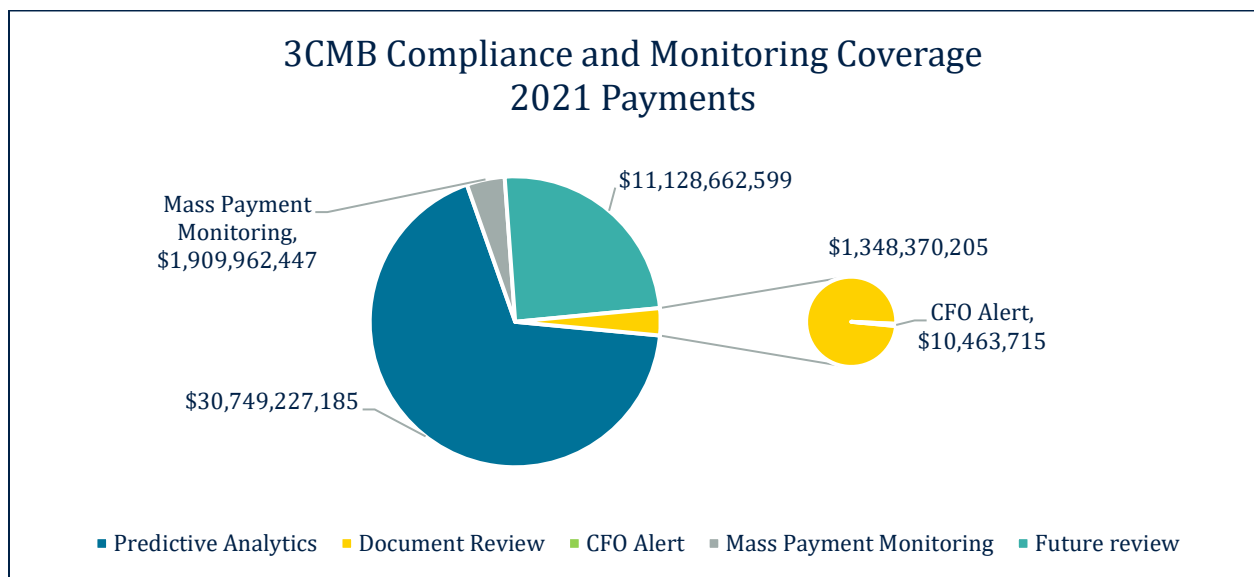
### Scope and Approach

3CMB monitors payments out of the Corporate Financial System. These can be payments to government’s service providers, Crown corporations and agencies, and employees.

Each payment is monitored using risk-based criteria and pattern analysis. 3CMB uses the results to inform actions such as 3CMB document reviews, notification to the ministry CFO, or further research and assessment.

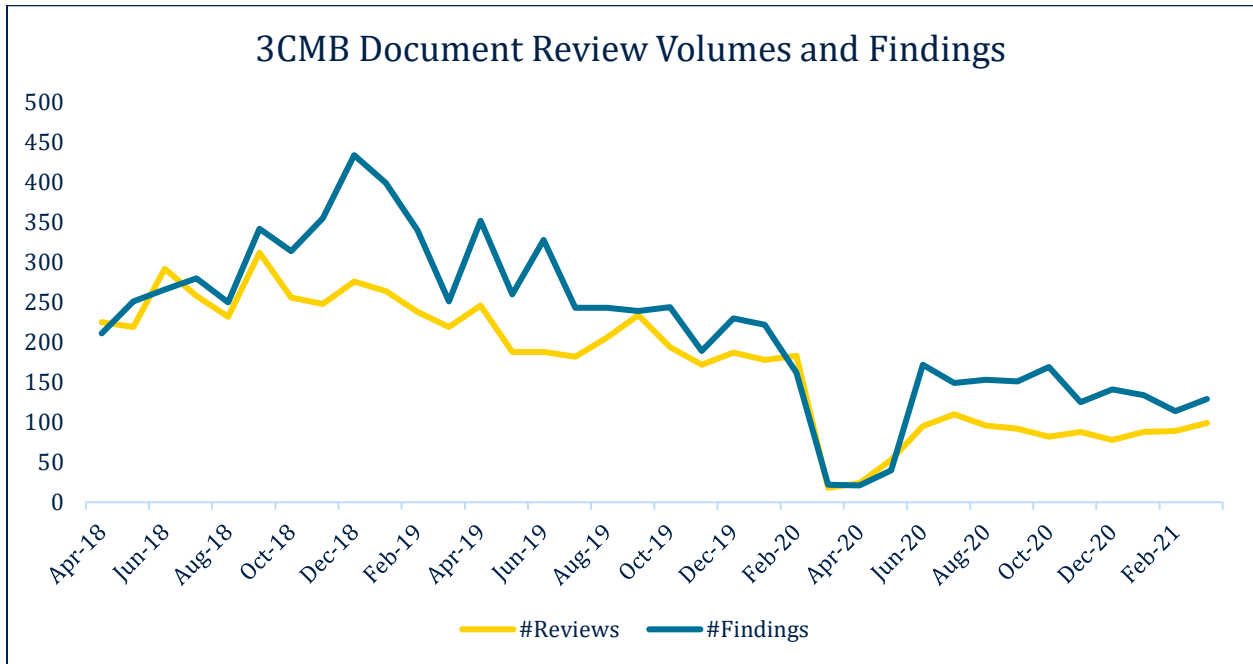
A monthly report on 3CMB activities and outcomes is provided to each ministry CFO. 3CMB works with ministries to resolve or mitigate findings and risks.

The below graphic illustrates 3CMB’s coverage for the fiscal year 2021.



Document reviews are time-consuming for 3CMB and stakeholders and are only used when there are no alternatives. Over the years 3CMB has reduced document reviews as analytic monitoring is built out and risks are better understood. Analytic coverage has significantly increased as 3CMB

worked with ministries to identify suitable payment streams for inclusion. The two graphics below illustrate these changes.



At the onset of the Covid-19 pandemic 3CMB temporarily reduced document reviews and relied on increased analytic coverage. Information on 3CMB findings is discussed on the next page.



**Predictive Analytics Results**

3CMB uses predictive analytics to monitor 95 lower-risk ministry payment streams. These payments are typically to Crown corporations and agencies or long-term service providers of government.

Over 99 percent of low risk payment streams 3CMB monitored during the year were within expectations and did not raise any risks.

Predictive analytic is the most efficient and effective way to monitor payments and 3CMB continues to look for opportunities to expand it.

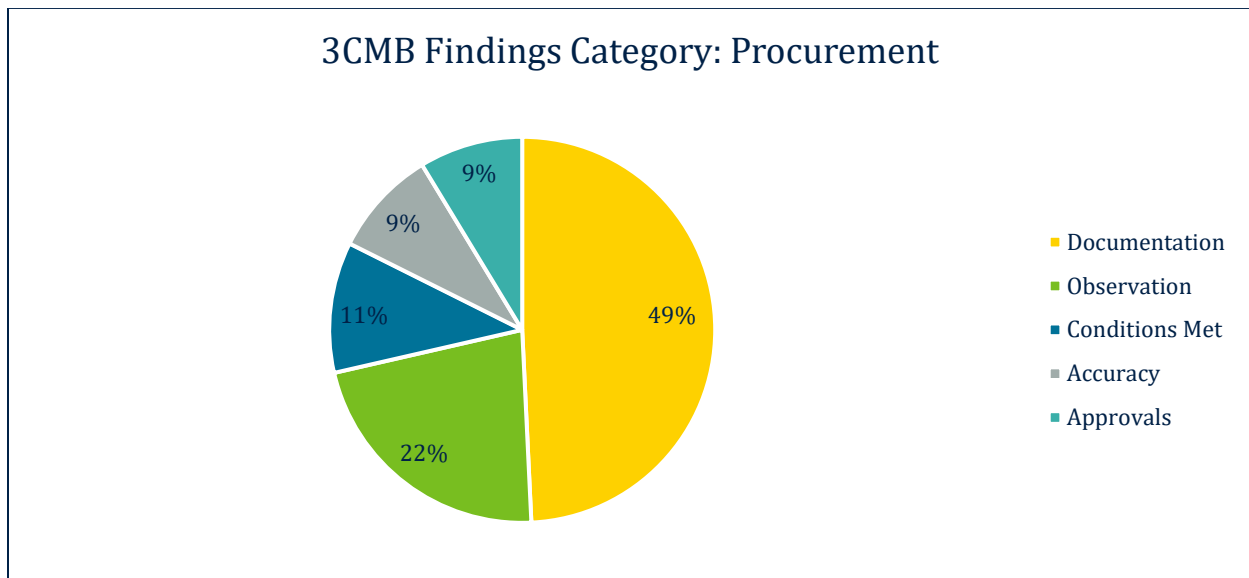
**Document Review Results**

Each month 3CMB uses analytics to select ministry payments for review. Ministries provide 3CMB with documents to support payments and 3CMB reviews them for compliance with government’s financial administration policies and indicators of risk.

In fiscal 2021 about 1,000 payments from all ministries were selected for a 3CMB document review.

Most of the findings from 3CMB reviews relate to weaknesses in procurement documentation or approaches. Specifically, weaknesses in procurement planning and management of contracts remains a persistent risk. This is not a new or emerging risk and is an inherently challenging area to improve upon and resolve. 3CMB works with ministries to address or mitigate many of these findings or risks.

See the figure below for procurement findings distribution by category for fiscal year 2021.



The findings distribution is broadly consistent across ministries and more closely related to the nature of the procurement than the ministries own processes or procedures. 3CMB is working with ministries and other central agencies to address these risks.

**Event Driven Reporting: COVID-19 Pandemic Payments**

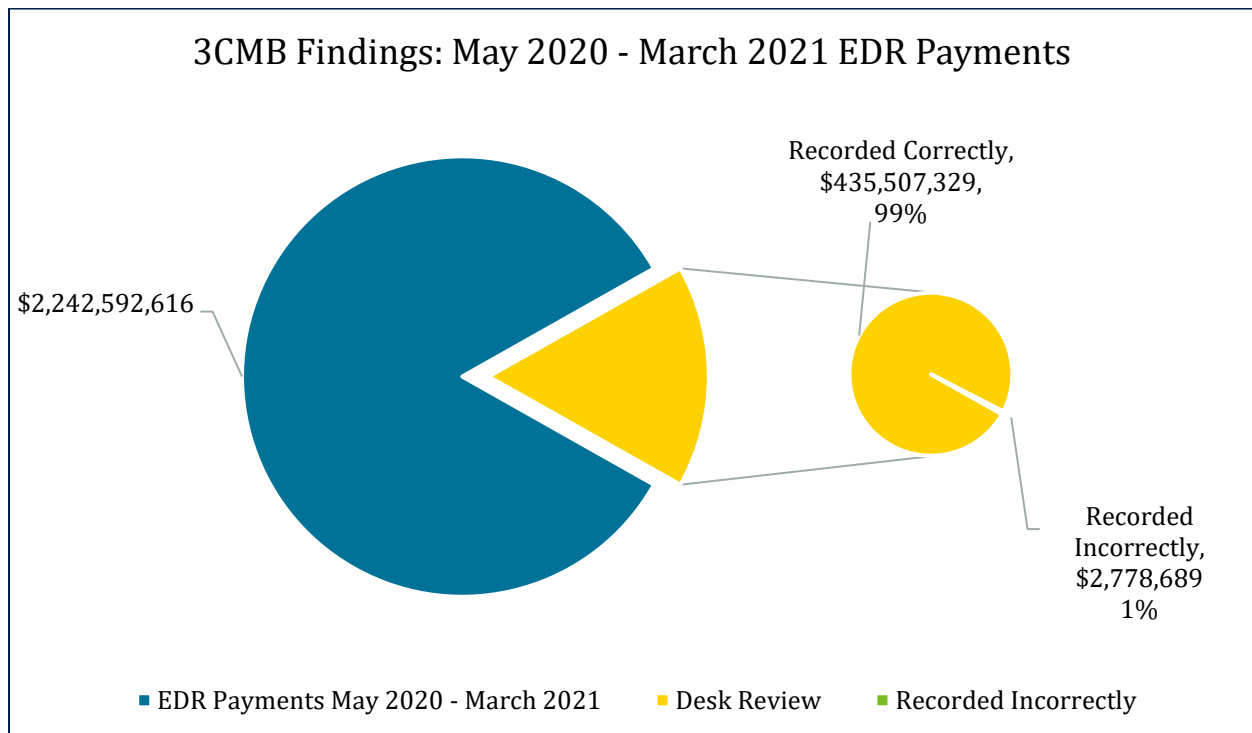
The Event Driven Financial Reporting (EDR) process identifies government’s direct expenditures associated with the COVID-19 pandemic. These expenditures are incremental to the regular business of government. EDR provides timely, deep, and reliable financial information to government decision-makers.

**Summary of COVID-19 Pandemic Payment Testing:**

- Administration of COVID-19 pandemic expenses is working and 99% of the payments reviewed by 3CMB were correctly recorded
- Compliance with financial policies was higher for these payments than regular government expense payments
- Monitoring and testing did not identify any systemic frauds schemes or internal control weaknesses

Starting in May 2020, 3CMB began to analyze and test EDR payments for compliance and reporting risks. Through collaboration with ministries, 3CMB was able to complete all 268 reviews as planned.

The review results were better than expected given ministries had very little time to develop and implement new processes and procedures while managing many competing priorities during the Spring of 2020.



3CMB concluded that less than 1% or \$2.8 million of the value of payments tested were recorded inaccurately. Most of the identified inaccuracies related to under reporting of COVID-19 pandemic payments.

Comparing the average finding per review, EDR reviews resulted in approximately 35% less compliance findings on average than these risk-based reviews. 3CMB attributes this outcome to ministries prioritising these programs and providing more management oversight of processes.

### CFO Alerts

CFO Alerts are sent to ministry CFOs to notify them of potential higher risks that may need to be actioned to prevent loss or mitigate risks. Ministry CFOs are asked to make enquiries, act as needed, and advise 3CMB of the outcome. There were 174 payments in fiscal 2021 that resulted in 90 CFO Alerts to 16 ministries.

#### **Summary of FY21 CFO Alerts:**

- \$10 million was alerted from CFS payment monitoring
  - \$9 million was alerted due to possible incorrect coding in the chart of accounts and/or accounting
  - \$800,000 related to possible multiple CFS payments with similar details that went to the same payee
- \$67,500 was alerted from corporate card transaction monitoring
  - Majority of travel card alerts stemmed from overdue balances
  - Purchase card alerts related to possible personal purchases or inactive cardholder transactions
- All 90 CFO Alerts from fiscal 2021 are satisfactorily closed

### Expanding Compliance Coverage

During the year 3CMB expand the scope of compliance activities to include analysis and testing of ministry journal vouchers and tangible capital assets.

Journals play a key role in the audit trail of government's financial records and reporting and it is important only authorised and supported journals occur.

3CMB reviewed 235 journals together with their supporting documentation. The majority were fully compliant with policy and no indicators of risk were identified. In some instances 3CMB did identify weaknesses in documentation. 3CMB has increased its communication with ministries to provide enough documentation to allow the transaction's validity and accuracy to be adequately confirmed.

During the year, 3CMB started to review tangible capital transactions of ministries. Since this is a new and complex area for 3CMB a pilot was initiated to build knowledge and develop internal processes and allow for ministries to develop their responses.

To date a small sample of asset acquisitions has been reviewed. While 3CMB reviews concluded that many were fully compliant with policy and had no indicators of risks, as like with procurement transactions, 3CMB did identify weakness in documentation.

Looking ahead, 3CMB will continue to increase focus on areas that have consequential risk for government. In the coming months 3CMB plans to initiative analysis and reviews on a broad range of areas such as government payroll and fuel cards. Appendix A provides more information on 3CMB initiatives.

## Forensic Accounting Services

### Key Summary

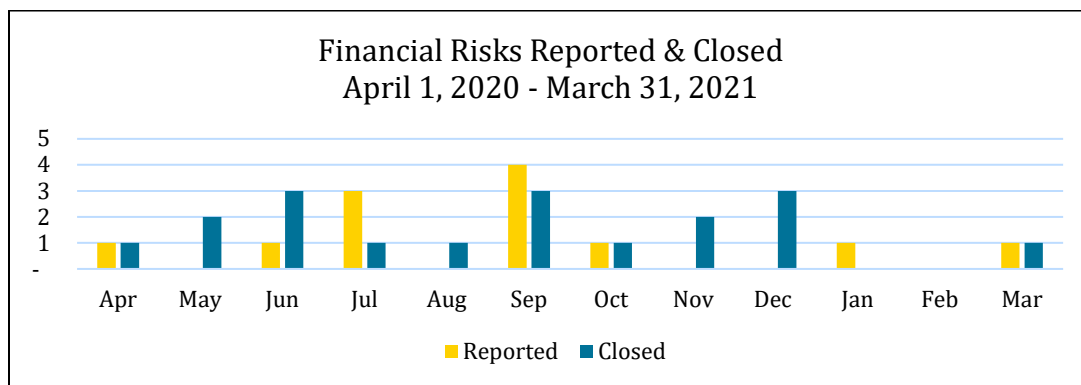
- Many concerns reported do not establish a financial loss or control weakness
- No incidents reported during the year resulted in forensic engagements
- Fraud Risk Management toolkit released
- Fraud Awareness and Prevention eLearning rolled out for all employees
- Government wide fraud risk assessments under development

### Background and Objectives

The Comptroller General is responsible for the overall quality and integrity of government’s financial management and control systems. This includes responding to financial risks identified and reported across government and leading fraud prevention and detection initiatives. This report provides a status update on open financial risks reported to OCG as well as current fraud awareness initiatives.

### Financial Risks Reported

During the year, 12 concerns about government’s financial administration were reported by citizens or BC Public Service employees. Each of these reports are reviewed and assessed and appropriately actioned.



No financial concerns reported resulted in a forensic engagement, as it was determined for all closed incidents that there did not appear to be a direct financial loss identified or systemic internal control weaknesses.

In some instances, Forensic Accounting Services (FAS) refers the concern to another agency within government or to another branch of OCG such as internal audit, compliance, policy, or accounting.

### Fraud Awareness Initiatives

An effective fraud risk management program enables the government to have controls that first prevent fraud from occurring, detect as soon as a fraud happens, and respond effectively to fraud incidents when they occur.

#### Summary of Fraud Awareness Initiatives

- Fraud Risk Management Toolkit
  - Guide to help ministry decision-makers respond to fraud risks
- Fraud Awareness and Prevention eLearning
  - Walks learners through what fraud is, how to prevent and detect fraud, and how to report fraud
- Fraud Risk Assessments
  - Identify an organization’s vulnerabilities to internal and external fraud

Preventative controls are important because they are designed to reduce the risk of fraud and misconduct from occurring in the first place. While government has sound legislation and policies in place for addressing fraud incidents, there is an opportunity to move us to a more preventative state; and along the way support more consistent and appropriate outcomes when incidents do occur.

Essentially, if more time is spent up front, less time and effort can be spent on the back-end response side. To that end our belief is that education is a foundational building block to enhance our preventative measures

FAS has implemented the following initiatives to advance preventative controls across government.

#### 1. Fraud Risk Management Toolkit

The Fraud Risk Management toolkit is an internal guide to help ministry decision-makers respond to fraud risks.

The toolkit is broken down into four phases and provides start to finish direction on how to respond to fraud risks. This document will help to ensure that a consistent approach is used across government when responding to fraud risks.

The toolkit was provided to all employees in January 2021 and is accessible on the OCG intranet.

#### 2. Fraud Awareness and Prevention eLearning

FAS worked with the PSA to develop the Fraud Awareness and Prevention eLearning which launched in June 2021.

The course walks learners through what fraud is, how to prevent and detect fraud, and how to report fraud. It provides learners with scenarios to put the learning in context.

FAS is asking all employees to take this course at least once every 3 years.

### 3. Fraud Risk Assessments

Fraud risk assessments proactively identify an organization's vulnerabilities to internal and external fraud. Mitigation strategies can be developed to reduce the risk to an acceptable level.

FAS is currently consulting with ministry CFOs on the design of the rollout across ministries.

## Appendix A: Compliance and Monitoring Initiatives Update

Compliance and monitoring activities are evolving to address emerging risks and take advantage of new capacity and technology. The following initiatives are in process by 3CMB.

Activity	Date Range	Project Phase	Status
Event Driven Reporting: COVID-19 Pandemic Payments	May 2020 – Mar 2021	Operational	✓
Monthly selection of payments and journal vouchers coded to Event Driven Reporting project codes to confirm classification and compliance with policy.			
BC Recovery Benefit	Dec 2020 – Jun 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			
BC Emergency Benefit for Workers	May 2020 – May 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			
Small and Medium-Sized Business Recovery Grant	Jan 2021 – Jul 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			
BC PST Rebate on Select Machinery and Equipment	Apr 2020 – Sep 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			
BC Increased Employment Incentive	Apr 2020 – Dec 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			
Circuit Breaker Business Relief	Apr 2021 – Jun 2021	Operational	✓
Mass payment monitoring for logic, error and fraud risks.			



<b>Activity</b>	<b>Date Range</b>	<b>Project Phase</b>	<b>Status</b>
<b>Journal Voucher Monitoring</b>	Oct 2020 – Dec 2021	Operational	✓
Monthly selection of General Ledger transactions to review supporting documentation and confirm compliance with policy.			
<b>Capital Asset Monitoring</b>	Dec 2020 – Sep 2021	Pilot	✓
Data based analysis and testing of capital asset transactions to support a targeted review. Pilot project is underway.			
<b>Payroll Monitoring</b>	Oct 2020 – Jun 2021	On hold	⚠
Data based analysis of payroll transactions to support launching a targeted review. Research started and paused due to competing priorities.			
<b>EMBC Targeted Review</b>	May 2021 – Oct 2021	Operational	✓
Follow-up data analysis and testing to assess EMBC’s current financial control and policy compliance status.			
<b>Fuel Card Targeted Review</b>	Jun 2021 – Nov 2021	Planning	✓
Analysis, testing and monitoring of government fuel card usage to identify and mitigate policy and fraud risks. Research phase to begin in July.			
<b>Supplier Banking Info Targeted Review</b>	Jun 2021 – Nov 2021	Planning	✓
Analysis, testing and monitoring of changes to banking details of suppliers to identify and mitigate policy and fraud risks. Research phase to begin in July.			



On track



Delayed/potential delay



Risks/roadblocks identified