

Chapter

# 4

Voted Grants and Contributions  
Government-Wide Management

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.*

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# Voted Grants and Contributions Government-Wide Management

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## Main Points

**4.1** The government still has a lot to do to fix the chronic problems in the way it manages grants and contributions. Our most recent audits found a government-wide control system for grants and contributions that is not yet rigorous enough to ensure the proper management of public funds. We are concerned that serious and correctable problems remain unexamined and uncorrected.

**4.2** The Treasury Board Secretariat does not yet monitor departmental operations adequately, and departments often fail to exercise minimum control. Grant and contribution programs tend to be undermanaged—departments pay too little attention to their design, delivery, capacity, and performance and to the training of staff who manage them. Until the Secretariat and departments meet all of their responsibilities and manage grants and contributions rigorously, these programs will have chronic problems and run an ongoing risk of using public funds ineffectively and inefficiently.

**4.3** Management practices were uneven among the programs we audited. Most programs had significant shortcomings in one area or more—program design, performance measurement, project approval, or project monitoring. In other programs, we found that departments were fixing, or had fixed, problems we reported in 1999 and 2000—indicating to us that good management is achievable, if not always achieved. The problems we found were not on the scale of those in Human Resources Development Canada (HRDC) that we reported in 2000. But they were similar to what we had found in previous years in many other grant and contribution programs.

**4.4** Over the past year and a half, the Treasury Board and its Secretariat took many important steps to improve the management of grants and contributions government-wide, in particular, setting out a new and better policy framework. Five new or revised policies will impact on grants and contributions. While a good foundation is now in place, it will take several years to bring all grant and contribution programs up to the standard of the revised policy framework.

**4.5** We surveyed program officers and managers in nine of the programs we audited. Many said they did not feel adequately trained to do their jobs. Many believed that they lacked the time both to assess projects properly before they recommended funding and to monitor the projects that were funded. At the same time, most were satisfied with key aspects of the design of their programs.

4.6 With its revised Policy on Transfer Payments, the government is committed to evaluating all its grant and contribution programs and approving new or revised terms and conditions before 31 March 2005. This is an opportunity for the government to determine whether each grant and contribution program is achieving value for money and should continue or whether it should be modified or even terminated.

#### Background and other observations

4.7 The federal government plans to spend roughly \$16.3 billion through voted grants and contributions in 2001–02, and another \$27.4 billion through statutory grants and contributions. Over the past year, we carried out a series of audits to answer three questions:

- Are departments managing well the voted grant and contribution programs we audited?
- Are the Treasury Board and the Treasury Board Secretariat carrying out their responsibilities for setting government policy on the management of grants and contributions and for monitoring the performance of departments?
- What are the causes of government-wide problems in the management of grants and contributions?

The programs we audited plan to spend about \$1.3 billion in 2001–02. (That amount does not include planned spending by the programs our follow-up work considered.)

4.8 In 1999 the Standing Committee on Public Accounts tabled its Twenty-Fourth Report to the House of Commons, which covered our December 1998 Report, Chapter 27, Grants and Contributions: Selected Programs in Industry Canada and Canadian Heritage. The Committee recommended that this Office undertake a comprehensive audit of the management of grant and contribution programs and report our conclusions and recommendations to Parliament. The audits we are reporting this year respond to that recommendation.

**The Treasury Board Secretariat has responded.** The Secretariat agrees with our recommendations. Actions and plans it has under way are indicated in its response at the end of the chapter.

## Introduction

**4.9** For many years, our Office has reported to Parliament on our audits of grant and contribution programs. And for many years, we have reported what we consider to be serious and chronic problems in managing these programs. In our 1998 Report, we noted that our audits of grant and contribution programs had made consistent observations over the past 21 years. We said that our 1977 government-wide audit found non-compliance with program authorities, weaknesses in program design, instances of poor controls, and insufficient measuring and reporting of performance. While we would find signs of improvement in specific areas when we followed up on these audits, overall we found the same kinds of problems each time we audited grant and contribution programs.

**4.10** A review of our work from 1998 to 2000 shows that we continued to find the same shortcomings in the management of grant and contribution programs. We have also found, when we returned to check, that departments have taken generally satisfactory action on the problems we had identified—indicating to us that good management is achievable, if not always achieved.

**4.11** In 1999 the Standing Committee on Public Accounts tabled its Twenty-Fourth Report to the House of Commons, which covered our December 1998 Report, Chapter 27, Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage. The Committee recommended that this Office undertake a comprehensive audit of the management of grant and contribution programs and report our conclusions and recommendations to Parliament. The audits we are reporting this year respond to that recommendation.

### What are voted grants and contributions?

**4.12** The government has many ways to pursue public policy: legislation and regulation; tax measures; provision of services, information, and advice; and transfer payments to individuals, organizations, and other levels of government. Transfer payments to individuals and organizations are generally grants or contributions. That the government does not receive goods or services directly in return for transfer payments distinguishes them from payments for contracts and procurement, among others.

**4.13** Some spending through grants and contributions is statutory. Statutory expenditures are those that have continuing authority by an act of Parliament, such as old age security payments and guaranteed income supplement payments, and therefore do not require Parliament's approval each year. Other grants and contributions are voted expenditures, for which parliamentary authority must be granted through an annual appropriation act.

**4.14** The government uses contributions, and sometimes grants, as financial incentives to influence the recipient's behaviour in a way that contributes to achieving policy goals. The money prompts individuals and organizations to undertake activities that are in their interest but also the government's.

These are usually activities that would be too expensive or too risky for the recipient without direct financial assistance. Properly planned and managed, contribution programs give recipients a reasonable chance of success in the funded activities without contributing more public money than the recipient needs.

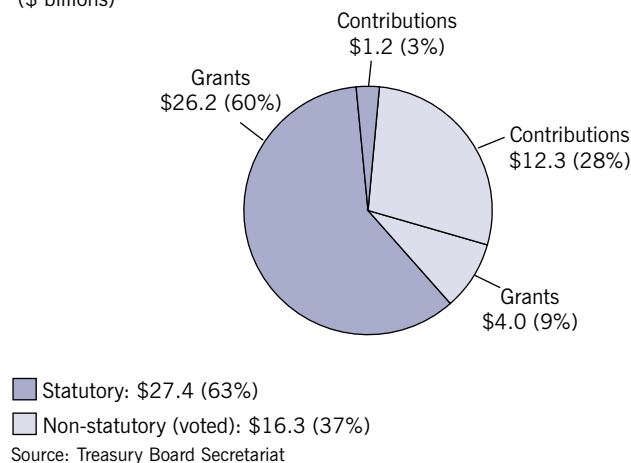
**4.15** Contributions differ from grants in the management requirements that general government policy imposes on departments and on the recipients. An individual or organization that meets the eligibility criteria for a grant can usually receive the payment without having to meet any further conditions. In contrast, contributions are subject to performance conditions that are specified in a contribution agreement. The recipient must show that it continues to meet the performance conditions over the life of the agreement in order to be reimbursed for specific costs. The government can audit the recipient’s use of contribution payments, whereas audit is not a requirement for grants. Because grants require less accountability, they should be reserved for only situations where unconditional transfers of money are shown to be appropriate.

**Spending on voted grants and contributions**

**4.16** The Treasury Board Secretariat advised us that for 2001–02, departments and agencies show planned spending of \$43.7 billion on grants and contributions, \$27.4 billion of which are grants and contributions made by Human Resources Development Canada (HRDC). The total includes both statutory and voted expenditures (Exhibit 4.1).

**Exhibit 4.1** Planned spending on grants and contributions, 2001–02

(\$ billions)



**4.17** A total of \$16.3 billion in government-wide spending on non-statutory or voted grants and contributions was planned for 2001–02. The departments spending the most are Indian and Northern Affairs Canada, Veterans Affairs Canada, Canadian International Development Agency (CIDA), and Human Resources Development Canada (see Exhibit 4.2 and the Appendix to this chapter).



**Exhibit 4.2** Planned spending on voted grants and contributions, by department and agency, 2001–02

Department or Agency	Spending (\$ millions)	Spending (Percentage)
Indian and Northern Affairs Canada	4,338.2	26.6
Veterans Affairs Canada	1,513.8	9.3
Canadian International Development Agency	1,481.9	9.1
Human Resources Development Canada	1,062.8	6.5
Health Canada	954.6	5.9
Agriculture and Agri-Food Canada	809.4	5.0
<b>Sub total</b>	<b>10,160.7</b>	<b>62.4</b>
Others	6,125.1	37.6
<b>Total</b>	<b>16,285.8</b>	<b>100</b>

Source: 2001–02 Part II—Main Estimates

### Managing grants and contributions—The basics

**4.18 The Board and the Secretariat.** The Treasury Board—a committee of Cabinet ministers—co-ordinates the management of government operations to ensure overall efficiency and to help departments improve their management practices. The Board is assisted by its Secretariat, public servants who develop government-wide standards for good management, provide leadership, and support the exchange of best practices among departments.

**4.19** Under the *Financial Administration Act* (FAA), the Treasury Board has responsibility for establishing management policies, including financial management standards in departments. It has the statutory authority under the FAA to prescribe the way departments manage public money. For grants and contributions, it does this in two ways:

- it sets government-wide policies such as the Policy on Transfer Payments, which applies to grants and contributions; and
- it approves the terms and conditions of each grant and contribution program.

**4.20** Departments and agencies are responsible for delivering programs in accordance with these terms and conditions. The Secretariat is responsible for monitoring whether departments and agencies are complying with the Treasury Board's policies and decisions, such as those on grants and contributions.

**4.21 The departments and agencies.** Departments and agencies play the key role in managing grants and contributions. They must do the following:

- design and implement effective financial and program controls in their transfer payment programs;

- exercise due diligence in selecting and approving recipients of transfer payments and in managing and administering the programs;
- establish efficient and effective accounting and other procedures to ensure that payment requests comply with account verification requirements of the FAA and the Payment Requisitioning Regulations;
- maintain proper records of decisions made and results achieved;
- establish an accountability framework with appropriate measuring and reporting of results achieved with the transferred funds (including program evaluation); and
- ensure that they have the capacity to deliver and administer their transfer payment programs effectively.

**4.22** Departments and agencies must follow Treasury Board policies, and they have the principal responsibility for ensuring that each grant and contribution program is managed well.

**4.23 A revised management stance.** In March 2000, the President of the Treasury Board tabled *Results for Canadians*, a document that sets out a management framework for government. In meeting its responsibilities, the Treasury Board states that it must maintain a balance between delegating decision-making authority to departments and agencies and holding them accountable for results. In *Results for Canadians*, the Treasury Board announced its operating philosophy as one of effective control through instruments that encourage initiative and creativity. This means moving toward a management regime based on leadership and values, well-defined standards, and sound risk management—with the right systems in place to ensure effective control at all times.

**4.24** In this management stance, the Treasury Board has tasked the Secretariat with actively monitoring the status of controls in departments and agencies; it must be prepared to intervene when it encounters deficiencies. According to the Secretariat, a strong system of internal controls is the foundation for a government-wide monitoring framework. In *Results for Canadians*, the Board says departments and agencies have a responsibility to ensure that they have adequate management frameworks to manage resources and achieve results. They must also maintain a robust environment of internal control and be vigilant to detect early any conditions that could lead to a failure of control.

**4.25** In addition, the Secretariat is responsible for monitoring the overall status of controls in departments and agencies. *Results for Canadians* indicates that this monitoring requires the Secretariat to actively and constructively engage internal audit, evaluation, and other departmental and agency managers so it can stay aware of how well their control systems are working. Through active monitoring, the Secretariat tracks the status of a department's controls and the adequacy of its expenditure management framework. *Results for Canadians* suggests that a system of early warning and awareness is critical so the Secretariat can take prompt action when it identifies unacceptable risks or vulnerabilities.

**4.26** The Treasury Board expects departments and agencies to detect control failures and inform the Secretariat. If they detect a potential or an actual control failure, departments and agencies are responsible for early and effective remedial action; and they are to ensure that the Secretariat is aware of the corrective action they propose. *Results for Canadians* says the Treasury Board and the Secretariat must satisfy themselves that the proposed remedies are appropriate and that there is timely follow-through to their completion. Exhibit 4.3 presents the key responsibilities of the Treasury Board and the Treasury Board Secretariat as stated in *Results for Canadians*.

#### Exhibit 4.3 Key responsibilities of the Treasury Board and the Secretariat

- To act as a catalyst for change and to work with departments and agencies to develop integrated, accessible, citizen-focused service across the Government of Canada.
- To champion results-based management, linking resources to results on a whole-of government basis, and ensuring timely and accurate reporting to Parliament.
- To support responsible spending in the government's program base, including actively monitoring control system and compiling information sufficient to assess program performance and program integrity across the government.
- To ensure effective overall control through leadership in the setting of management frameworks and standards, focus on risk management, early attention to control deficiencies, and delegation of authority to departments and agencies commensurate with their capacity to manage resources and report on results.
- To develop and implement with departments and agencies a Government of Canada management agenda focused on practical improvement in areas such as comptrollership, informatics and service delivery.
- To work with departments and agencies in the continual promotion of public service values and the development of an exemplary workplace characterized by support for employee and the encouragement of initiative, trust, openness, communication and a respect for diversity.

Source: Excerpt from *Results for Canadians: A Management Framework for the Government of Canada*

#### Focus of the audit

This chapter includes three interrelated pieces of work.

- **A summary of audits completed in 2001.** This year, we report on audits of voted grant and contribution programs conducted in the Department of Canadian Heritage, Canada Economic Development for Quebec Regions, Atlantic Canada Opportunities Agency, Western Economic Diversification Canada, Agriculture and Agri-Food Canada, Health Canada, Environment Canada, Natural Resources Canada, Citizenship and Immigration Canada, Solicitor General Canada, and the Canadian Institutes of Health Research. We also followed up on previous audits of grant and contribution programs in five departments and agencies, including Human Resources Development Canada.
- **Survey of program staff.** We surveyed managers and officers of several programs we audited this year. We asked about day-to-day operations and other issues, such as training and guidance.

- **Treasury Board and Secretariat roles.** We examined the role of the Treasury Board and the Secretariat in setting the rules for and monitoring departmental management of grants and contributions.

**4.27** Chapter 5 discusses our audits of selected grant and contribution programs in nine departments and agencies and our follow-up work on three audits reported previously. Chapter 6 presents the results of our audit of economic development programs in the Atlantic Canada Opportunities Agency. Chapter 9 discusses our audit of the Population and Public Health Branch of Health Canada. We selected a variety of departments and agencies with relatively large grant and contribution programs so our observations on the management of the programs would be broadly supported. Our work also allowed us to consider the role of the Treasury Board and its Secretariat and to identify the causes of the chronic problems we continue to find in grant and contribution programs.

**4.28** We looked at whether the programs we examined were managed according to the basic rules set by the Treasury Board and Parliament for the proper handling of public money. We used the *Financial Administration Act* (FAA), the Treasury Board's Policy on Transfer Payments, and the terms and conditions of each program as standards to assess the program's management. While the FAA deals with how expenditures in general are to be handled, the transfer payment policy spells out the rules for managing grants and contributions properly and disbursing public funds. The terms and conditions for each program set out the process for assessing requests for funding, monitoring project proposals, approving projects, and making payments. They are tailored to the specific circumstances of the program and its objectives.

**4.29** Insisting on program management according to the rules, however, does not have to mean a system encumbered by red tape. Control over public money should be directly related to a project's significance, including the amount of money and the level of risk involved. More important, perhaps, the government needs to follow the specific rules it has set for itself when handling public money through any grant or contribution program.

## Observations

### Overview of program audits and survey

#### Audits of grants and contribution programs discussed in other chapters

**4.30** We carried out a number of new audits this year and followed up on audits of grant and contribution programs reported in the past; that work is discussed in chapters 5, 6, and 9. We looked for the following elements of control:

- a program designed to achieve results, manage risks, and exercise due diligence in spending public funds;
- program results assessed and reported to Parliament;
- thorough and complete assessment of applications for funding, and proper approval of grants and contributions;

- monitoring of project activities and results as a basis for learning as well as accountability for performance; and
- proper handling of public money.

**4.31** Though the audit results vary from one program to another, most programs have problems in one or more key areas. While we did find many good practices, in our view there is a continuing need to focus on the correctable problems in the programs included in our audit:

- Program design needed attention in most programs, in particular, to clarify the specific results expected from the spending of public money.
- Management had not yet developed risk management strategies to help deliver the programs in a cost-effective way.
- Where they existed, program evaluations were often limited in scope and did not provide a clear picture of whether programs were achieving value for money.
- Many of the programs had not been audited in more than five years.
- Parliament had received only limited information on program performance.
- Decisions to fund projects were often based on partial or perfunctory assessments of project merits.
- Financial control over disbursements needed to improve in some programs.
- Project monitoring practices ranged from satisfactory in some programs to weak in others.

**4.32** We also followed up on previous audits of grant and contribution programs. In 1999 we reported on our audits of grant and contribution programs in the Industry Portfolio. This year we found that the Natural Sciences and Engineering Research Council and the Industrial Research Assistance Program have made satisfactory progress in correcting the problems those audits had found. In 1998 we reported on our audit of the Multiculturalism program at the Department of Canadian Heritage. Last year we reported that the program had shown little progress toward resolving the many problems we had found. This year, however, we are able to report that management has made significant strides forward. We also found that HRDC has made satisfactory progress in addressing the recommendations we made in our 2000 audit.

### Results of our survey

**4.33** We surveyed managers and officers in nine of the programs we audited (see About the Audit for a list of programs included in the survey). We asked them about the day-to-day operation and management of their programs.

- The vast majority of program staff were satisfied that the objectives, project assessment criteria, and eligibility criteria were clear enough to help them decide which projects to fund.
- A large majority agreed, or agreed more or less, that their programs were achieving the results expected of them.

- One in five were not confident or only somewhat confident that funding recipients needed federal money to carry out their projects.
- One in five did not believe they had been properly trained to carry out their responsibilities. In several programs, one in three did not feel adequately trained.
- One in four were not confident that they understood their responsibilities under the *Financial Administration Act*.
- One in four were not confident that they understood their responsibilities under the Treasury Board's Policy on Transfer Payments.
- A large majority were confident that they understood the responsibilities established by the terms and conditions of their programs.
- One in four did not have enough time to analyze project proposals as thoroughly as they believed was necessary. In two programs, the proportion was one in two.
- Two in five did not have enough time to monitor funded projects as thoroughly as they believed was necessary.

**4.34** In our view, these survey results mirror the general results of our audit work. Some areas of program operations appear to be working reasonably well, while others are a concern and still others demand attention. Moreover, in our view it is particularly telling that a significant portion of program officers did not believe they had been properly trained, did not understand certain key responsibilities, or did not feel they had enough time to do their jobs as well as they should. These results help explain the weaknesses in due diligence and monitoring that our program audits found. They also point the way toward the kinds of solutions that will help improve program operations—straightforward actions involving training and program capacity that are well within the ability of departmental managers. As the revised transfer payment policy contains a number of significant changes, it will take time for all program managers and officers to be thoroughly familiar with the policy.

### Role of the Treasury Board and Secretariat

**4.35** We examined what the Treasury Board and the Secretariat were doing to help ensure control over the spending of public money through voted grants and contributions government-wide.

#### A risk-based approach is needed

**4.36** We expected that the Treasury Board Secretariat, on the Board's behalf, would adopt a risk management approach in setting the rules for and monitoring the management of grants and contributions. A risk-based approach would allow the Secretariat to better identify and address both areas that need attention government-wide and individual departments and programs that need more support.

**4.37** In April 2001, the Treasury Board issued its Integrated Risk Management Framework as a general management tool. The framework recommends that departments identify and mitigate areas of high risk. It also states that risk management is a continuous, proactive, and systematic process. Further, the framework recommends developing risk profiles,

establishing the risk management function, applying the concept to make decisions such as setting priorities, and ensuring continuous learning by sharing lessons learned. We found that the Secretariat is in the early stages of applying the framework to the way it deals with grants and contributions. For example, it has not yet developed risk profiles, by department or by type of grant or contribution program. However, Secretariat officials told us that they view grants and contributions as risky, and they treat these programs differently from other government expenditures when reviewing submissions to the Treasury Board.

#### **Clear and complete policy is essential**

**4.38** The Treasury Board approved its revised Policy on Transfer Payments in June 2000. The policy is the control framework overarching the management of grants and contributions. We examined the policy to determine whether it provides for good management control.

**4.39** The revised policy is a significant improvement over the old one and is reasonably clear and comprehensive. The policy sets out the responsibilities of departments, the Treasury Board, and the Treasury Board Secretariat. It provides more direction to departments on prudent cash management practices than the previous policy and puts more emphasis on auditing and evaluating programs. The policy also brings together in one document a number of authorities that had been dispersed throughout the old policy and directives and a previous Treasury Board decision.

**4.40** The revised policy is more comprehensive and has more mandatory elements than the old policy. The most notable mandatory element is the five-year “sunset” provision for grant and contribution programs—they all end in March 2005 or at their expiry date, whichever is earlier. Then departments must get Treasury Board approval to renew or replace the terms and conditions of their programs. The policy also promotes a results-based approach to designing and managing grant and contribution programs. Departments are expected to develop results-based management and accountability frameworks that provide for measuring and reporting results.

#### **Rigorous review of terms and conditions is needed**

**4.41** We examined whether the Secretariat carries out an effective review of the terms and conditions proposed for grant and contribution programs. Departments make submissions to the Treasury Board, asking its approval for the programming they propose. The Secretariat’s program sector analysts with portfolio responsibilities handle all submissions from the departments in their portfolios. Policy advice comes mainly from different parts of the Secretariat’s comptrollership branch, which is responsible for policies governing audit, evaluation, financial management, and transfer payments. Under the Secretariat’s “single window” concept, the program analysts are responsible for ensuring that submissions are complete.

**4.42** The Secretariat needs knowledgeable and experienced program analysts for effective review and challenge of departmental submissions. On average, the program analysts we interviewed had less than two years of



experience in the Secretariat. Two general factors also affect the Secretariat's capacity:

- Substantial corporate memory was lost as a result of Program Review.
- The turnover rate among Secretariat staff is very high.

**4.43** In January 2001, policy centres in the Secretariat began to sign off formally on the adequacy of program terms and conditions proposed by departments. Before that, there was no standardized approach to review and challenge of grant and contribution submissions. While program analysts have a standard set of review questions, they are not required to ensure that the submissions answer them. Secretariat officials informed us that the policy centre addresses these review issues, and evidence suggests that review and challenge have become more consistent over the past year.

**4.44** We asked departmental officials about the Secretariat's capacity and its responsiveness in reviewing their submissions. They told us that they sometimes find it hard to get the feedback they need about programs they have proposed, because of a lack of continuity and experience among analysts. Departmental officials did say, however, that under the revised policy the Secretariat's analysts have reviewed grant and contribution submissions with much more rigour. A number of departments observed that the Secretariat's policy centre for internal audit lacked enough staff to provide the needed guidance and assistance for grant and contribution submissions.

**4.45** We examined 20 Treasury Board decisions on new or revised programming, representing a total of about \$4.3 billion. The size of the programs varied from \$500,000 to \$728 million, and the duration of assistance ranged from a one-time payment to ongoing funding over 15 years. Nine of the programs, totalling \$2.2 billion, involved some form of third-party delivery, which meant that an organization outside the government could decide who would ultimately get the money. Nine of the 20 decisions we examined were made before June 2000, and 11 were made after the revised policy was introduced. Our sample included programs that have made contributions to international organizations, for research and development, as economic incentives to create jobs in Canada, and to strengthen cultural industries.

**4.46** In reviewing the decisions, we looked at whether the terms and conditions were consistent with key elements of control and with the revised transfer payment policy. We also examined the terms and conditions to determine whether they built in reasonable assurance that the funded projects could succeed. For example, we looked for the following control elements that, in our view, the Secretariat should consider in reviewing submissions that propose programs:

- Goals or objectives should be specific enough to guide the development of program controls, such as eligibility criteria, criteria for assessing applications for funding, and reasonable payment terms.
- Risk management needs to be an integral part of program design so that potential control failures are identified up front.



- Eligible recipients should represent the individuals or organizations best able to achieve program goals.
- Eligible expenses should be limited to specific project costs directly associated with, and necessary for, project success.
- Scheduling of payments should be consistent with achieving best value for the Crown.

**4.47** Overall, although there had been a clear improvement since June 2000, we found that many program terms and conditions we examined lacked one or more of these control elements. For example, programs were approved whose objectives were very broad, whose performance criteria were unclear or not focussed on results, whose eligible expenditures had few or no restrictions, or which lacked frameworks for audit and evaluation.

**4.48 Broad objectives.** Objectives of some programs were stated in very broad terms and provided little information on what the spending would achieve. Further, they did not describe more specific results that were expected. Clear objectives and expected results are fundamental to developing risk management strategies, performance measurement, and key controls; they therefore also have an impact on the audit and evaluation frameworks at the core of the transfer payment policy.

**4.49 Broad definition of eligible expenditure.** Some terms and conditions defined a wide range of expenditures as eligible, or used ambiguous language that could include as eligible any and all expenditures incurred by the recipients. Setting a broad range for eligible expenses makes it difficult for departments to restrict recipients to a reasonable level of expenditure and to maximize the resources going to program delivery while minimizing administrative overhead costs.

**4.50 No audit and evaluation frameworks.** The revised transfer payment policy requires departments to include audit and evaluation frameworks in submissions to the Treasury Board for approval of proposed programs. In the period immediately following June 2000, when the Secretariat introduced the revised policy, the Treasury Board approved some submissions that lacked audit and evaluation frameworks on the condition that the departments provide them within a specified period.

**4.51** Despite these weaknesses, we observed general improvements in the terms and conditions that were approved after the revised Policy on Transfer Payments was issued in June 2000. The most significant improvement was in the audit and evaluation frameworks. We noted that the Secretariat worked with departments to ensure that they integrated audits and evaluations in the design of their programs to make them part of the overall monitoring strategy.

**4.52 Exceptions to the policy.** The transfer payment policy requires departments to justify any request to the Treasury Board for authority to make advance payments. They have to demonstrate either that making frequent payments imposes an administrative cost that exceeds the interest the government loses by paying up front, or that spreading payments out would compromise government policy or program objectives. In addition, if the

Treasury Board does approve an exception to the cash management provision, departments must deduct from the transfer payment the amount of interest revenue foregone, unless otherwise approved by the Board.

**4.53** In the sample of decisions we reviewed, there were three cases of authority to make advance payments, totalling \$334 million. In each case, the submission provided little explanation of why the recipients needed funding in advance of need. Two cases involved payments to foundations; the Observations of the Auditor General on the Financial Statements of the Government of Canada for the Year Ended March 31, 2001 raised a number of general issues about the government's use of foundations.

#### Departments need more support

**4.54** We found that the Secretariat has been slow to support departments in their application of the revised Policy on Transfer Payments.

**4.55** The Secretariat released an information bulletin in March 2001 to clarify certain provisions of the June 2000 revised policy. However, by June 2001 it had not yet finalized its planned guide on grants and contributions. After we completed our work, Secretariat officials told us that a draft guide had been distributed to all departments. The Secretariat also advised us that it has provided training and information sessions to departments on request, and it provides other ongoing assistance.

**4.56** Officials in some departments suggested to us that departments do not have an effective method of verifying whether applicants are receiving funds from other federal sources. There is no central database of recipients who receive federal funding. In June 2000, the Standing Committee on Human Resources Development and the Status of Persons with Disabilities asked the Secretariat to look into the possibility of developing this database. The Secretariat told us that it is currently examining the feasibility of doing this under the Government On-Line initiative.

#### Little monitoring of control by departments

**4.57** We found that the Secretariat has little information on departmental operations to assess the integrity and performance of grant and contribution programs. It only recently began to act on its March 2000 commitment in *Results for Canadians* to actively monitor departmental control systems.

**4.58** In February 2000, the Secretariat took an important step in assessing grants and contributions across departments. The Secretary of the Treasury Board issued a call letter to 14 departments asking them to assess their grant and contribution programs and the soundness of their financial and management practices. The departments provided information on the scope of their programs and a "snapshot" of the audit and evaluation work they had under way. The Secretariat did not use the information to develop risk profiles of each department.

**4.59** **The newly issued policy on active monitoring.** The Treasury Board issued its policy on active monitoring in June 2001. The policy calls for the Secretariat to monitor for early signs of control problems in departments. It

places the onus on departments to determine when to notify the Secretariat about management issues that could become “significant concerns.”

**4.60** The policy is not aimed specifically at grant and contribution programs—it applies to all aspects of departmental operations. The Treasury Board approved \$7.5 million for the Secretariat to implement the policy over the next three years. At the end of our audit, the Secretariat had just started to implement it and it was too early for us to assess the impact.

**4.61 Newly revised internal audit and evaluation policies.** A Secretariat study in January 2000 suggested that internal audit and evaluation in departments had eroded significantly as a result of Program Review. The number of internal auditors declined from about 590 in 1995 to fewer than 300 in 1999. At the time of our audit, the Secretariat was allocating \$28 million to departments and small agencies for the next two years. The Board expects that the additional resources will restore internal audit and evaluation capacity in departments and policy capacity in the Secretariat.

**4.62** In April 2001, the Treasury Board issued revised policies on internal audit and evaluation, in line with the revised transfer payment policy. While these measures are significant steps in the right direction, at the time of our audit it was too early to determine whether the revised policies have materially improved the management of grants and contributions. In our view, departments need adequately resourced and well-managed internal audit and evaluation functions if management and the Secretariat are to monitor departmental control systems.

**4.63 Secretariat may not be prepared for grant and contribution workload.** Under the transfer payment policy, existing terms and conditions of all grant and contribution programs will expire no later than March 2005; before that date, departments must seek the Treasury Board’s approval to replace or revise terms and conditions. However, the Secretariat does not yet have an accurate count of programs coming up for renewal each year. It has not identified the resources it will need to review the revised terms and conditions and the supporting program audits and evaluations.

#### Little information on systemic problems

**4.64** We expected that the Treasury Board Secretariat would have a process to identify systemic problems in the management of grant and contribution programs across government, would take appropriate remedial action, and would assess the effectiveness of that action. To do that, it would need a complete and accurate baseline of information on how grant and contribution programs were performing in departments.

**4.65** The Secretariat informed us that it recently started the exercise of identifying and addressing systemic problems in the management of grants and contributions government-wide. It advised us that it has established portfolio teams to monitor horizontal issues, including grants and contributions. As well, it is starting to track the results of departmental audits and evaluations. Nevertheless, it will take some time for the Secretariat to

develop a government-wide view of the management of grants and contributions.

**4.66** We acknowledge that in revising the Policy on Transfer Payments and other related policies, the Secretariat has made significant progress toward improving the management of grants and contributions. Nevertheless, it now needs to turn its attention to identifying systemic problems across departments to ensure that programs meet the objectives of the policy. It has not yet developed specific plans for doing so.

**4.67 Little information on implementation of revised policy across government.** The Secretariat has cited the transfer payment policy as one of five financial management policies that require immediate, ongoing monitoring. When the government announced the revised policy, it said departments would review their regimes for managing transfer payments to ensure that they reflect all aspects of the policy. The Secretariat has not yet followed up with departments to learn the results of their reviews.

**4.68** Nevertheless, departmental officials told us they believe the revised transfer payment policy has had a significant impact on the way they manage grants and contributions; their administrative practices have become much more rigorous. From what we have observed in our program audits, the Secretariat has made good efforts to foster public sector values and awareness of value for money in departments.

## Conclusion and Recommendations

**4.69** There continue to be chronic problems across the government in controlling the spending of public money through grants and contributions. There are several reasons why.

### Revisions to the policy framework will take years to implement

**4.70** The responsibilities of the Treasury Board lie at the centre of ensuring effective control across government over the spending of public money through grants and contributions. The Board sets the overarching policy framework for all grant and contribution programs and it approves the specific terms and conditions of each program.

**4.71** The Treasury Board recently provided departments with a comprehensive and clear policy framework for managing grants and contributions. In particular, the June 2000 revisions to the Policy on Transfer Payments were a significant step forward. That said, however, public money is still being spent under program terms and conditions that may have been approved a decade or more ago. It will take several years to bring all of these terms and conditions up to the standards of the revised policy.

### The Secretariat is not yet supporting the Board and departments adequately

**4.72** Since 2000, the Secretariat has taken several steps to improve its support to the Board in managing grant and contribution programs

government-wide. And, in our view, it is on the right track. However, at the end of our audit the Secretariat was not yet fully meeting its responsibilities for helping to ensure that grant and contribution programs are managed well across the government. So far it has little information on departmental performance or control systems for grant and contribution programs, or on progress in implementing the new policy framework. It has not yet adopted a risk management approach in its own work on grants and contributions, and it has been slow to provide the promised guide on managing these kinds of programs.

### Correctable problems persist at the program level

**4.73** We continue to find significant problems in the management of grants and contributions in departments. And departments have the principal responsibility for ensuring that these programs are managed well. While our audits yielded various results, almost all the programs had one or more significant problems. At the same time, we found many areas where program managers and staff have met the standards set by the government.

**4.74** We surveyed program officers and managers in nine of the programs we audited. A significant proportion of them said they did not feel adequately trained to do their jobs. Many believed they lacked time to assess projects properly before they recommended funding and to monitor the projects that were funded. The survey indicated that management needs to do a much better job of training program staff and making sure they have the means to carry out their responsibilities properly.

**4.75** Despite the recent changes in government policy, three elements remain underdeveloped in practice: results, risks, and the relationship between them. Contributions are designed by their very nature to reduce the costs and therefore the risks to funding recipients as they carry out projects that serve their goals as well as those of the government. Consequently, good management of contributions (and of grants that are used in the same way) has at its foundation a clear expectation of results and a good assessment of associated risks. This is the basis for deciding on the nature and extent of government support for an activity and knowing whether the activity is likely to meet the goals of the program. Although we found aspects of this approach being used in practice, the risk/results relationship is still often absent from program design and operations. Having said that, recent changes to government policy currently being implemented focus rightly on results and risks. Nevertheless, as we have noted, it will take some time for these changes to be implemented government-wide.

### Grants and contributions in context

**4.76** In our view, the weaknesses we have found government-wide and in departments go a long way toward explaining why problems in managing grants and contributions are so persistent. However, another part of the explanation lies in the context surrounding these programs and in other factors that have further weakened the control framework. These factors, together with the chronic problems of grant and contribution programs,

greatly increase the risk of serious control failures such as those we reported in Human Resources Development Canada last year. These matters were fully explored in *Reflections on a Decade of Serving Parliament* (Report of the Auditor General of Canada to the House of Commons, February 2001).

**4.77 Failure to manage for and by results.** Managing for results has yet to gain a firm foothold in the federal government. This is a particularly significant problem for grant and contribution programs, where the government works through recipients of funding to achieve its goals. Clarity about the results expected from payments to recipients is critical to good program design and management.

**4.78 Poor reporting to Parliament on performance.** Given the slow progress in departments toward managing for results, it is no surprise that Parliament is still not informed enough about the results of government programs. This key link in the accountability chain is weak, and Parliament's ability to scrutinize departmental operations is limited.

**4.79 Cutbacks increased the stress level in the public service.** The exodus of top-calibre, experienced employees has left the public service with skill shortages, and a heavier workload for those who remained. In our view, these general factors collided and combined with long-standing problems in grant and contribution programs to create a situation where control failures were more likely. Moreover, resolving the chronic problems depends in part on progress toward resolving these broader matters of good federal public administration.

**4.80 Make the system work the way it is supposed to.** We conducted our audit using the authorities and control framework that the government has set for itself. We have found that in many important ways, the management of grants and contributions government-wide still does not meet these standards of good public administration.

**4.81 Recommendation.** The Treasury Board Secretariat should do the following:

- quickly adopt a risk management approach to its responsibilities for grants and contributions;
- accelerate its efforts to compile enough information on departmental operations to use as a basis for assessing the performance and integrity of grant and contribution programs and taking appropriate action;
- assess before the end of 2003 whether the revised Policy on Transfer Payments is meeting its objectives;
- accelerate its efforts to identify systemic control problems in grant and contribution spending, take appropriate corrective action, and assess the effectiveness of that action;
- accelerate its efforts to provide departments with appropriate direction and guidance on managing grants and contributions;
- review and challenge the terms and conditions of proposed grant and contribution programs to ensure that expected results and anticipated risks and related controls have been thoroughly developed by departments; and

- ensure that departments include in their reports on plans and priorities complete and meaningful results expected of each grant and contribution program over \$5 million, and in their performance reports the actual results of each of these programs.

**4.82 Taking advantage of the next four years.** In introducing the revised Policy on Transfer Payments, the government committed to having all of its grant and contribution programs evaluated and new terms and conditions approved before 31 March 2005. This policy requirement provides an opportunity for the government to determine whether each grant and contribution program is achieving value for money and therefore whether it should continue.

**4.83 Recommendation.** Departments should report the results of their reviews to Parliament program by program. In particular, they should report on whether each program is achieving value for money and should provide the rationale for continuing it.

**4.84 Recommendation.** Departments should ensure, in collaboration with the Treasury Board Secretariat, that program staff are properly trained to carry out their responsibilities under the *Financial Administration Act* and the Policy on Transfer Payments.

**Treasury Board Secretariat's response.** The Treasury Board Secretariat agrees with the recommendations of the Auditor General. The recommendations reflect work already under way within the Secretariat to strengthen the government-wide management of grants and contributions.

The revised Policy on Transfer Payments, released in June 2000, has strengthened the previous management framework and requires departments to review, renew, and evaluate all grant and contribution programs. The requirements of the policy for clear objectives, strong controls, results-based accountability frameworks, and risk-based audit frameworks provide better assurance that programs are diligently managed, measured, and reported. To assist in the implementation of this new policy, a Guide to Grants and Contributions was issued and numerous training and information sessions have been held.

The Secretariat has further strengthened the management framework with four additional policies: the Integrated Risk-Management Framework, the revised Policy on Internal Audit, the Policy on Evaluation, and the Active Monitoring Policy. The Policy on Transfer Payments and its companion Guide integrate key requirements from each of these policies to provide a comprehensive framework for long-term improvement in the management of grants and contributions.

To help fulfil its role as Management Board, the Secretariat has developed a risk assessment for each of its policy instruments and is developing plans to manage and monitor the policies based on these assessments. In some areas, plans have already been implemented. For instance, Secretariat officials review all proposed grant and contribution terms and conditions and work with departments to ensure that each program fully meets the requirements

of the Policy on Transfer Payments. In addition, the results of departmental audits and evaluations are proactively monitored to ensure that departments have implemented effective management control frameworks and to identify systemic problems requiring follow-up. Further, the Secretariat has maintained open communication with departments through an interdepartmental advisory committee to address areas of concern and to ensure consistent application of the Policy on Transfer Payments.

With a comprehensive management framework established, the Secretariat is now developing plans to assess the effectiveness of the policy and any requirement for further improvements that will help departments to continue to move forward on a sustained basis with the sound management of their grant and contribution programs.

**4.85** Chapters 5, 6, and 9 contain a number of recommendations directed specifically at the departments our Office audited.



## About the Audit

### Objectives

Our audit objectives were to determine the following:

- whether the Treasury Board and the Treasury Board Secretariat have ensured effective government-wide control over the spending of public money through voted grants and contributions; and
- the causes of government-wide control problems, if any, and the progress the Board and the Secretariat have made in addressing them.

### Scope and approach

We examined a sample of 20 Treasury Board submissions and decisions from April 1999 to May 2001. We conducted interviews with officials in the Secretariat. We also interviewed officials in departments.

We surveyed managers and officers of nine of the programs we audited:

- Agri-Food Trade Program—Agriculture and Agri-Food Canada
- Support for Official-Language Communities—Department of Canadian Heritage
- Language Instruction for Newcomers—Citizenship and Immigration Canada
- First Nations Policing Program—Solicitor General Canada
- Community Futures Program—Western Economic Diversification Canada
- IDEA-SME Program—Canada Economic Development for Quebec Regions
- Canada Prenatal Nutrition Program—Health Canada
- HIV/AIDS strategy—Health Canada
- Population Health Fund—Health Canada

### Criteria

We expected that the Treasury Board would do the following:

- set complete and clear policy for departments to follow in managing grants and contributions; and
- ensure that the terms and conditions of approved grant and contribution programs provide for effective control.

We expected that the Secretariat would do the following:

- review and challenge the terms and conditions of proposed grant and contribution programs;
- use a risk management approach to its responsibilities for grants and contributions;
- provide appropriate direction and guidance to departments on managing grants and contributions;
- compile sufficient information on departmental operations to assess grant and contribution program performance and integrity, and take action as appropriate;
- identify systemic problems in controlling grant and contribution spending, take appropriate remedial action, and assess the effectiveness of that action; and
- reinforce public sector values and value for money attitudes among departments.

### **Audit team**

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## Appendix Planned government-wide spending on voted grants and contributions, 2001–02

Department/Agency	Spending (\$ millions)	Purpose
Indian and Northern Affairs Canada	4,338.2	Economic development, education and social development, capital facilities and maintenance, administration
Veterans Affairs Canada	1,513.8	Pensions for disability and death, extended health care costs not covered by provincial health programs
Canadian International Development Agency	1,481.9	Development assistance, programs against hunger and malnutrition, humanitarian assistance
Human Resources Development Canada	1,062.8	Training and/or work experience, adults with disabilities, prevention of homelessness, child care initiatives
Health Canada	954.6	Aboriginal health services, provision of health services for young children at risk, health promotion projects, Health Infrastructure Partnership Program, health research, Canadian Strategy on HIV/AIDS
Agriculture and Agri-Food Canada	809.4	Economic development, market access and development
Department of Canadian Heritage	797.2	Promotion of official languages; assistance to book publishing industry, Canadian periodical publishers, and magazine publishing industry; Canadian Television Fund; Aboriginal friendship centres
Industry Canada	703.4	Industry sector development including technological innovation, research and development, job creation
Natural Sciences and Engineering Research Council of Canada	575.5	Support of research and scholarship
Canadian Institutes of Health Research	408.9	Creation and exchange of new health knowledge
National Defence	402.1	Civil emergency preparedness, support to NATO
Department of Foreign Affairs and International Trade	393.4	International security and co-operation, international business development, export market development
Department of Justice	373.2	Youth justice services, legal aid systems, initiatives for safer communities
Citizenship and Immigration Canada	336.5	Integration of newcomers, language instruction, resettlement assistance
Department of Finance	326.0	Multilateral debt reduction
Atlantic Canada Opportunities Agency	277.1	Regional economic development
Canada Economic Development for Quebec Regions	273.4	Infrastructure Program, Regional Strategic Initiative Program, innovation, entrepreneurship
Western Economic Diversification Canada	223.4	Business development, infrastructure works in Western Canada
Transport Canada	203.5	Airport Capital Assistance Program, TransCanada Highway Agreement–Newfoundland, ferry services, grain transportation

Department/Agency	Spending (\$ millions)	Purpose
Social Sciences and Humanities Research Council of Canada	146.9	Support of research and scholarship
National Research Council Canada	133.6	Support for research; developing, adopting and exploring technology; TRIUMF project
Canada Customs and Revenue Agency	110.3	Joint administration costs of federal and provincial sales taxes
Natural Resources Canada	110.2	Hibernia Interest Assistance, support for research and development, Climate Change Action Fund
Fisheries and Oceans	80.6	Increasing Native participation in commercial fisheries, Fisheries Access Program, support to Great Lakes Water Level Emergency Response, research and development
Environment Canada	70.2	Support for Clean Environment initiatives, support for environmental and sustainable development projects, environmental clean-up
Solicitor General Canada	61.8	Policing for First Nations and Inuit communities
Canadian Space Agency	50.0	Space knowledge, applications, and industry development
Other departments and agencies	67.9	
<b>Total</b>	<b>16,285.8</b>	

Source: 2001-02 Part II—Main Estimates