Horizontal Audit of Grants and Contributions

Office of Audit and Evaluation

Final Report

January 2011

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on January 27, 2011

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EXECUTIVE SUMMARY

To help the agriculture sector maximize its long-term profitability and competitiveness, while respecting the environment and the safety and security of Canada's food supply, AAFC contributes $2.6 billion, roughly 75% of total departmental expenditures, through a number of grant and contribution (G&C) programs. The Office of Audit and Evaluation's Three-Year Risk-Based Audit Plan for 2010-13 identified annual horizontal audits of G&C programs as a very high audit priority.

Within the department, Farm Financial Program Branch's Centre of Program Excellence (COPE) is mandated to lead AAFC's G&C program reform. COPE works closely with program managers and staff as a "one-stop-shop" providing G&C related services, including tools, procedures and best practices. COPE also provides technical expertise, training and guidance to encourage and support consistent program administration, delivery and accountability. AAFC launched COPE to respond to the Government of Canada's Action Plan to Reform the Administration of G&C programming and to enable the department to address the new Transfer Payment Policy requirements for G&C programs.

At the time of the audit, there were 39 G&C programs within the department. The department's G&C programs can be grouped into two categories: Business Risk Management (BRM) programs and Non-Business Risk Management (Non-BRM) programs.This audit focused on the departmental management controls in place for Non-BRM programs.

The objective of the audit is to provide assurance regarding the adequacy and effectiveness of management controls over G&C programs. Specifically the audit assessed the effectiveness of:

1. Departmental governance and oversight mechanisms to monitor and report on G&C program performance and the overall implementation of the G&C service transformation initiative
2. Enabling functions in providing appropriate guidance and support to G&C programs
3. Key G&C controls conducted centrally
4. Program specific controls

Although controls and processes are still being developed, Internal Audit Directorate (IAD) found a number of strengths in the department's controls over G&C programs, including:

- The establishment of appropriate governance and oversight mechanisms such as the COPE - Service Transformation Board;
- The establishment of COPE and the existence of other enabling functions (e.g. Finance and Resource Management Services Directorate) within the department that provide G&C programs with effective support, guidance, training and tools;
- The establishment and further refinement of effective key G&C controls conducted by centralized functions; and
- The establishment of program specific controls to assess eligibility of recipients including the use of peer review committees and working groups as well as the

establishment of appropriate segregation of duties.

The audit did, however, identify four recommendations for improvement in the following areas:

- Clarifying and communicating the roles and responsibilities of program managers and the various boards and enabling functions with respect to G&C program delivery and support;
- Ensuring that the ongoing performance of individual G&C programs is monitored and reported on consistently ;
- Distributing consolidated guidance to program managers that includes minimum requirements for key areas of program administration; and
- Providing further support to program managers in their responsibility for ensuring the level of monitoring of recipients and reporting required from recipients is based on an appropriate assessment of risk.

The recommendations in this audit report have been directed primarily to the ADM of FFPB due to that position's lead responsibility for the Centre of Program Excellence. However, while the provision of enhanced central coordination and enabling services is essential, the department's success in achieving its service and program excellence agenda depends not only on oversight from governance boards and support from enabling functions, but primarily on program managers carrying out their responsibilities for program administration.

With this in mind and to help ensure that the audit findings are acted upon by program managers, a fifth audit recommendation is added and directed to program senior management to report to CSTB on how they are ensuring that the areas for improvement noted in this report are being addressed in their branches.

1 INTRODUCTION

1.1 BACKGROUND

The agriculture and agri-food sector generates approximately $130 billion in annual customer sales in Canada, accounting for approximately 8% of the country's Gross Domestic Product. The sector is vital to Canada's overall prosperity and AAFC works to help the sector maximize its long-term profitability and competitiveness, while respecting the environment and the safety and security of Canada's food supply. Part of this assistance consists of AAFC contributing $2.6 billion, roughly 75% of total departmental expenditures, through a number of grant and contribution (G&C) programs.

A G&C payment is a form of transfer payment used to further a department's broad policy objectives and priorities. G&C programs enable a department to engage a wide diversity of skills and resources that are well-placed to effectively achieve a program's intended results.

Treasury Board Secretariat's Policy on Transfer Payments (PTP) provides requirements for the delivery of transfer payment programs within the federal government. The objective of the PTP, which has been in effect since October 1, 2008, is to "ensure that transfer payment programs are managed with integrity, transparency and accountability in a manner that is sensitive to risks; are citizen- and recipient-focused; and are designed and delivered to address government priorities in achieving results for Canadians." The PTP places an emphasis on designing and delivering G&C programs that are citizen and recipient focused through the establishment of service standards and emphasizes the requirement that program controls and processes be commensurate with the level of program and recipient risk.

Within the department, Farm Financial Program Branch's (FFPB) Centre of Program Excellence (COPE) is mandated to lead AAFC's G&C program reform. COPE works closely with program managers and staff as a "one-stop-shop" providing G&C related services, including tools, procedures and best practices. COPE also provides technical expertise, training and guidance to encourage and support consistent program administration, delivery and accountability. AAFC launched COPE to respond to the Government of Canada's Action Plan to Reform the Administration of G&C programming and to enable the department to address the new Transfer Payment Policy requirements for G&C programs.   COPE was formally established in October 2009, and as such, a number of activities being undertaken by COPE to facilitate G&C program reform within the department are still in progress.

At the time of the audit, there were 39 G&C programs within the department. The department's G&C programs can be grouped into the following two categories:

- **Business Risk Management (BRM) programs** (AgriStability, AgriRecovery, AgriInsurance, AgriInvest) are G&C programs that are statutory and/or entitlement based. Grant or contribution amounts are usually determined based on recipient eligibility and established funding formulas.
- **Non-Business Risk Management (Non-BRM) programs** are mainly vote-based, non-entitlement programs which require applicants to apply and receive funds through an application process. The applicant must not only demonstrate eligibility but also that the proposed activities to be undertaken

are aligned with program objectives.

The Office of Audit and Evaluation's Three-Year Risk-Based Audit Plan (RBAP) for 2010-13 identified annual horizontal audits of G&Cs as a very high audit priority. Traditionally, the Internal Audit Directorate (IAD) has focused its attention on and organized its audit engagements around individual G&C programs. While these vertical audits are valuable in and of themselves, a horizontal focus on G&C programs is needed to gain insight into the adequacy, appropriateness and effectiveness of the Department's overall management control framework for G&Cs. The RBAP also provided for the conduct of horizontal G&C audits in subsequent fiscal years.

This Audit focused on the departmental management controls in place for nBRM programs as BRM programs get sufficient audit coverage through individual stand-alone audits identified through risk-based audit planning.

1.2 AUDIT OBJECTIVE

The objective of the audit is to provide assurance regarding the adequacy and effectiveness of management controls. Specifically the audit assessed the effectiveness of:

1. Departmental governance and oversight mechanisms to monitor and report on G&C program performance and the overall implementation of the G&C service transformation initiative
2. Enabling functions in providing appropriate guidance and support to G&C programs
3. Key G&C controls conducted centrally
4. Program specific controls

1.3 AUDIT SCOPE

The audit undertook a horizontal assessment of departmental Non-BRM G&C controls and validated their effectiveness by reviewing a sample of Non-BRM G&C programs and by reviewing areas of the department's management control framework for G&Cs.

To better understand how departmental controls are being implemented at the program level, the following four programs were selected as part of the audit:

- EcoAgriculture Biofuels Capital Initiative (Eco-ABC)
- Agricultural Bioproducts Innovation Program (ABIP)
- Community Development Program (CDP)
- Agri-Marketing

These specific programs, generally assessed as being of lower risk than those programs identified in the RBAP for standalone audit coverage, were selected to obtain representation from different branches and to focus on federally delivered programs.

Specifically, the audit assessed whether programs:

- Have developed appropriate plans, procedures and guidelines to facilitate consistent application;
- Have effective processes in place to assess recipient eligibility, establish funding levels and document justification for their decisions;
- Have effective processes in place to review and analyze both financial and performance-related information provided by the recipients in accordance with the funding agreement;
- Monitor recipient compliance to program terms and conditions and the funding agreement based on recipient and/or project risk.

With respect to transaction testing undertaken for the audit, the audit included a review of transactions conducted between fiscal year 2007-08 to the first quarter of fiscal year 2010-11.

The audit did not include an assessment of the controls in place for BRM programs and the G&C related processes conducted by the Farm Income Programs Directorate. In addition, the audit did not assess a number of processes conducted centrally by AAFC's Finance and Resource Management Services Directorate including Financial Administration Act Section 33 activities. The audit also did not examine whether programs were adequately resourced. These processes and activities will be considered for inclusion in will be considered for inclusion in future horizontal audits of G&C programs.

1.4 AUDIT APPROACH

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the Treasury Board *Policy on Internal Audit*.

The approach for the audit was structured along the audit's four sub-objectives listed above. A listing of the Audit's sub-objectives and corresponding audit criteria are provided in Annex A of this document.

In determining the effectiveness of oversight and governance mechanisms and enabling functions, interviews were conducted with employees of FFPB's Centre of Program Expertise (COPE), Corporate Management Branch (CMB), Strategic Policy Branch (SPB), as well as with selected members of senior management boards.

Documentation review and limited control testing were also undertaken. In determining the effectiveness of key G&C controls conducted centrally, the audit focused on establishing the extent to which controls are appropriately designed and implemented and their overall effectiveness. Key controls tested included:

- Processes and controls in place within the department to establish and track funding agreements with recipients;
- The department's risk-based approach to recipient auditing.

In auditing the sample of G&C programs, the audit team applied the OAE Audit Criteria for AAFC G&C Programs that are considered critical to the successful delivery of a G&C program. For each of the G&C programs selected, interviews, documentation reviews and file reviews were undertaken in order to determine the effectiveness of established controls.

1.5 CONCLUSION

It is the opinion of AAFC's Internal Audit Directorate that:

- While the governance and oversight mechanisms were determined to be adequate, opportunities for improvement were identified including:

    o Clarifying and communicating the roles and responsibilities of program managers and the various boards and enabling functions with respect to G&C program delivery and support; and
    o Ensuring that the ongoing performance of individual G&C programs is monitored and reported on consistently.

- All of the expected elements required to provide appropriate guidance and support to G&C programs were found to be in place or were in the process of being developed at the time of the audit.

- While management is still in the process of refining and making adjustments, the centralized G&C controls reviewed were determined to be effective.

- While controls in place within the specific programs reviewed were adequate, opportunities for improvement were identified which may require the development of additional guidance and attention on the part of COPE and other enabling functions, including:

    o Distributing consolidated guidance to program managers that includes minimum requirements for key areas of program administration; and
    o Providing further support to program managers in their responsibility for ensuring the level of monitoring of recipients and reporting required from recipients is based on an appropriate assessment of risk.

1.6 STATEMENT OF ASSURANCE

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report.

The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the entity examined. The evidence was gathered in compliance with TB policy, directives and standards on internal audit, and the procedures used meet the professional standards of the Institute of Internal Auditors.

Original signed by:

_____   _____

Chief Audit and Evaluation Executive   Date

2 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

This section presents the key observations, based on the evidence and analysis associated with the audit, and provides recommendations for improvement.

Management responses are included and provide:

- an action plan to address each recommendation
- a lead responsible for implementation of the action plan and
- a target date for completion of the implementation of the action plan.

2.1 Effectiveness of Departmental Governance and Oversight Mechanisms

> **Appropriate governance and oversight mechanisms have been established, but opportunities exist for improving these as they continue to mature.**

Within the department, accountability for G&C programs ultimately lies with the Minister through the Deputy Minister (DM) and Assistant Deputy Ministers (ADM) under which programs operate. Through its mandate to facilitate G&C reform within the department, COPE is responsible for providing G&C program managers with the training, tools, guidance and support needed for programs to be compliant with the new requirements of the Policy on Transfer Payments.

To accomplish this business transformation, the department has approved a vision which identifies the end-state for grants and contribution program delivery. The vision, *"be a leader in the design and implementation of citizen-centered, responsive programs and services that contribute to a profitable and sustainable agriculture and agri-food sector"*, is also accompanied by an implementation roadmap which outlines the activities required to make progress towards the vision and the associated timelines. Examples of activities planned to be undertaken by the department in upcoming years or that are currently being undertaken include the roll-out of G&C training, development of guidance material, implementation of departmental service standards and the possible implementation of a departmental information management system for Non-BRM G&C programs.

In terms of oversight, the department has established a new senior management Board specifically responsible for overseeing G&C program transformation and its progress within the department. Called the COPE Service Transformation Board (CSTB), the board is comprised of the Associate DM as Chair and ADMs as members. Two other senior management boards also have G&C program oversight responsibilities. The Horizontal Management Board (HMB) is responsible for overseeing G&C program budgets and expenditures while the Policy, Program and Results Board (PPRB) is responsible for overseeing program development and approval and program results.

While the governance and oversight mechanisms noted above were determined to be adequate, opportunities for improvement were identified through the audit. These opportunities are noted in the sub-sections that follow.

2.1.1 Formalization of Roles, Responsibilities and Accountabilities for G&C Programs

The roles, responsibilities a
various boards and enablin
within the department.

As noted above, a vision for G&C program administration has been approved and several oversight boards are involved with G&C delivery at AAFC. Roles, responsibilities and accountabilities with respect to G&C programs of the various boards are documented within terms of references. However, the achievement of the department's vision and long-term outcomes for G&C program administration will require not only strong oversight, but also a clear understanding among program managers of their role and responsibilities for achieving the vision, as well as of the support available to them from enabling functions.

As the department is currently in the process of developing common G&C practices and standardized approaches and the CSTB and COPE's current focus is on encouraging business transformation through training, communication and the development of practical guides and tools, it was not expected that a fully established G&C policy framework would be in place at the time of the audit. However, IAD would have expected that, at a minimum, the roles and responsibilities of program managers and the various boards and enabling functions would have been consolidated in a single document and broadly communicated within the department.

Without this clarity on roles, responsibilities and accountabilities for G&C program delivery, the provision of training and guidance by COPE may not be sufficient to encourage business transformation and ensure consistent practices across the department's branches responsible for G&C program delivery.

Recommendation 1:

ADM FFPB, in conjunction with other members of the CSTB, should formally communicate within the department the roles and responsibilities of program managers and the various boards and enabling functions with respect to G&C program delivery and support.

Management Response:

Agreed.

> *Action Plan*
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> - DG, COPE will develop a G&C website in collaboration with the Communications and Consultations Branch, and will use this forum to consolidate and provide information within the department on roles and responsibilities with respect to G&C program delivery and support. DG, COPE will also use News@Work as a tool to communicate this information

within the department.

- DG, COPE will work with other branches to clarify the information to be presented or linked on the G&C website, and to address any significant gaps as required.

- DG, SMD will work with Corporate Secretary, DMO, on the release of the terms of reference for the departmental senior management boards.

Lead(s) Responsible: DG, COPE; DG, SMD

Target Date for Completion: June 2011

2.1.2 Oversight of Program Performance

There is no consistent process in place within the department through which the ongoing performance of individual G&C programs is monitored and reported.

Given the importance of program performance information to management decision-making and accountability, IAD expected to find formal, consistent mechanisms in place within the department through which individual G&C programs would report on their performance and results.

However, although the audit determined that there are sufficient oversight mechanisms in place to oversee program financial results (e.g., the department's Horizontal Management Board), and that there are mechanisms to assess program interim and final results (e.g., through evaluation), there is no consistent process in place within the department through which the ongoing performance of individual G&C programs is monitored and reported. This is largely due to the fact that programs are not consistently reviewing performance reports on a timely basis and synthesizing performance information in a manner suitable for senior management.

This gap in periodic program performance monitoring means that a program's progress towards achieving its goals (and its contribution to the achievement of departmental-level objectives) is not widely known at the senior management level until an evaluation is undertaken, which may be too late to undertake corrective actions or contribute to strategic decision-making.

Recommendation 2:

ADM FFPB, in collaboration with the ADM of Corporate Management Branch and the Department's Head of Evaluation, should develop enhanced tools and services to support program managers in their responsibility for monitoring and reporting on program performance. This should also include a process to assess performance measurement practices in the department, with the goal of continuous improvement.

Management Response:

Agreed.

   Action Plan
   - DG, COPE, in collaboration with DG, SMD, and in consultation with other branches, will develop and submit a proposal for consideration by PPRB for the enhancement of monitoring, management and reporting on program performance. This proposal may include the development and delivery of performance measurement training to establish a higher and more consistent standard for program performance measurement and reporting.
   - AAFC's Head of Evaluation will submit to the Departmental Evaluation Committee a report on the state of performance measurement in the department.

   Lead(s) Responsible: DG-COPE; DG, SMD; DG, OAE

   Target Date for Completion: June 2011

2.2 Effectiveness of Enabling Functions in Providing Appropriate Guidance and Support to G&C Programs

> ***All of the expected elements required to provide appropriate guidance and support to G&C programs were found to be in place or were in the process of being developed at the time of the audit.***

Within AAFC there are a number of enabling functions that provide G&C programs with support and guidance. This starts at the point when programs are developing Memoranda to Cabinet (MC) with support from AAFC's Strategic Policy Branch, through an evaluation of a program by AAFC's Evaluation Directorate.

The audit examined practices and processes for the following enabling functions:

- **Strategic Policy Branch:** responsible for assisting programs develop MCs for Cabinet approval.
- **Corporate Attestation and Analysis Division:** responsible for assisting programs develop Treasury Board submissions and accompanying performance measurement strategies.
- **Evaluation Directorate:** responsible for reviewing and providing advice on performance measurement strategies for all new and ongoing direct program spending and undertaking program evaluations.
- **Centre of Program Excellence:** mandated to lead AAFC's G&C (Gs & Cs) program reform.

Overall the audit determined that there are a number of good practices being performed by enabling functions which provide G&C programs with the appropriate processes, tools and information required to effectively develop and deliver G&C programs in accordance with PTP requirements. While timelines associated with MC and TB submissions present

a number of challenges, the audit determined that the department has effective processes in place to assist programs develop appropriate MCs and TB submissions within the timelines provided.

In addition, despite the fact that COPE is a relatively new directorate within AAFC, the directorate has been able to develop and roll-out a number of supporting tools, training modules and guidance documents to programs within a relatively short amount of time. The guidance and training materials reviewed by IAD were found to be consistent with PTP requirements and aligned with the department's business transformation requirements.

While many of the expected elements required to provide appropriate guidance and support to G&C programs were found to be in place, management is currently undertaking the following activities to improve the support provided to programs:

- the development and possible implementation of a Non-BRM G&C information management system to promote consistent G&C program delivery for nBRM programs within the program;
- Activities to improve the quality of performance measurement strategies and to clarify the roles and responsibilities of the supporting parties involved; and
- The continued development and refinement by COPE of common practices, training, tools and guidance materials.

2.3 Effectiveness of Key G&C Controls Conducted by Centralized Functions

Management is making satisfactory progress in refining and adjusting centralized G&C controls.

As a horizontal audit of G&Cs, the audit assessed the effectiveness of key G&C processes and controls that are conducted by a central function. Examples of processes and controls conducted by a centralized function included:

- Funding contribution agreement development and registry;
- FAA Section 33 certification activities[1]; and
- Recipient audit.

The audit concluded that while the key G&C controls conducted by centralized functions reviewed where determined to be effective, there are minor opportunities for improvement which are already being addressed by management.

COPE's Agreement Registry Unit (ARU) has developed template agreements that are aligned with PTP requirements and that enable adjustments based on recipient risk. The template agreements are customized to align with program requirements and terms and conditions through a Tiger Team that is comprised of representatives from the Program,

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[1] FAA section 33 certification activities were not examined within this audit and will be considered for inclusion in future horizontal audits.

COPE, Finance and Legal Services. The ARU, which is also responsible for proactive disclosure, reviews all contribution agreements that are over $25,000 (and thus are disclosed as part of department's proactive disclosure requirements) and that are approved by the Minister. The ARU maintains a database to facilitate tracking of contribution agreements required for Ministerial approval and proactive disclosure. The unit is currently working with the Finance and Resource Management Services Directorate to improve processes and controls in place to better track agreements through the department's financial information management system.

Within the department, COPE's Recipient Audit Unit is the centralized function responsible for policy development, planning, coordination and reporting for recipient audit within the department. While relatively new, the unit has been able to develop a recipient audit policy and an annual risk-based recipient audit plan which is currently being carried out by the unit. To facilitate recipient auditing within the department, programs are required to complete a recipient risk assessment for all contribution agreements over $25,000.

A review of the recipient risk assessment tool currently being used across the department is being undertaken by COPE as the impact and likelihood criteria may not be appropriately calibrated. An analysis of the ranking of all recipient risk assessments conducted by COPE determined that the majority (93%) fell into the low- or medium-low-risk ranking. Only a few recipients were assessed as medium (3%), medium-high (3%), and high-risk (1%). Adjustments to the tool are currently being considered through discussions with G&C program managers and based on lessons learned from the first year's implementation.

2.4 Effectiveness of Program Specific Controls

Overall, the audit concluded that while controls in place within the specific programs reviewed were adequate, opportunities for improvement were identified within a number of the programs which may require the development of additional guidance and attention on the part of COPE and other enabling functions.

2.4.1 Appropriate Plans, Procedures and Guidelines to Facilitate Consistent Application

Although all projects reviewed were determined to be eligible, the majority of programs audited did not have formalized program procedures to facilitate consistent application of the program processes and controls, which resulted in inconsistencies in how these processes and controls were applied and documented.

Documented program procedures help ensure that G&C programs are delivered consistently in accordance with the program terms and conditions. Program procedures are also an effective tool for communicating to program staff their roles and responsibilities with respect to G&C delivery.

The audit found that all four programs had established appropriate segregation of duties. The programs also had well-designed processes to assess eligibility and make funding decisions. Processes in place included the use of external peer review committees, as

well as interdepartmental working groups or internal working groups to facilitate funding decisions.

However, inconsistencies were observed in how programs applied these processes. The audit determined that three of the four programs reviewed had not formally established internal program manuals or procedures to facilitate consistent application of program processes and controls.[2] In addition, while all projects reviewed were determined to be eligible, minor inconsistencies were observed in how funding decisions were made and documented, which might have been prevented by the establishment of a formal program procedures manual. There were four program inconsistencies observed through the review of the file. The first one is a lack of documentation to support a rationale for awarding funds to particular eligible recipients (instead of to other eligible applicants) and a rationale for the level of funds awarded. The second one is a lack of consistent practices with regards to signing-off assessment results by program officers and internal and external review committees. The third one is a lack of evidence on file to document the methodology used to determine the value assigned to in-kind contributions for some agreements reviewed. The final one is the inclusion of non-incremental elements of a recipient's operating budget as "eligible expenses", without documentation to explain how this inclusion is aligned with the program's terms and conditions.

The development of program procedures should help programs to implement eligibility and funding controls on a more consistent basis and ensure appropriate documentation is maintained on file to demonstrate how funding decisions are made.

Recommendation 3:

ADM FFPB, in consultation with other branches, should consolidate and distribute guidance to program managers that includes minimum requirements for assessing and documenting eligibility and funding decisions, requirements for assessing the fair-value of in-kind contributions, as well as other requirements to promote compliance with the PTP and other policies and regulations.

Management Response:

Agree. COPE has already developed and implemented training for program managers. Further, an internal process guide based on AAFC's set of common business processes that were identified through the development of a Common Business Process Framework (CBPF) will be developed. The process guide, and policies and guidelines for the implementation, management, monitoring and reporting on G&C programs will be made available through a website dedicated to G&C program management.

The guide and the Grants and Contributions Delivery System, once implemented, will standardize the way G&C program managers receive, screen, assess, approve applications, document funding decisions and administer contribution agreements across the project lifecycle. These actions, along with the on-going work on the development and

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[2] At the time of the audit one of the three programs was in the process of developing, but had not yet finalized and consolidated, program guidelines and procedures.

publication of service standards for AAFC programs and services will support service improvements for client centered program delivery.

Action Plan

DG, COPE will:

- Develop and launch a Service Excellence and G&C resource website in collaboration with the Communications and Consultations Branch
- Develop and obtain approval for:
    - In-Kind Guidelines
    - Internal process Guide

Lead(s) Responsible: DG, COPE

Target Date for Completion: September 2011

2.4.2   Risk-based Recipient Monitoring and Reporting

> **Further adjustments are needed to ensure that the level of monitoring of recipients and the reporting required from recipients fully reflects an assessment of the risks specific to the program and the risk profile of the recipients.**

The PTP requires that programs develop appropriate processes for recipient monitoring and reporting based on recipient risk.   The foundation currently in place in the department for risk-based recipient monitoring and reporting includes the department's Recipient Risk Management Framework (RRMF) and a departmental risk assessment template which have been developed to provide input into the department's recipient audit plan. While the risk assessment template is appropriate to support recipient <u>audit</u> planning at a departmental level, adopting the template to develop program-specific <u>monitoring and reporting</u> plans for recipients may not be appropriate. In two of the four programs reviewed, all of the recipients were scored as low to medium-low risk under the current risk assessment criteria. While this may be an appropriate assessment of recipient risk for the purposes of recipient audit at a departmental level, through follow-up with some program staff, the audit team was informed that, in some cases, the departmental risk assessment did not provide an appropriate assessment of recipient risk for the purposes of determining recipient monitoring and reporting requirements.

A possible consequence of assigning an inappropriately low level of risk to a recipient or project is that financial claims and/or other reports are not submitted as frequently as may be necessary to demonstrate whether the obligations and objectives set out in the funding agreement are being met and/or to allow managers to assess and report on the progress and performance of the program.

If project cash flow is not reported or monitored frequently enough, there is a risk that recipients will not expend funds in accordance with budget timelines, thereby increasing the risk of a program lapsing funds. The significant lapsing of program funds ultimately diminishes a program's ability to achieve its objectives.

Sound professional judgment on the part of program managers is certainly essential to the selection of appropriate risk management strategies, but there is potential for enhanced tools and training to complement this judgment.

Recommendation 4:

ADM FFPB should consider ways to enhance the recipient risk assessment template or develop other guidance to support program managers in their responsibility for ensuring the level of monitoring of recipients and reporting required from recipients is based on an appropriate assessment of risks.

Management Response:

Agree. The Recipient Risk Management Framework and related tool have only been in place since April 2010. As such, a review process has already been started to examine the experience gained to date. This review will include consulting program managers so as to benefit from their insight and recommendations in the updated framework and tool.

Action Plan

DG, COPE will:
- Update RRMF Tool
- Update Framework and update related training

Lead(s) Responsible: DG, COPE

Target Date for Completion: April 2011

2.5 Responsibilities of Program Management for Addressing Audit Findings

The recommendations in this audit report have been directed primarily to the ADM of FFPB due to that position's lead responsibility for the Centre of Program Excellence. However, while the provision of enhanced central coordination and enabling services is essential, the department's success in achieving its service and program excellence agenda depends not only on oversight from governance boards and support from enabling functions, but primarily on program managers carrying out their responsibilities for program administration.

With this in mind and to help ensure that the audit findings are acted upon by program managers, a fifth audit recommendation is added and directed to program senior management.

Recommendation 5:

All ADMs of branches that manage grant and contribution programs will report to CSTB within nine months of the DM's approval of this audit report on how they are ensuring that

the areas for improvement noted in this report are being addressed in their branches.

Management Response:

The Chair of the CSTB agrees with this recommendation. A discussion on how the audit findings are being addressed and, more broadly, on how the service and program excellence agenda is being supported and implemented by each program branch will take place at CSTB by November 2011.

> *Action Plan*
>
> ADMs responsible for G&C program delivery will:
> * Report on how audit findings are being addressed and how the service and program excellence agenda is being supported
>
> *Lead(s) Responsible:* ADM, FFPB, ADM MISB, ADM AESB, ADM Research, A/Executive Director, Rural and Co-operatives Secretariat
>
> *Target Date for Completion:*   November 2011

Appendix A: Audit Criteria

Criteria	Sub-Criteria
Sub-Objective I: Effectiveness of departmental governance and oversight mechanisms	
1 A clear vision for G&C programs within the department has been developed and communicated to all stakeholders	1.1 The department's vision for G&C programs has been defined and articulated 1.2 The department's vision appropriately considers the requirement for Citizen Focused Services (e.g. service standards), program harmonization and continuous improvement
2 Plans/policies to enable the achievement of departmental objectives/vision are developed and communicated	2.1 An implementation plan has been developed to facilitate G&C transformation including appropriate consideration for training and change management 2.2 Departmental G&C policies to promote consistent development and delivery have been developed which address compliance to FAA, CEAA and the Privacy Act and other policy requirements 2.3 The department produces it's three year plan for G&C programs as required by the Policy on Transfer Payments 2.4 A stakeholder engagement strategy has been developed to involve recipients in creating more streamlined administrative and reporting requirements for G&C programs
3 Accountability for G&C programs within the department is clearly defined	3.1 Accountability for G&C programs in the department is clearly defined and is appropriate to facilitate realization of the Departments vision for G&C programs
4 Appropriate oversight is provided by the department on G&C program delivery and financial and performance results	4.1 The department has effective oversight bodies in relation to program performance, financial results and service delivery and program compliance with PTP requirements 4.2 Complete, accurate and timely financial information is available to senior management for decision-making 4.3 Complete, accurate and timely program performance information is available to senior management for decision-making 4.4 Program evaluations are undertaken as per AAFC's evaluation plan and a program's TB Submission 4.5 Lessons learned from program delivery are accounted for through improvements in the Department's management control framework

Criteria	Sub-Criteria
Sub Objective II: Effectiveness of enabling functions in providing appropriate guidance and support to G&C programs	
5 Appropriate guidance and support with respect to program design, approval and development is provided to G&C programs	5.1 The department has an effective process for developing G&C program MCs 5.2 The department has an effective process for developing G&C program TB Submissions 5.3 The department has an effective process in place for amending program terms and conditions when required
6 Appropriate guidance and support is provided to G&C programs for the development of Performance Measurement Strategies and to identify and mitigate G&C program risks	6.1 An appropriate Performance Measurement Strategy (PMS) template is in place within the department 6.2 Appropriate review structures are in place to ensure programs get the necessary support required for completing a program's performance measurement strategy 6.3 The department has a process in place to facilitate the identification, assessment and mitigation of program risks
7 Appropriate training, tools and templates and information systems is provided to programs to enable programs to effectively deliver G&C programs	7.1 The department has an appropriate training plan in place to provide G&C program managers and staff with the knowledge necessary to effectively manage G&C programs 7.2 G&C programs have access to the tools and templates necessary to effectively manage G&C programs 7.3 G&C programs are provided with effective information management tools to facilitate the delivery, management and reporting of G&C programs
Sub-Objective III: Effectiveness of key G&C controls conducted by centralized functions	
8 Effective processes and controls are in place within the department to establish and track appropriate funding agreements with recipients	8.1 Templates for funding agreements which are consistent with PTP requirements and which considers recipient risk are developed 8.2 Appropriate program funding agreement templates which are consistent with program T&C requirements and which consider recipient risk are developed 8.3 The department has effective processes and controls to track funding agreements established with recipients and amendments 8.4 G&C funding agreements over $25,000 are proactively disclosed on the departments website

Criteria	Sub-Criteria
9 An effective risk-based approach to recipient auditing is in place within the department which considers both recipient and program risk	9.1 The department has an appropriate risk-based audit plan which considers: recipient risk; and opportunities for the coordination of recipient audits between programs and between departments 9.2 The department undertakes recipient audits in accordance with the approved Recipient Audit Plan 9.3 Recipient audit results are communicated to program managers and recipients in order to address findings, overpayments are collected or recorded as debts due to the crown in accordance with policy

Sub-Objective IV: Effectiveness of program specific controls

10 Programs have developed appropriate plans, procedures and guidelines to facilitate consistent application	10.1 Program procedures and guidelines have been developed based on approved terms and conditions and provide program managers and program officers with the information required to operate within program terms and conditions 10.2 Program guidelines address compliance to regulatory requirements such as the FAA, CEAA, the Privacy Act and others 10.3 Programs have developed appropriate business plans including HR plans/analysis and a program communication plan
11 Programs have effective processes in place to assess recipient eligibility, establish funding levels and document justification for their decisions	11.1 Recipients are assessed for eligibility using established criteria which are based on the program's Terms and Conditions 11.2 Funding decisions are made in accordance with program terms and conditions, the recipient's capacity, and the merit of the proposal 11.3 Funding decisions are fair, transparent, free of bias and appropriately documented 11.4 Segregation of duties has been established and respected between those who review and assess eligibility and those who have authority to approve eligibility/funding decisions
12 Programs have effective processes in place to	12.1 Financial reports have been received in accordance with the funding agreement

Criteria	Sub-Criteria
collect, review and analyze financial information provided by the recipient in accordance with the funding agreement	12.2 There is evidence of Financial report review by the program to ensure: 1) recipients are in compliance with their funding agreement 2) funds were used for the purposes intended 3) activities were undertaken in accordance with the terms & conditions of the funding agreement 4) expenditures were eligible as defined within the Terms and Conditions and the funding agreement
	12.3 Certification has been provided by the appropriate delegated authority that the payee is entitled to the payment. (FAA Section 34)
	12.4 Program controls are in place to ensure that the payments made are in accordance with the funding agreement and that total amount paid does not exceed the total funding amount established with the funding agreement
13 Programs have effective processes in place to collect, review and analyze performance related information provided by the recipient in accordance with the funding agreement	13.1 Performance reports have been received in accordance with the funding agreement
	13.2 Performance reports received have been adequately reviewed to ensure information provided is complete, relevant and accurate
	13.3 Timely, accurate, complete and useful information on results of funding agreements is provided at an appropriate level to facilitate the demonstration of program results and/or its evaluation
14 Recipient compliance to Program Terms and Conditions and the funding agreement is monitored based on recipient and/or project risk	14.1 Program policies establish the requirement for recipient monitoring
	14.2 The recipient's performance and compliance has been monitored through activities such as site visits, meetings, briefings, telephone conversations and analysis of submitted reports. Activities performed have been commensurate with the risk level assessed