



Agriculture and
Agri-Food Canada

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Agroalimentaire Canada



Audit of the Slaughter Improvement Program

Office of Audit and Evaluation

Final Report

January 2011

Canada 

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TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
1.0 INTRODUCTION	3
1.1 BACKGROUND	3
1.2 AUDIT OBJECTIVE	4
1.3 AUDIT SCOPE	4
1.4 AUDIT APPROACH.....	4
1.5 CONCLUSION.....	5
1.6 STATEMENT OF ASSURANCE.....	6
2.0 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES.....	7
2.1 GOVERNANCE	7
2.2 RISK MANAGEMENT	8
2.3 CONTROL FRAMEWORK	9
2.3.1 2009-10 EAP Payments	9
2.3.2 Documentation of Assessment Process	11
ANNEX A: AUDIT CRITERIA.....	13

EXECUTIVE SUMMARY

The Slaughter Improvement Program (SIP) was announced by the Government of Canada as part of Budget 2009. The \$50 million in funding (subsequently increased by \$10 million as part of Budget 2010) is to be used to strengthen the competitiveness of Canada's red meat packing and processing sector by providing industry stakeholders with repayable contributions aimed at improving the operations of recipients and at adding slaughter capacity in regions where it is lacking.

A “Program Under Development Audit” of the Slaughter Improvement Program (SIP) was conducted between February and May 2010 in accordance with the 2009-12 Agriculture and Agri-food Canada Risk-Based Audit Plan.

The objective of the audit was to provide assurance that governance, risk management and control frameworks are adequate during the early stages of the SIP program lifecycle to provide a reasonable assurance that funds will be used for the intended purpose and that planned outcomes will be achieved.

Audit criteria were drawn from:

- Grants and Contribution Audit Criteria developed for use by Internal Audit
- Potential risk areas identified by the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG) for EAP programs
- Lines of enquiry developed by the OAG for its planned audit of EAP programs in early 2010 and
- The Treasury Board Secretariat (TBS) Management Accountability Framework (MAF) and associated core controls related to governance, risk management, stewardship, and results and performance.

The Internal Audit Directorate (IAD) found that most of the expected elements of the governance, risk management and control frameworks were in place and working appropriately. For example:

- A framework of defined roles and responsibilities was created to support the consistent application of the SIP terms and conditions
- Formal policies and guidance were developed as required and oversight was provided through the management structure and AAFC's formal committee structure
- Program risks were identified along with planned mitigation actions in the Performance Measurement Strategy
- Recipient risk was identified following departmental procedures and funding agreements were aligned with the identified risk
- Tools were in place to assist potential applicants in assessing eligibility and to apply for funding
- A detailed template aligned with the approved program terms and conditions was used by external experts to assess applications for funding and

- Financial and non-financial reports were prepared regularly to meet departmental and central agency reporting requirements.

IAD identified, however, opportunities for improvement which resulted in the following recommendations:

- Ensure, when any future SIP project funding is approved contingent on meeting specified conditions, that a timeframe is included within which the condition must be met or the conditional approval for funding will be withdrawn.
- Ensure that complete documentation is available on file that clearly supports key decision points throughout the assessment process.

1.0 INTRODUCTION

1.1 BACKGROUND

The Government of Canada announced the Slaughter Improvement Program (SIP) as part of Budget 2009, Canada's Economic Action Plan (EAP). \$50 million is to be made available over the period 2009-10 to 2011-12. A further \$10 million was announced in Budget 2010 in 2010-11 to support the introduction of new, cost-effective technologies.

The Program's objective is to strengthen the competitiveness of Canada's red meat packing and processing sector by providing industry stakeholders with repayable contributions aimed at improving the operations of recipients and at adding slaughter capacity in regions where it is lacking. Linked with its objective, the program also took into consideration the maintenance of critical regional slaughter capacity.

This initiative is directly aligned with the strategic outcome "an innovative agriculture, agri-food and agri-based products sector" in Agriculture and Agri-Food Canada's (AAFC) Program Activity Architecture (PAA).

Under SIP, repayable contributions are provided primarily to federally licensed red meat packing operations to implement business plans aimed at reducing costs, increasing revenues, or otherwise improving operations. Provincially inspected plants seeking to meet federal meat inspection standards so as to market their products beyond their provincial boundaries are also eligible.

Following the announcement of the program as part of Budget 2009, the specific application criteria (e.g. eligible recipients, projects, costs, stacking limits) were developed and the necessary approvals obtained. Details on the program requirements and how to apply were available on the AAFC website by the end of June 2009.

The Finance and Renewal Programs Directorate within the Farm Financial Programs Branch (FFPB) is responsible for coordinating uniform evaluation of proposals, oversight, reporting, and performance measurement. Market and Industry Services (MISB) regional offices are involved in the SIP Internal Review Committee (IRC), providing input on proposals for funding.

Thirty-six applications were received in the first two calls for proposals, i.e. August 21 and October 30, 2009. Additional requests for applications will be issued as long as there are uncommitted funds available. Contributions are capped at \$10 million per recipient over the life of the program.

All proposals for funding received in the two calls for proposal that were complete were sent to an external expert for assessment. More than one examiner was used in those cases where the proposal was complex. Further input on proposals was also obtained from SIP IRC members. Regular participants in the SIP IRC included Directors and

Assistant Directors from MISB, FFPB, Strategic Policy Branch (SPB) and the SIP administration. For all projects that were deemed to be acceptable by the external reviewers, SIP administration prepared the documentation to bring them forward to the Minister for a final funding decision. Recommendations for approval were forwarded to the Minister through the Director General (DG), Assistant Deputy Minister (ADM), and Deputy Minister (DM). The Minister made the final decision on all requests for funding.

A "Program Under Development Audit" of SIP was scheduled to be conducted in 2009-10, in accordance with the 2009-12 AAFC Risk-Based Audit Plan.

1.2 AUDIT OBJECTIVE

The objective of the audit was to provide assurance that governance, risk management and control frameworks are adequate during the early stages of the SIP program lifecycle to provide a reasonable expectation that funds will be used for the intended purpose and that planned outcomes will be achieved.

1.3 AUDIT SCOPE

The audit focused on the activities associated with implementing the program envisaged by the government's announcement in Budget 2009. All project applications submitted to AAFC (i.e. submitted by August 21, 2009 or October 30, 2009) were considered for inclusion in the audit sample.

1.4 AUDIT APPROACH

Planning for the audit was undertaken during the period between February and March 2010. During the planning phase, audit criteria were drawn from:

- Grants and Contribution Audit Criteria developed for use by AAFC's Internal Audit Directorate (IAD);
- Potential risk areas identified by the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG) for EAP programs;
- Lines of enquiry developed by the OAG for its planned audit of EAP programs in early 2010; and
- The Treasury Board Secretariat (TBS) Management Accountability Framework (MAF) and associated core controls related to governance, risk management, stewardship, and results and performance.

The criteria served as the basis for developing the audit approach and detailed audit program for the conduct phase. Audit fieldwork was conducted between April and June 2010.

Audit evidence was collected through interviews, document reviews and a review of a sample of program files. Standard interview guides were used to obtain input from program management and staff on the practices used to manage the program. Key documents reviewed included program approvals, the SIP Performance Measurement

Strategy, the SIP application guide on the AAFC website, applications for funding, internal assessments and recommendations associated with the proposal, project approval documents, draft or signed funding agreements, SIP IRC agendas, and SIP financial and narrative reports. A sample of 20 applications for project funding was selected from amongst all the applications submitted. Standard checklists aligned with the audit criteria were used to assess the extent of compliance for each project selected. Annex A details the audit criteria and sub-criteria employed for each component of the audit objective.

1.5 CONCLUSION

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

- All of the expected elements of the governance structure are in place
- The expected elements of the risk management framework are in place
- Many elements of the expected control framework have been implemented. There are opportunities for improvement, however, including:
 - ensuring, when any future SIP project funding is approved contingent on meeting specified conditions, that a timeframe is included within which the condition must be met or the conditional approval for funding will be withdrawn; and
 - ensuring that complete documentation is available on file to clearly support key decision points throughout the assessment process.

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 Treasury Board 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 Executive

Date

2.0 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 GOVERNANCE

All of the expected elements of the governance structure are in place.

Governance is one of the 10 core elements of the TBS MAF. The governance-related objectives associated with a program (i.e. delivery of an effective program in a manner that is needs based, client focused, transparent and fair) are enabled by the collective suite of management processes and controls which are in place to set strategic direction, operational plans, objectives and priorities and to provide clear direction on how resources should be allocated to achieve these plans. The presence of an oversight body is important to ensure that management's direction, plans and actions are appropriate and responsible.

A framework of defined roles, and responsibilities, and policies and procedures was created to support the consistent application of the SIP approved terms and conditions. A section of the Renewal Division (hereafter referred to as the SIP administration unit), within the Farm Financial Programs Branch, was tasked with the administration of SIP. The SIP administration unit is responsible for general administration, assessment of applications for completeness and basic screening, monitoring of environmental assessment requirements, selection of expert group members, advice to recipients and negotiation of the contribution agreement once the project is approved by the Minister, and agreement reporting and financial monitoring. External industry experts are used to review applications and make recommendations.

A range of formal policies and guidance was developed by the Policy Integration Unit within the Renewal Division as required. The Atlantic Canada Opportunities Agency (ACOA) was consulted from time to time to gain insight based on their experience with repayable contributions. Oversight for the program was provided through the management structure (Director, Director General, Assistant Deputy Minister, and Deputy Minister) and through AAFC's formal committee structure. Regular reports (weekly narrative and financial, monthly EAP, and as part of the monthly Financial Situation Report for FFPB) were produced for review by management responsible for SIP, the Policy, Programs and Results Board (PPRB) and the Minister's Office, as appropriate.

2.2 RISK MANAGEMENT

The expected elements of the risk management framework were found to be in place.

Risk management is one of the 10 core elements of the TBS MAF. In an environment with well-designed controls, management and staff have a solid and up-to-date understanding of the internal and external factors that may expose their strategic and operational objectives to risk. Formal and institutionalized practices are in place to permit the monitoring of the environment for conditions, or changes to conditions, that may result in risk or opportunity. Processes are also in place to permit the assessment of and response to residual risk exposure.

The expected elements of the risk management framework were found to be in place for SIP:

- An iterative process was used by management to identify program risks that could impact on the success of SIP. These risks are documented in the Performance Measurement Strategy (PMS). Six key risks and associated mitigation actions were identified. The risk assessment was reviewed again and potential changes identified in a November 2009 draft.
- Recipient risk was identified using a template developed by the Centre of Program Excellence (COPE). The templates were based on AAFC's non Business Risk Management (BRM) recipient risk management framework for contribution programs. The identified recipient risk information will be used to prepare an annual recipient audit plan.
- Funding agreements were aligned with the identified recipient and initiative risk.
- Projects were assessed to determine if an environmental assessment was required.

2.3 CONTROL FRAMEWORK

Many elements of the expected control framework were found to be in place for SIP. Specifically:

- a self-assessment checklist could be used by potential applicants to determine eligibility for funding;
- a detailed application guide was available on the AAFC website;
- the templates used by the external experts to assess applications for funding were detailed and addressed the requirements described in the approved terms and conditions;
- potential conflicts of interest were considered when assigning external experts to assess specific proposals;
- funding agreements included all of the expected elements;
- financial and non-financial reports were prepared regularly to meet departmental and central agency reporting requirements; and
- two of the three program officers assigned to SIP had experience in delivering transfer payment programs. The team was supplemented with external expert advisors who had experience in the red meat industry and/or commercial lending.

The balance of this section discusses opportunities for improving the control framework.

2.3.1 2009-10 EAP Payments

As of the end of audit field work, almost 60 per cent of the approved funding had conditions attached to its approval that had not been met, resulting in possible delays in realizing SIP's potential economic impact.

As noted in Budget 2009, most EAP initiatives were limited to two or three years and were expected to be up and running quickly to be most effective.

Of the \$50 million initially allocated to SIP, \$12.4 million was available for 2009-10, but only \$7.7 million (62 per cent) was spent in 2009-10. This does not appear to be due to the administrative process, as there were no obvious delays noted by the auditors for the projects included in the audit sample.

A lower than available level of spending in 2009-10 was likely due, at least in part, to the nature of the funded projects. Over 80 percent of the applications were seeking over \$1 million in funding to assist with the acquisition, installation and implementation of new equipment and technologies. Projects of this magnitude typically require many months lead time to complete the required environmental assessment, identify the necessary equipment, arrange for financing and custom build the required components.

The majority of SIP spending is projected for 2010-11, but, of the \$37.4 million in funding approved as of March 31, 2010, \$22.4 million (59.8%) was for three conditionally approved projects. The recommendation to award funding with conditions was made to

provide greater assurance that SIP funding would only be used by applicants with a sound business plan or to ensure certain steps were taken to increase the likelihood of successful implementation of the project. As of the end of audit field work, the conditions associated with these projects had not yet been met. Setting aside these funds did have an impact on what other projects could be approved especially given that initially no timeframe was established within which project proponents had to meet the established conditions or lose the funding. Subsequently, management responsible for SIP set a time limit within which the conditions would have to be met by the recipients or the prospective funding would be allocated to other applicants.

Given that SIP is an EAP program where funds need to flow quickly so that the economic impact can be realized, the locking up of SIP funds through conditional approval of projects is not recommended. If such an approach is considered necessary for SIP projects in the future, a time period within which the conditions must be met or the funding withdrawn should be part of the approval.

Recommendation 1:

The Assistant Deputy Minister, Farm Financial Programs Branch should ensure, when any future SIP project funding is approved contingent on meeting specified conditions, that a timeframe is included within which the conditions must be met or the conditional approval for funding will be withdrawn.

Management Response:

Program Management accepts the recommendation and recognizes the need for specific timeframes for conditionally approved projects to improve accountability and enhance management controls of Program delivery.

Action Plan:

- Specific deadlines have been communicated to clients who have projects that were conditionally approved. They have been notified that conditional approval will be withdrawn if a reply is not received by the deadline.
- Where appropriate, future correspondence with clients will include deadlines for actions or responses.

Lead(s) Responsible: ADM FFPB

Target Date for Completion: Completed

2.3.2 Documentation of Assessment Process

While all funded projects reviewed in the audit sample were determined to be eligible for SIP funding, more documentation could have been maintained on file to more clearly demonstrate how decisions were made at key points throughout the assessment process.

The templates used by the external expert reviewers to assess program applications were well-aligned with the criteria identified in the SIP Applicant's Guide and allowed the reviewers to indicate to what extent each application met the criteria, as well as to express an overall view on whether or not the project should be considered for funding. The result of this assessment process was that the external reviewers recommended more SIP projects than there was available funding. In general in this situation, IAD would expect the program administration to forward for recommendation only those project applications with the highest merit. However, due to the importance of processing applications and providing EAP funds in a timely manner, SIP administration brought forward to the Minister for a final funding decision all projects that were deemed to have met the criteria for funding as they were assessed.

While all funded projects reviewed in the audit sample were determined to be eligible for SIP funding, more documentation could have been maintained on file to more clearly demonstrate how decisions were made at key points throughout the assessment process, including how:

- differing opinions among technical reviewers were considered;
- IRC member reviews were incorporated into the project selection process; and
- decisions were taken on whether or not to ask applicants to resubmit their business plans.

Recommendation 2:

The Assistant Deputy Minister, Farm Financial Programs Branch should ensure that complete documentation is available on file that clearly supports key decision points throughout the assessment process.

Management Response:

While Program Management carried out a thorough evaluation of all projects, it agrees that there could have been more comprehensive documentation to support the funding recommendations.

Action Plan:

- Documentation procedures will be revised to ensure a systematic and comprehensive application of processes to support any future assessments of Program projects.
- Future files will be reviewed to ensure that project selection decisions are fully and consistently documented.

- If further assessments of current projects are required, Renewal Division will communicate to the Internal Review Committee (IRC) its mandate to re-confirm committee members' understanding of the IRC's role and responsibilities.
- A process manual is under development that will clearly list operational procedures, reflecting tasks, roles, responsibilities, and key authorities to enhance Program requirements and ensure monitoring, accuracy and completeness of information.
- For any future assessment of current projects, discussions held by the IRC will be more fully documented and shared for comment.

Lead(s) Responsible: DG-FRPD

Target Date for Completion: February 2011

Annex A: Audit Criteria

Audit Criteria	Audit Sub-Criteria
Governance framework is adequate during the early stages of the program lifecycle to provide reasonable expectation that funds will be used for the intended purpose and that planned outcomes will be achieved.	
Policies, procedures, service standards, and roles and responsibilities are developed and communicated to ensure the program is applied consistently within approved terms and conditions and other relevant policy requirements.	Clear roles and responsibilities (including delegated authorities that are appropriate in terms of segregation of duties, competencies, capacities and risk) that are consistent with departmental practices are communicated formally to all program staff.
The oversight body (or bodies) has a clearly communicated mandate that includes roles with respect to governance, risk management and control.	<p>A documented mandate (in the form of a charter or other documentation) exists and clearly communicates the oversight body's / bodies':</p> <ul style="list-style-type: none"> • Purpose • Composition • frequency of meetings and core agenda items • roles and responsibilities including their roles related to: <ul style="list-style-type: none"> o management and financial reporting o compliance with laws and regulations o oversight of the risk management and internal control frameworks o authority <p>The mandate has been formally communicated to relevant internal and external stakeholders.</p>
The oversight body / bodies request and receive sufficient, complete, timely and accurate information.	<p>There is ongoing and transparent communication between the oversight body/ bodies, management and the Minister.</p> <p>Financial and non-financial information is provided to members of the oversight body / bodies in advance of the scheduled meeting date to permit sufficient time to review and come prepared to meetings, including:</p> <ul style="list-style-type: none"> • Financial statements and other periodic reporting (DPR, RPP etc); • Major program initiatives; • Significant contracts or negotiations.
Risk management framework is adequate during the early stages of the program lifecycle to provide reasonable expectation that funds will be used for the intended purpose and that planned outcomes will be achieved.	

Audit Criteria	Audit Sub-Criteria
Risks to the achievement of program objectives are identified, assessed and mitigated.	Risk mitigation strategies are developed that propose appropriate management control practices (e.g. program audit, recipient audits, reporting and active monitoring requirements.)
A formal risk management process is implemented within the program.	A formal and systematic risk management process is implemented within the program that respects AAFC's common risk management processes, terminology and rating criteria, and that provides for ongoing and formal program and recipient risk assessments.
	A process is implemented to assess recipient risk and to prepare and implement an annual recipient audit plan. Planned recipient audits are coordinated with the Department and, to the extent practical, with other funders.
Funding agreements are aligned with recipient and initiative risk.	Funding agreement reporting requirements are consistent with the expectations of the program's terms and conditions and with the risks associated with the recipient and the initiative.
Appropriate control frameworks to mitigate the assessed risks while allowing timely delivery of EAP programs to eligible recipients have been designed and implemented.	Based on their risk assessment, program management have designed the control framework for SIP to mitigate all significant risks.
	Given the requirement for speed, SIP program management has set out clear risk tolerances.
	Eligibility and selection criteria are aligned with program objectives.
Necessary controls are in place for the EAP to adequately mitigate the assessed risks including compliance with federal environmental assessment requirements.	The design of the control framework complies with federal environmental assessment requirements.

Audit Criteria	Audit Sub-Criteria
Management identifies the risks that may preclude the achievement of its objectives.	The risk identification process is rigorous and considers both internal and external sources of risk, including but not limited to the following factors: <ul style="list-style-type: none"> • supply sources; • technology changes; • business process change or organizational restructuring; • economic conditions; • political conditions; • regulation; • natural events; • human resource changes and capacity; and • dependencies and inter-relationships with other federal entities and parties outside of government.
Management formally responds to its risks.	Action plans are put in place to manage or treat risks that are deemed by management to be unacceptable. Action plans include: <ul style="list-style-type: none"> • specific mitigation measures; • the timeline during which the measures will be applied; and • the owner of each action.
Control framework is adequate during the early stages of the program lifecycle to provide reasonable expectation that funds will be used for the intended purpose and that planned outcomes will be achieved.	
EAP funds delivered to eligible recipients in a timely manner.	Payments to recipients have been made in a timely manner to meet the objectives of the EAP.
	Administrative bottlenecks in AAFC have not delayed the provision of federal stimulus programs.
Project/Initiative Selection	
Funding decisions are fair, transparent, free of bias, and based on program terms and conditions.	The amount of funding provided is either based on an assessment of proposed activities against established criteria or based on an established funding formula and is at the minimum level required to attain the objectives of the program and the results expected from the recipient, taking into account other sources of funding available to the recipient.

Audit Criteria	Audit Sub-Criteria
	<p>The recipient's accountability and management capacity, past performance in meeting commitments and objectives, and overall risk level are considered in determining the funding priority, amount, and support administered.</p> <p>Conflict of Interest Policies are understood by AAFC staff. Appropriate procedures to report possible breaches of independence by colleagues (or favouritism) are understood by AAFC staff and followed.</p> <p>Rationale for awarding a contribution/grant amount is justifiable through supporting documentation.</p> <p>All applications received, considered and evaluated are tracked in a database.</p>
<p>Clear and well-defined eligibility and selection criteria were consistently applied while respecting authorities and key controls.</p>	<p>AAFC expedited the project approval/selection process.</p>
<p>Agreements</p>	
<p>Agreements are meaningful, complete, and consistent with program terms and conditions and Departmental templates and are reflective of overall FAA and TBS requirements and authorities.</p>	<p>Expected statements of requirements, measurable outcomes and results, against which monitoring can be applied, are explicit in the agreement, clear, and derived from the TBS approved program terms and conditions.</p>
<p>Resources/Capacity</p>	
<p>Appropriate resource levels are provided and resources have the necessary capabilities.</p>	<p>A resourcing plan is developed and implemented to respect the level of resources (e.g. full time equivalents, operations) made available while ensuring required competency in applying program authorities and other relevant policy requirements.</p> <p>Program officers are trained in program procedures to ensure consistency in applying program authorities and other relevant policy requirements.</p>
<p>IM/IT systems and other types of supporting tools are leveraged appropriately to ensure consistent, efficient and effective processes and procedures.</p>	<p>An appropriate analysis is conducted to determine how the program can leverage IM/IT systems to ensure efficient and effective processes. Controls are automated to the extent possible.</p>

Audit Criteria	Audit Sub-Criteria
<i>Financial Management/ Results</i>	
Funding commitments do not exceed available program budget/funds	Program Officers are aware of and regularly review their allocated annual program budget. Certification is provided by the responsible officer that sufficient funds are available before the agreement is signed. Commitments are accurately tracked against available budgets to avoid over commitments at the time funding is approved.
Payments made to recipients accurately reflect funding agreements	Initial and ongoing disbursements are valid and accurate and are issued and recorded in a timely manner. Payments/commitments are tracked to ensure they do not exceed total approved funding.
Appropriate and timely financial and non-financial reporting is communicated internally and externally.	A schedule of regular reporting is prepared and communicated in advance. Complete, accurate, relevant and timely financial and non-financial reports are submitted as required.
<i>Performance Measurement</i>	
Program activities and desired outcomes are clearly defined, measurable and attainable.	Program activities are clearly linked to program objectives and Departmental priorities (i.e. activities to outcomes) and specify appropriate expected results (i.e. immediate, intermediate and final outcomes). Key reporting requirements are established to set minimum baseline data/reporting standards to ensure that adequate performance and financial information and outcomes are provided.
Adequate processes are in place to monitor and collect timely, accurate and complete information on progress towards EAP implementation and to take corrective action when necessary.	Processes established to collect the information needed to review and monitor progress reported by EAP recipients delivering select EAP programs. AAFC has controls to monitor and detect potential non-compliance with SIP program terms and conditions.