

Fall 2012



Report of the Auditor General of Canada to the House of Commons

CHAPTER 2

Grant and Contribution Program Reforms



Office of the Auditor General of Canada

OAG

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CHAPTER 2

Grant and Contribution Program Reforms

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance;
- gather the evidence necessary to assess performance against the criteria;
- report both positive and negative findings;
- conclude against the established audit objectives; and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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Grant and Contribution Program Reforms

Main Points

What we examined

The federal government transfers money to individuals and to organizations of various types, including businesses and other governments. In 2010–11, transfer payments totalled \$158 billion. The majority of those payments—\$121 billion—were transferred to other levels of government and individuals through programs with ongoing spending authority. However, a significant portion—\$37 billion—was transferred through grant and contribution agreements. Our audit focused on grant and contribution programs.

Our last audit that focused specifically on grants and contributions was in 2006, after which an independent Blue Ribbon Panel commissioned by the President of the Treasury Board of Canada recommended that the government streamline the administrative and reporting burden on grant and contribution recipients. In May 2008, the government announced an action plan to reform the administration of grant and contribution programs.

In this audit, we examined whether the government has adequately implemented its action plan to date. We focused on the role played by the Treasury Board of Canada Secretariat (the Secretariat) in leading the reforms. We also examined selected activities undertaken in five federal organizations to implement the reforms.

Audit work for this chapter was completed on 17 July 2012. More details on the conduct of the audit are in **About the Audit** at the end of this chapter.

Why it's important

Properly planned and managed, grant and contribution programs provide an efficient means for the government to meet its policy objectives. Grants and contributions enable recipients to carry out activities that contribute to the government's objectives.

In its 2006 report, the independent Blue Ribbon Panel on Grants and Contributions concluded that fundamental change was needed to make the delivery of grants and contributions more efficient. It said that simplifying administration while strengthening accountability was both possible and necessary, and would require sustained leadership.

What we found

- To date, the federal government has adequately implemented the 2008 Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs, which is aimed at increasing efficiencies and reducing the administrative burden on recipients. However, neither the Treasury Board of Canada Secretariat nor the five organizations we examined have assessed the full impact of implementing the Government Action Plan on either their own administrative processes or the administrative burden on the recipients of their programs. Therefore, they cannot determine how much, if at all, their actions have led to streamlined administrative processes within federal organizations or a reduced administrative burden on recipients.
- The Treasury Board of Canada Secretariat actively led the implementation of the Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs. It led efforts to develop and it obtained Treasury Board approval for a new Policy on Transfer Payments. The Secretariat also provided leadership and guidance to federal organizations to make the necessary changes, including coordinating activities across the government.
- The federal organizations we examined have taken action on most of their obligations under the new Policy on Transfer Payments. They have consulted with their applicant and recipient communities in re-designing their grant and contribution programs, and have begun to establish service standards.
- The organizations we examined have conducted risk assessments of their programs and their recipient communities and have assigned a risk rating to each recipient based on the assessments. However, despite the importance of these ratings in determining the controls that should be applied in each case—such as the extent of monitoring and reporting required—the Treasury Board of Canada Secretariat has not provided organizations with adequate guidance to ensure that risk ratings are accurate and remain current.

The Secretariat has responded. The Treasury Board of Canada Secretariat agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

2.1 The Government of Canada affects the lives of Canadians in many different ways every day. The federal government passes laws and regulations, provides services, and levies taxes. It pays salaries to staff in hundreds of communities across the country, and it buys goods and services in every province and territory.

2.2 The federal government also transfers funds directly to governments, external organizations, and individuals. In the 2010–11 fiscal year, the government transferred over \$158 billion to provinces, territories, external organizations, and individuals. Major transfer payment programs with ongoing spending authority, such as the Canada Health Transfer to provinces and Old Age Security to senior citizens, accounted for \$121 billion in 2010–11. Other transfer payments paid through grant and contribution programs accounted for \$37 billion in 2010–11.

Grants—Transfer payments that are subject to pre-established eligibility criteria and other entitlement criteria. Grants are not subject to being accounted for by recipients and are not normally subject to audit.

Contributions—Transfer payments that are subject to the performance conditions specified in the funding agreements. They are to be accounted for and are subject to audit.

Source: Treasury Board of Canada Secretariat

2.3 This audit focuses on the **grant** and **contribution** programs that transfer the \$37 billion to external organizations. These grant and contribution agreements enable the government to transfer funds to organizations that undertake actions consistent with the government's goals. The programs funded by federal grants and contributions range from health research and employment programs to investments in innovation. Organizations that receive government grants or contributions are working with the federal government to fulfill shared objectives.

Previous reporting on grant and contribution programs

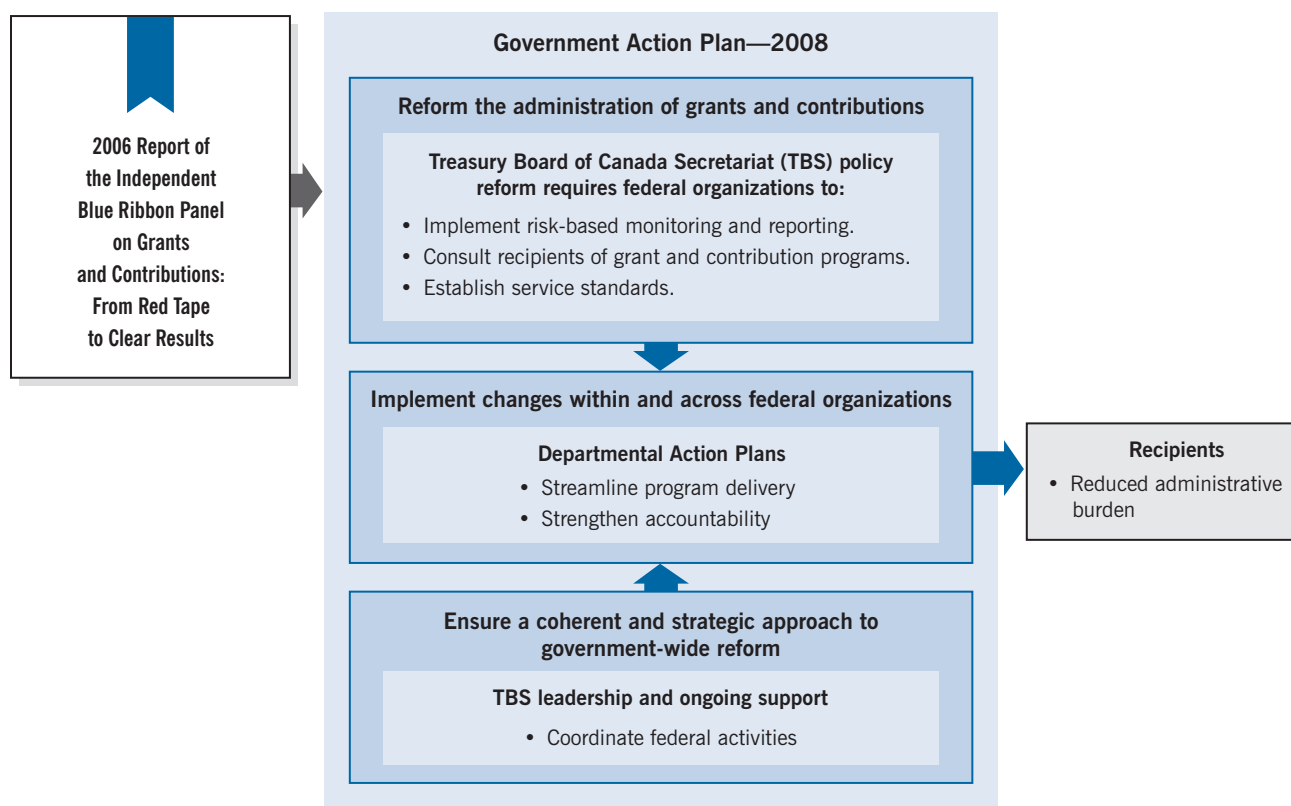
2.4 In 2006, we reported on the federal government's management of grant and contribution programs. We noted that recipients had expressed concern about the heavy financial and administrative burden associated with applying for programs and with meeting the various requirements of these programs.

2.5 Later that year, the President of the Treasury Board commissioned an independent Blue Ribbon Panel on Grant and Contribution Programs "to recommend measures to make the delivery of grant and contribution programs more efficient while ensuring greater accountability." In its report, *From Red Tape to Clear Results*, published in December 2006, the Panel identified that there was unnecessary, unproductive, and needlessly complex reporting requirements that did not serve the interests of either government or recipients. It maintained that contribution programs were overly rigid

and that the government was inclined to impose a one-size-fits-all approach on recipients. The Panel concluded that the federal government needed to make fundamental changes in the way it understood, designed, managed, and reported on its grant and contribution programs. The report contained 32 specific recommendations to be implemented over the short, medium, and long term.

2.6 The federal government responded to the report of the Blue Ribbon Panel in May 2008. In its report, *The Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs*, the government indicated its intention to produce short-term results over the following three years, as well as long-term, lasting reforms that would lead to simpler processes and strengthened accountability. With the action plan, the government committed to reducing the administrative and reporting burden placed on recipients of grants and contributions. Exhibit 2.1 shows the key elements of the Government Action Plan.

Exhibit 2.1 Key elements of the 2008 Government Action Plan



Focus of the audit

2.7 This audit focuses on the implementation of the government's response to the Blue Ribbon Panel's report. Specifically, it assesses the actions of the Treasury Board of Canada Secretariat (the Secretariat) to implement the commitments made in the Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs. It also assesses the specific actions taken by the Secretariat and selected federal organizations to implement their respective obligations under the new Policy on Transfer Payments, which was developed in 2008 as part of the government's commitments in the Government Action Plan.

2.8 This audit examines selected activities related to implementing the 2008 Government Action Plan by the Treasury Board of Canada Secretariat and by the following federal government organizations: the Canadian International Development Agency, Human Resources and Skills Development Canada, Natural Resources Canada, the Public Health Agency of Canada, and Western Economic Diversification Canada. Note that the audit focus is on whether the necessary reforms were implemented and are making a difference; it does not assess whether programs are complying with all administrative, legal, and policy requirements associated with grant and contribution programs. Exhibit 2.2 identifies the federal organizations and programs we examined.

Exhibit 2.2 Federal organizations and programs examined

Federal Organization	Program	Spending in 2011–12 (\$ millions)
Canadian International Development Agency	Tanzania Country Program To support Tanzania's national strategy for stimulating economic growth and reducing poverty, largely through enhancing access to good quality health and education services.	67
Human Resources and Skills Development Canada	Adult Learning, Literacy and Essential Skills Program To reduce non-financial barriers to lifelong learning, and to facilitate the creation of opportunities for Canadians to acquire the essential skills to fully participate in a knowledge-based economy and society.	22
Natural Resources Canada	Investments in Forest Industry Transformation (IFIT) To invest in innovative technologies in support of a more diversified, higher-value product mix in the forest sector.	7
	Non-reactor-based Isotope Supply Contribution Program (NISP) To advance research, development, and demonstration of non-reactor-based isotope technologies for medical use.	20

Exhibit 2.2 Federal organizations and programs examined (continued)

Federal Organization	Program	Spending in 2011–12 (\$ millions)
Public Health Agency of Canada	Canadian HIV Vaccine Initiative (CHVI) To contribute to global efforts to develop a safe and effective HIV vaccine.	2
Western Economic Diversification Canada	Western Diversification Program (WDP) To enhance and strengthen the economy of Western Canada by connecting research with industry's commercialization focus and by improving the business climate in Western Canada.	68

2.9 We interviewed officials in selected federal organizations and collected and analyzed files, reports, and selected funding agreements. More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter. Note that a separate audit on contribution programs appears as Chapter 6 of this report, *Transfer Payments to the Aerospace Sector—Industry Canada*.

Observations and Recommendations

Implementing the Government Action Plan

2.10 The Government of Canada responded to the Blue Ribbon Panel's report with an action plan focused on policy reform, developing and implementing individual departmental action plans, and coordinating the government's grant and contribution program activities across federal organizations. The Treasury Board of Canada Secretariat (the Secretariat) was tasked with leading the federal government's reform efforts. We assessed whether the Secretariat led efforts to make the necessary changes to the Policy on Transfer Payments, supported the development and implementation of departmental action plans, and fostered a coordinated approach across the government to implement the reforms. We also assessed whether the Secretariat and selected federal organizations had determined the internal and external impacts of these reforms.

The Treasury Board of Canada Secretariat actively led the policy reform and supported the implementation of departmental action plans

2.11 Policy reform. As a first step, the government committed to reforming its Policy on Transfer Payments, requiring that the management of transfer payments be done in a manner that is sensitive

to risks. This change focuses accountability where it is most important and has the potential to reduce unnecessary administrative burden. Our audit found that the Treasury Board of Canada Secretariat led efforts to make changes to the Policy on Transfer Payments that increased flexibility for federal organizations to manage their programs based on the level of risk associated with the program, the project, and the capacity of the recipient.

2.12 The new Policy on Transfer Payments was introduced in October 2008. It clarified accountabilities for managing grant and contribution programs by clearly articulating the responsibilities of the Treasury Board, the Treasury Board of Canada Secretariat, and deputy heads of federal organizations. Some provisions were applicable immediately to all federal organizations, while others were to be phased in gradually. All provisions of the policy became applicable to all grant and contribution programs that were approved or renewed as of April 2010.

2.13 The Policy on Transfer Payments requires that the Secretariat establish a framework for reviewing the policy. We found that the Secretariat has met this requirement. It has established a process for reviewing the policy and its supporting directive, monitored its implementation, and updated the policy three times since 2008 to improve clarity. Consistent with its obligation under the policy, it has also developed a process and schedule for conducting a five-year review of the policy to begin by October 2013. We note that the process does not specify how the Secretariat plans to assess the impacts of the policy reforms.

2.14 Preparation of departmental action plans. The Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs called for federal organizations to develop their own action plans that would identify specific steps they would take to streamline and improve their grant and contribution programs. We found that the Secretariat developed an engagement strategy to encourage all federal organizations with grant and contribution programs to participate by 2011. It also encouraged organizations to identify concrete measures to improve service delivery and increase efficiency.

2.15 The Secretariat has developed an online reporting tool to collect data on actions taken by federal organizations in response to these reforms. It reported that, by June 2011, 20 federal organizations had carried out 439 separate reform actions, ranging from small administrative improvements, such as implementing direct deposit for

payments to recipients, to more comprehensive long-term measures, such as furthering interdepartmental collaboration to harmonize programs that serve the same recipients.

2.16 The Government Action Plan set out the government's objectives from June 2008 through June 2011. Recognizing that many of the activities in departmental action plans had not been fully implemented by 2011, the Secretariat committed to continue its efforts through June 2013.

The Treasury Board of Canada Secretariat fostered coordinated activities across federal organizations

2.17 In the Government Action Plan, the Treasury Board of Canada Secretariat is committed to providing leadership and ongoing support to ensure consistent implementation of new, more streamlined approaches to managing and administering grant and contribution programs across the government. To carry out this responsibility, the Secretariat has established a Centre of Expertise on Grants and Contributions (now called the Centre of Expertise on Transfer Payments) that focuses on addressing real or perceived barriers to reform, as well as promoting best practices.

2.18 Supporting interdepartmental committees. We found that the Secretariat has met this commitment through a number of initiatives. It chairs and provides support to various interdepartmental committees, including the following:

- a committee of deputy ministers who provide strategic direction,
- a committee of assistant deputy ministers who guide the implementation of reforms, and
- a committee of directors and directors general who meet monthly to develop tools for and share best practices on the implementation of their grant and contribution program reforms.

These committees are supported by working groups that lead the implementation of specific actions. Through these committees, the Secretariat has facilitated the consistency of grant and contribution programs and standardization of administrative processes.

2.19 Supporting pilot projects. We also found that the Secretariat supported pilot projects for re-structuring grant and contribution agreements. This initiative involved several federal organizations coordinating activities to develop a single comprehensive agreement with recipients that would otherwise have participated in multiple

agreements from different federal organizations. For example, one project involved seven federal departments developing a single funding agreement with a common application form and proposal guide, one contribution agreement, and a single report that met the needs of all seven organizations. As a result, the number of reports required from the recipient community for federal youth programming has been reduced from 126 to 26. Similarly, the number of up-front application and proposal forms has been reduced from 14 to 2.

2.20 Developing new tools and practices. Since 2008, the Secretariat has been working with federal organizations to develop tools and leading practices in several areas related to grant and contribution programs, including the development of guidance documents on service standards, risk management, and audits of recipients. Working with the Canada School of Public Service, the Secretariat participated in the development of a three-day training program for administrators of grant and contribution programs. Secretariat documents indicate that hundreds of public servants have taken this training.

2.21 Monitoring grant and contribution programs. The Secretariat has also monitored whether federal organizations aligned their terms and conditions of programs with the new Policy on Transfer Payments through the Treasury Board submission process for continuing or amending terms and conditions of grant and contribution programs. The Secretariat has recommended corrective actions when appropriate. In addition, the Secretariat regularly monitors certain aspects of the implementation of the policy through the annual Management Accountability Framework process.

The impact of reforms has not been assessed

2.22 The purpose of these reforms was to streamline administrative processes, strengthen accountability, and reduce the administrative and reporting burden on recipients. Recognizing this, we examined whether federal organizations had assessed changes in their own internal administrative processes and the impact of these reforms on recipients.

2.23 Specifically, we sought to determine whether federal organizations assessed their progress in streamlining their internal administrative processes. For example, this could have included tracking the level of effort involved in administering grant and contribution programs or the number of reports that had to be obtained from recipients. We found that none of the organizations we

audited had assessed the administrative impacts of reforms comprehensively, although specific areas of streamlined activities were measured by some organizations. Western Economic Diversification Canada reports that it tracked its costs of conducting recipient audits, reducing them from \$738,000 in the 2008–09 fiscal year to \$34,000 in 2011–12 by focusing audits on high-risk recipients. We also found that the Treasury Board of Canada Secretariat had not provided clear guidance to federal organizations on either the need to assess the impact of these reforms on their internal processes or how this should be done.

2.24 We also assessed whether federal organizations had determined the impact of their reforms on recipients of their programs. This is important because the impact of changes made within federal organizations is not always evident outside the government. Exhibit 2.3 demonstrates how administrative changes do not always achieve their objectives.

Exhibit 2.3 The impact of reduced reporting requirements is not always evident

The University of Victoria sought funding from Western Economic Diversification Canada (WD) for a research project to install a hybrid power system in a marine vessel donated by another organization.

The potential of this research project was considered high. Successful demonstration of this technology may lead to opportunities for a wide range of applications in the marine sector, capitalizing on zero emissions, ultra-low acoustic performance, and clean power supply.

The risks associated with this recipient were assessed as low. The low risk rating is based partly on past performance of this recipient. Over the past 11 years, with funding from WD, the University of Victoria has completed, or has in progress, 57 other projects totalling approximately \$8 million. Each of these projects has been completed or is progressing in a satisfactory manner.

The low rating for the risk assessment of this project meant that WD did less monitoring and less documentation. It reduced the number of invoices and proofs of payment to be submitted by the university, while maintaining the right to obtain these records in the future. While the reporting requirements were reduced, the university has yet to notice a significant reduction in its administrative burden.

2.25 We found that neither the Secretariat nor the other federal organizations we examined had assessed the impact of their actions on recipient organizations. While the Secretariat has gathered some data from federal organizations on their reform efforts, neither the Secretariat nor the federal organizations we examined know whether recipients have seen a reduction in their administrative burden. In fact, the information gathered by the Secretariat led to a conclusion that, despite progress, recipients had not yet felt the impact of reforms

sufficiently. As well, in November 2011, recipient organizations of the Canadian International Development Agency's grant and contribution programs complained about excessive delays in the Agency's decisions on whether or not funding applications were approved. Information on the impacts of these reforms would support the Secretariat in its planned review of the Policy on Transfer Payments.

2.26 Recommendation. The Treasury Board of Canada Secretariat should strengthen its process for gathering government-wide results-based information from federal organizations on the internal administrative impact of their activities in support of the Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs. It should also assess the impact to date on recipients' administrative burden associated with implementing the Government Action Plan. Results of this assessment should be made available publicly and be used in support of preparing the five-year review of the Policy on Transfer Payments.

The Secretariat's response: Agreed. In collaboration with federal organizations, the Secretariat will implement, in 2012 and 2013, a new results-based reporting tool to collect information on the impact, on recipients and departments, of the efforts to reform the administration and delivery of grant and contribution programs. Results of the whole-of-government assessment will be publicly available to coincide with the conclusion of the Secretariat's implementation of the Government Action Plan, and will be considered as part of the five-year review of the Policy on Transfer Payments.

Implementing policy reforms

2.27 The policy reforms established by the Treasury Board of Canada Secretariat through the Policy on Transfer Payments were aimed at ensuring that grant and contribution programs are citizen-focused and managed with integrity, transparency, and accountability in a manner that is sensitive to risks.

2.28 To assess whether the implementation of these policy reforms was leading to the intended changes in the management of government grant and contribution programs, we selected programs from each of the five federal organizations in our audit (see paragraph 2.8) and assessed whether key elements in the policy had been implemented.

2.29 Specifically, we assessed whether the organizations had developed a process to identify the risks associated with the programs, projects, and recipient organizations, whether they had modified their oversight based on risks identified, and whether they had implemented

processes to ensure that the risk ratings were appropriate and current. We also assessed whether the organizations had consulted their client populations and whether they had established service standards.

2.30 We did not assess whether all of the requirements of the Policy on Transfer Payments were implemented in all federal organizations or in all programs within the federal organizations we examined. Nor did we assess whether the management of the programs we looked at complied with all of the legislative and policy requirements for these programs.

Monitoring and reporting requirements are focused on risks, but improvements are needed

2.31 One of the key changes resulting from the new Policy on Transfer Payments is the flexibility it provides to deputy heads to tailor grant and contribution activities to the risks associated with the program, the project, and the recipients. The new policy requires that federal organizations adjust their monitoring and reporting activities to reflect their risk assessments.

2.32 Administered properly, this provision of the policy offers the potential to reduce the administrative burden for both the government and recipients. This approach is consistent with previous recommendations from our Office. Programs with projects that are well understood, and recipient partners that have a long and positive track record working with the government, should benefit from lighter monitoring and reporting requirements.

2.33 We examined departmental processes to assess and rate risks, and to determine the monitoring and reporting requirements associated with those risks. We selected sample files from each organization to confirm whether risk ratings were completed as designed, and whether monitoring and reporting requirements were consistent with the federal organization's program design.

2.34 Monitoring and reporting in relation to risks. According to the Policy on Transfer Payments, all new and continued grant and contribution programs approved after 31 March 2010 had to establish and apply a risk rating for each agreement and ensure that reporting requirements reflected the risk assessment. We found that all five federal organizations we examined had developed criteria for evaluating risks, had created risk scales, and had applied a risk rating for each recipient. Each risk assessment took into account the capacity and track record of the recipient. This process was intended to facilitate a reduction in the number of reports that low-risk recipients

were required to provide. It also meant that low-risk recipients were to be subject to fewer on-site monitoring visits and audits.

2.35 We found that monitoring and reporting requirements were clearly linked to risk assessments in the programs of three of the federal organizations we examined. Conversely, the Public Health Agency of Canada had not used the risk rating to adjust reporting requirements or monitoring activities for some of the funding agreements we looked at in the program we examined. In May 2012, subsequent to our review of its files, the Agency introduced a new tool to link reporting and monitoring requirements based on identified risks. We have not assessed the effectiveness of this tool.

2.36 The Canadian International Development Agency initiated pilot projects to link risk ratings with reporting requirements in fall 2010. At the time of our audit, the Agency had not yet linked its risk assessments of recipients with reporting requirements of the agreements we examined; however, it introduced a tool for doing so in April 2012. We have not assessed the effectiveness of this tool.

2.37 Organizational controls. By focusing administrative efforts where risks are high, the Policy on Transfer Payments is intended to reduce the administrative burden on low-risk recipients while ensuring that there are appropriate controls to ensure that expenditures meet program objectives and conditions. We examined how selected federal organizations maintained adequate controls to manage their programs.

2.38 One of the requirements of the Policy on Transfer Payments is that federal organizations conduct audits and reviews of their programs to ensure that proper controls, monitoring, and performance measurement processes are in place. We found that each of the federal organizations had conducted evaluations and audits of their grant and contribution programs.

2.39 In general, these audits and evaluations found that risk assessments were conducted for both the programs and the recipients and that controls and monitoring were in place. However, they also pointed to the need to improve performance information, so that risk ratings of recipients could be used to focus efforts on recipient audits. These reviews also pointed to the need for federal organizations to track changes in the efficiency of their programs.

2.40 Another requirement of the Policy on Transfer Payments is that federal organizations conduct audits of recipients, commensurate with the levels of risks identified, and that claims information be assessed before payments are issued. We assessed whether appropriate

documentation and audits were conducted for 38 grant and contribution agreements in the programs we examined. We found that the five federal organizations we examined had obtained appropriate documentation and had conducted audits for the 8 agreements where audits were warranted. We also found that the organizations appropriately assessed the documents submitted to them prior to issuing payments.

2.41 Recognizing that the ratings from risk assessments of programs and recipients are central to determining the controls that should be applied, we examined how federal organizations ensure that their risk ratings are accurate. Although not specifically a policy requirement, we examined whether federal organizations reviewed and challenged their original risk assessments.

2.42 We found that all the organizations we examined had some form of review and challenge function of their original risk ratings, although each had different processes and levels of depth in their reviews. We noted that the Secretariat does not provide federal organizations with adequate guidance for developing a review and challenge function to support organizations' risk assessment processes.

2.43 Similarly, while the policy does not require periodic reassessments of multi-year agreements, we examined how federal organizations ensure that risk assessments remain current. This is particularly important for agreements identified as low risk. With their focus on reducing the administrative burden, these agreements are subject to less scrutiny and attention than are other contribution agreements. Such a process could entail, for example, a federal organization periodically reassessing a representative sample of its low-risk recipients and reconfirming the risk ratings assigned. This assessment could inform the federal organization of the extent to which it appropriately applied a low-risk rating. At the same time, it could provide valuable information about how frequently risk ratings should be reassessed due to changes in factors such as the operating environment and stability of external organizations in a given industry or sector.

2.44 We found that the federal organizations we examined each had a process for some form of reassessment of risk ratings for multi-year agreements, although the processes in place were inconsistent and varied in rigour and depth of review. For example, one federal organization reassessed project risk ratings for each agreement every year, another did so only if there were amendments to the agreements, and yet another did so only if the project risks were being reassessed for other reasons.

2.45 We noted that guidance provided by the Secretariat supports reassessments, but does not guide federal organizations on whether and when risk ratings of agreements should be reassessed to ensure that they remain current. Without any specific guidance about the need for an internal challenge and review function for risk assessments, nor the need to have a formalized process for reassessment of risks for multi-year agreements, the ratings assigned to some agreements may be more appropriate than for others. This is important as these ratings affect the organizational controls used to manage grant and contribution programs.

2.46 Recommendation. The Treasury Board of Canada Secretariat should provide guidance to federal organizations on the need for a review and challenge function for initial risk assessments, as well as the need to periodically reassess the risk ratings of multi-year contribution agreements.

The Secretariat's response. Agreed. Deputy heads are responsible for, and have the flexibility to tailor, how they apply risk-based principles in the administration of their grant and contribution programs. As part of the Secretariat's five-year review of the Policy on Transfer Payments in 2013, and its provision of ongoing support to federal organizations on risk management of grants and contributions, the Secretariat will examine opportunities to strengthen its guidance on the need for deputy heads to review and confirm risk assessments throughout the life cycle of grants and contributions.

Federal organizations consult on program changes

2.47 The new Policy on Transfer Payments required federal organizations to engage applicants and recipients in efforts to bring about innovative, cost-effective improvements in grant and contribution programs. The goal of this engagement was to ensure that the programs would be accessible, understandable, and usable.

2.48 We found that all federal organizations we looked at had processes in place for regularly obtaining feedback from applicants and recipients. For example, prior to making significant program changes that would place greater priority on commercialization of technologies, Western Economic Diversification Canada held a series of consultations with interested parties in Western Canada. It held over 80 meetings in all four provinces it serves. At these meetings, the Department explained the rationale for its revised focus and how future budget allocations would work. Participants confirmed that the Department was on the right track and supported the budget allocation proposal.

2.49 Human Resources and Skills Development Canada regularly holds consultations with its stakeholders. For example, in 2011, it consulted with small- and medium-sized employers, industry associations, and others to identify opportunities to improve its ability to promote investment in literacy and essential skills. These consultations included roundtable discussions in large cities, interviews with stakeholders, and follow-up interviews to identify effective “models of practice” for literacy and integration of essential skills. Participants identified the need for better tools, a more user-friendly website, and more marketing and promotion efforts. As a result of these and other consultations, the Department is modifying its web-based tools to make them more user-friendly.

Federal organizations have begun to establish service standards

2.50 Service standards commit the government to provide well-understood and consistent levels of service to applicants and recipients. They state the level of performance that citizens can reasonably expect from federal organizations under normal circumstances. The new Policy on Transfer Payments requires federal organizations to establish service standards for all new and continued grant and contribution programs approved or renewed after 31 March 2010.

2.51 We found that Human Resources and Skills Development Canada and Western Economic Diversification Canada had established service standards. These standards include acknowledgement of application, timelines to provide funding decisions to applicants, and the time it takes to issue payments. Human Resources and Skills Development Canada began tracking its service standards in April 2010, while Western Economic Diversification Canada has been tracking its service standards since January 2007. This information is being used to help managers identify areas to focus increased efforts.

2.52 Other federal organizations are not as advanced in this regard. Natural Resources Canada has developed service standards and is in the process of determining which are most suitable and how best to use them. The Public Health Agency of Canada has developed service standards and is beginning to test them. The Canadian International Development Agency was in the process of determining what would constitute the most appropriate service standards, given the unique and multilateral process it uses for providing aid to recipient countries.

Conclusion

2.53 We concluded that, to date, the federal government has adequately implemented the 2008 Government Action Plan to Reform the Administration of Grant and Contribution Programs. It has fulfilled most of the commitments it made applicable at the time of the audit. It has put in place a new Policy on Transfer Payments that focuses monitoring and reporting requirements on the risks associated with the programs and recipients. Federal organizations have developed action plans and implemented concrete actions from those plans, and they are better coordinating their grant and contribution program activities.

2.54 The Treasury Board of Canada Secretariat (the Secretariat) is meeting the commitments it was assigned in the Policy on Transfer Payments. It has provided leadership and guidance to federal organizations to assist them in their efforts to implement the policy. It has also facilitated the development of new approaches to administer government grant and contribution programs.

2.55 The federal organizations we examined have implemented most of their obligations under the Policy on Transfer Payments. They have also consulted with applicant and recipient organizations in the redesign of their grant and contribution programs and are beginning to establish service standards. All five organizations have assessed the risks associated with their programs' agreements and have taken steps to adjust monitoring and reporting requirements in individual agreements based on these risks. However, the approach to risk assessment is not consistent across the organizations we examined. Those organizations do not have consistent processes in place to ensure that risk assessments are accurate and remain current. The Secretariat has provided little guidance on how and when federal organizations should reassess risk ratings.

2.56 Neither the Secretariat nor other federal organizations we audited have assessed the impact of their actions to date. As a result, they do not know the extent to which their actions have led to increased efficiency in their own programs or reduced the administrative burden for recipients. This information would support the government's planned five-year review of the Policy on Transfer Payments.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The overall objective of the audit was to determine if the government adequately implemented the 2008 Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs.

The sub-objectives were to determine whether

- the government has fulfilled the commitments made in the 2008 Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs;
- the Treasury Board of Canada Secretariat (as central agency) is meeting the policy requirements it was assigned, as articulated in the 2008 Policy on Transfer Payments; and
- selected federal organizations have implemented selected policy requirements in the 2008 Policy on Transfer Payments for selected programs.

Scope and approach

The audit assessed whether the federal government adequately met its commitments to improve the management of grants and contributions in response to the recommendations of the independent Blue Ribbon Panel on Grant and Contribution Programs.

We included the Treasury Board of Canada Secretariat in the audit scope because of its responsibilities for implementing the Government Action Plan in response to the Blue Ribbon Panel, and for guiding and monitoring implementation of the Policy on Transfer Payments.

We selected five federal organizations to assess the implementation of government commitments. We identified these organizations after considering the views of subject matter specialists, past audit coverage, and an analysis of grant and contribution expenditures. The federal organizations are

- Canadian International Development Agency (CIDA),
- Human Resources and Skills Development Canada (HRSDC),
- Natural Resources Canada (NRCAN),
- Public Health Agency of Canada (PHAC), and
- Western Economic Diversification Canada (WD).

Two federal organizations, CIDA and HRSDC, were identified by the Treasury Board of Canada Secretariat as “vanguard” organizations in 2008 at the beginning of the reform process. Vanguard organizations started reforming their grant and contribution programs prior to the new 2008 Policy on Transfer Payments.

Note that the CIDA Bilateral Program, including the Tanzania program that we examined, was renewed only in April 2012 and therefore was not subject to all of the provisions of the Policy on Transfer Payments until April 2012. However, recognizing that CIDA was a vanguard organization and had various pilot initiatives in progress, we assessed the extent to which the program selected was already meeting the requirements of the Policy on Transfer Payments.

We assessed processes and practices followed by these federal organizations to implement their commitments under the Policy on Transfer Payments. We also obtained a sample of 38 grant and contribution agreements from selected programs that collectively possess the following characteristics:

- They include representation of major grant and contribution programs in vanguard organizations—CIDA and HRSDC.
- They represent programs from different sectors: international, social, environment, health, and economic.
- They represent multiple sizes of programs in terms of number of recipients.
- They represent multiple sizes of programs in terms of dollars spent per year.

We collected information through analysis of sample files, reports, and selected funding agreements. We conducted interviews with officials at the Centre of Expertise on Transfer Payment within the Secretariat and within selected entities. We also interviewed entity officials who are responsible for managing the selected programs.

Criteria

Criteria	Sources
To determine whether the government has fulfilled the commitments made in the 2008 Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs, we used the following criteria:	
<p>The government has met the commitments made in the 2008 Action Plan stemming from the Blue Ribbon Panel, specifically by</p> <ul style="list-style-type: none"> • reforming the policies; • establishing departmental action plans and implementing changes to improve service delivery, increase efficiency, and share best practices; and • providing sustained leadership and ongoing support for consistent implementation of new and more streamlined approaches to the administration of grants and contributions. 	<ul style="list-style-type: none"> • The Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs, Treasury Board of Canada Secretariat • From Red Tape to Clear Results, Independent Blue Ribbon Panel on Grant and Contribution Programs

Criteria	Sources
To determine whether the government has fulfilled the commitments made in the 2008 Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs, we used the following criteria: (continued)	
<p>The Treasury Board of Canada Secretariat is meeting the requirements of the 2008 Policy on Transfer Payments for grant and contribution program management, specifically in the following areas:</p> <ul style="list-style-type: none"> • Leadership and support. Promotes and facilitates collaboration among federal organizations for government-wide harmonization of grant and contribution programs, standardization of administration, and sharing of best practices. • Monitoring. Monitors federal organizations' compliance with this policy and its supporting directives, recommending corrective action to be taken in cases of non-compliance. • Review of policy. Establishes a framework to ensure timely review of this policy. 	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • <i>Federal Accountability Act</i>
<p>Federal organizations have implemented selected requirements in the 2008 Policy on Transfer Payments for selected programs, specifically with regard to the</p> <ul style="list-style-type: none"> • risk-based approach, • engagement of applicants and recipients, • service standards, • monitoring of federal organizations, and • control of contribution agreements. 	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board of Canada Secretariat • Guideline on the Directive on Transfer Payments, Treasury Board of Canada Secretariat

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period from October 2011 to May 2012. Audit work for this chapter was completed on 17 July 2012.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Implementing the Government Action Plan</p> <p>2.26 The Treasury Board of Canada Secretariat should strengthen its process for gathering government-wide results-based information from federal organizations on the internal administrative impact of their activities in support of the Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs. It should also assess the impact to date on recipients' administrative burden associated with implementing the Government Action Plan. Results of this assessment should be made available publicly and be used in support of preparing the five-year review of the Policy on Transfer Payments. (2.22–2.25)</p>	<p>Agreed. In collaboration with federal organizations, the Secretariat will implement, in 2012 and 2013, a new results-based reporting tool to collect information on the impact, on recipients and departments, of the efforts to reform the administration and delivery of grant and contribution programs. Results of the whole-of-government assessment will be publicly available to coincide with the conclusion of the Secretariat's implementation of the Government Action Plan, and will be considered as part of the five-year review of the Policy on Transfer Payments.</p>
<p>Implementing policy reforms</p> <p>2.46 The Treasury Board of Canada Secretariat should provide guidance to federal organizations on the need for a review and challenge function for initial risk assessments, as well as the need to periodically reassess the risk ratings of multi-year contribution agreements. (2.27–2.45)</p>	<p>Agreed. Deputy heads are responsible for, and have the flexibility to tailor, how they apply risk-based principles in the administration of their grant and contribution programs. As part of the Secretariat's five-year review of the Policy on Transfer Payments in 2013, and its provision of ongoing support to federal organizations on risk management of grants and contributions, the Secretariat will examine opportunities to strengthen its guidance on the need for deputy heads to review and confirm risk assessments throughout the life cycle of grants and contributions.</p>

