Follow-up to the Commercial Services Cost Recovery and User Charging Audit

November 2004

Environment Canada Environnement Canada

Canada

Report Clearance Steps

Follow-up process initiated	May 2004
Report completed	August 2004
Follow-up report approved by Departmental Audit and Evaluation Committee	November 4, 2004

Acronyms used in the report

ADM	Assistant Deputy Minister
AEB	Audit and Evaluation Branch
AES	Atmospheric and Environmental Services
CAMP	Commercial and Management Practices Branch
CDB	Commercial Development Branch
CEPA	Canadian Environmental Protection Act
CMRD	Corporate Management and Review Directorate
C-Net	Commercialization Network
DAEC	Departmental Audit and Evaluation Committee
DM	Deputy Minister
DPR	Departmental Performance Report
EC	Environment Canada
EMB	Environment Management Board
HRSI	Human Resources and Service Innovation
MAC	Management Administration Committee
MAP	Management, Administration and Policy
MSC	Meteorological Services of Canada
PRAS	Planning, Reporting and Accountability Structure
RPP	Report on Plans and Priorities
TBS	Treasury Board Secretariat
WEP	Weather and Environmental Predictions

New Follow-up Process

As of the May 23, 2003, meeting of the Departmental Audit and Evaluation Committee (DAEC), a new approach to follow-ups is being taken. While the practice in the past had been for the Audit and Evaluation Branch (AEB) to conduct them, it is now the responsibility of the relevant program managers to conduct follow-ups to recommendations and proposed action plan resulting from audits or evaluations of their own programs. The information provided by program managers has been reviewed by AEB and forms the basis of this report.

Context

In Fiscal Year 1998-1999, the Audit and Evaluation Branch was asked by DAEC to conduct an audit of Environment Canada's (EC) commercial and revenue generation activities. As this audit was to be the first one, AEB initiated a planning phase to acquire a better understanding of all related activities.

During the planning phase, the team concluded that it was not possible to undertake a regular audit because the information required to support an audit was not available. The audit team was, however, in a position to make several observations and three recommendations. The first recommendation provided a rather complete picture of the state of affairs at that time:

> …a strengthened departmental management framework needs to be developed. This will involve consulting with Treasury Board to seek greater clarity in their policy, updating the departmental policy, setting out control points, providing guidance, developing tools, and establishing clear roles and accountabilities for implementing and managing commercial services.

The second recommendation dealt with risks associated with external funding i.e., potential impacts of changes in revenues from the sale for example, of Weather and Environmental Prediction (WEP) products. The third recommendation related to the use of the Minister's Authority to Contract (MAC) as this authority was too heavily relied upon for charging fees and the authority was not formally delegated.

It was also recommended that a full audit of EC's commercial services be delayed for two years to allow for in-progress initiatives to be completed. DAEC approved the report on December 15, 1999.

In its management response, at the time, the Management, Administration and Policy (MAP) Table had identified the Commercialization and Management Practices Branch (CAMP) to respond to the recommendations. Among the steps taken by EC to address the policy update recommendation, was the creation of a Commercialization Network. To that end, in 1999 a two-day conference was held to develop a framework and a new policy was produced known as ***Working with Others: Policy on Revenues and Collaborative Arrangements*** that aligned EC's policy with the 1997 Treasury Board Secretariat (TBS) policy. Based on information provided by management, EC's policy was approved by the Environment Management Board (EMB) in 2000. Soon after, the Corporate Management and Review Directorate (CMRD) was reorganized and as a result, CAMP was disbanded in early 2001 and its responsibilities were transferred to the newly created Corporate Development Branch (CDB).

In 2003, TBS released the revised ***External Charging Policy*** that made some sections of the EC policy obsolete as well as added new requirements such as the appointment by Deputy Heads of an Assistant Deputy Minister or equivalent to oversee the implementation of the 2003 policy. This responsibility was given to the Assistant Deputy Minister-Human Resources and Service Innovation (HRSI).

As part of the implementation strategy of the revised Treasury Board's policy, HRSI conducted a workshop with members of the Commercialization Network in November 2003. The objective of this workshop was to assess EC's charging policy in light of the revised TBS Policy.

As for the recommendation regarding the conduct of a full audit in two years, AEB had returned to DAEC on March 6, 2002, recommending to DAEC to defer the audit work as Treasury Board was revising its policy. DAEC approved the recommendation.

Current Status

First Recommendation: Policy
EC has addressed this recommendation and has a policy in place, however, as a result of the new ***User Fees Act (Bill C-212)*** that received Royal Assent on March 31, 2004, the current EC policy has become obsolete and must be reviewed in light of the requirements of the new Act.

Second Recommendation: Risk and Contingency Planning
This recommendation raised concerns with potential adverse impacts on EC's revenues. Currently over 80% of revenues come from three major clients [NavCan, Canadian Coast Guard and Department of National Defence] under negotiated contracts. Even though the 80% may not represent a significant risk to EC, the remaining 20% could be a higher risk. It should be noted, however, the department does not have a good overall picture of how revenue activities are approved, coordinated and associated risks monitored.

Third Recommendation: Minister's Authority to Contract (MAC)
Prior to DAEC asking AEB to conduct this audit, the Auditor General of Canada had conducted a general review of the area of fee setting and had indicated concerns because the process was undermining Parliamentary authority. TBS acknowledged this issue in its response but also indicated that it is appropriate to use MAC in some limited circumstances as long as the process is transparent. The difficulty for EC regarding the use of MAC is that the potential impact resulting from any change in the use of MAC is not known.

Future Actions

Subsequent to the initial report, EC has taken concrete steps to address the recommendations. Most of the efforts, however, have had minimal effect primarily due to changes in government policies and the recent proclamation of the new Act. Based on current information, AEB recommends that:

First: Financial services directorate must review the current commercialization policy taking into account the requirements of the new Act and later revise the policy based on the upcoming revised TBS policy as appropriate.

Second: Since EC does not have a clear overall picture of revenue activities, financial services directorate must undertake an overall analysis of revenues generating activities covering, among other, the following:

- Impact of the new Act and a new policy;
- Associated risk on revenues including potential impacts on human resources;
- The need [or not] to continue to rely on the use of MAC for contracting.

Management Response

Management agrees with the recommendation that the policy on commercialization needs to be reviewed to ascertain its impact on EC's management of its revenue envelope. Although EC does possess a clear picture of its revenues, Finance agrees that an overall risk analysis of revenue generating activities needs to be undertaken. To date, a brief analysis of EC's revenue was done in collaboration with the commercialization network to assess which type of revenue could be impacted by the new User Fees Act and the current TB Policy on External Charging. Even though the revenue activities subject to the new Act represent a small portion of the overall EC revenue portfolio, there is a risk that some of these activities could have a negative cost impact for the department, more so in instances where EC is not meeting the standards of service expected by the client.

In absence of EMC commitment in respect of the involvement of the Procurement Review Board in the management of revenues, a mechanism and process to address revenue issues will have to be brought forward for EMC consideration.

Unfortunately, there is no existing resourcing capacity to address the noted requirements. Further consideration will have to be given to enable this function within the Finance Directorate.

Departmental Audit and Evaluation Committee (DAEC) Decision

The Departmental Audit and Evaluation Committee noted that given EC does not have an up-to-date policy, an interim measure be put in place.