

Spring 2014



Report of the Auditor General of Canada

CHAPTER 6

Transfer Payment Programs—Canadian Northern Economic
Development Agency



Office of the Auditor General of Canada

OAG

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
Distribution Centre
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953

Fax: 613-943-5485

Hearing impaired only TTY: 613-954-8042

Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Her Majesty the Queen in Right of Canada, represented by the Minister of Public Works and Government Services, 2014.

Cat. No. FA1-2014/1-6E-PDF

ISBN 978-1-100-23505-9

ISSN 1701-5413

CHAPTER 6

Transfer Payment Programs— Canadian Northern Economic Development Agency

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.

Table of Contents

Introduction	1
The federal government has committed to promoting northern economic development	1
The Agency delivers programs in a challenging environment	2
Focus of the audit	2
Observations and Recommendations	3
Delivery of contribution agreements	3
The Agency's assessment of project eligibility is adequate for two of three programs	4
The Agency's administration of contribution agreements is weak	6
The Agency uses risk assessments, but has not yet defined appropriate monitoring and reporting requirements	7
The Agency does not adequately monitor compliance with contribution agreements	8
The Agency has not measured or reported on the achievement of program objectives	11
The Agency's management framework	12
The Agency is implementing a management framework for transfer payment programs	13
Establishment of the Agency	14
The Agency has not been able to fill some positions at its Iqaluit headquarters	15
Key corporate functions and senior management positions are in the Ottawa liaison office	16
The Agency's office accommodation framework is incomplete	17
The Agency has started to harmonize economic development programs	18
Conclusion	19
About the Audit	20
Appendix	
List of recommendations	23

Introduction

6.1 While Canada's North has economic potential, there are challenges to realizing northern economic development opportunities. The Northwest Territories, Yukon, and Nunavut are far from other markets. Physical infrastructure such as roads, harbours, and airports is limited, and volatile commodity prices influence non-renewable resource development. Territorial governments, communities, Aboriginal organizations, and the private sector all face human resources and organizational challenges that affect their ability to participate in economic development. Finally, socio-economic conditions—low levels of educational attainment, lack of housing, and limited health and social services—have an impact on residents' ability to participate in the economy.

The federal government has committed to promoting northern economic development

6.2 The federal government views strong, ongoing federal investments in infrastructure, knowledge, and capacity building as a means to address northern challenges and allow the territories to develop economically. The 2008 Speech from the Throne committed to establishing Canada's first stand-alone agency dedicated to northern economic development, a key component under the government's Northern Strategy. In January 2009, the Canadian Northern Economic Development Agency (the Agency) was announced in the federal budget. The Agency was formally created in August 2009. The government announced that its headquarters would be located in Iqaluit.

6.3 The Agency's mandate is to promote economic development in Canada's three territories. It is intended to fulfill the same roles as other federal economic development agencies, including coordination and delivery of federal economic development activities at the regional level, as well as policy, research, and advocacy. Almost three quarters of the Agency's 2013–14 budget of just under \$52 million was allocated to transfer payment programs intended to promote economic development. Three of the Agency's key programs are the Targeted Investment Program (TIP), the Community Economic Development Program (CEDP), and the Northern Adult Basic Education Program (NABEP). Exhibit 6.1 summarizes key information on these programs.

Exhibit 6.1 Key transfer payment programs delivered by the Agency

Program	Funding	Program description	Who can apply for funding	Agreements signed
Targeted Investment Program (TIP) TIP is part of the Strategic Investments in Northern Economic Development (SINED) suite of programs.	\$67 million for the period 2009–10 to 2013–14	TIP provides funding to support investment plans that were developed for each territory with input from stakeholders. Funded projects are to align with investment plans and help organizations develop and take advantage of economic opportunities or support the development of economic infrastructure.	Any entity that has an interest in economic development in the North.	201 contribution agreements were signed between 2009–10 and 2012–13.
Community Economic Development Program (CEDP) CEDP is part of the Aboriginal Economic Development (AED) suite of programs.	\$20 million for the period 2009–10 to 2012–13	CEDP provides core funding for First Nation and Inuit community organizations for economic development activities. Funding is intended to enable recipients to carry out economic development planning, develop proposals, and help lever financial resources.	First Nation councils, governments of self-governing First Nation and Inuit communities, representative organizations of Inuit communities, and other organizations mandated by these organizations to carry out activities and projects on their behalf.	138 contribution agreements were signed between 2009–10 and 2012–13.
Northern Adult Basic Education Program (NABEP)	\$27 million for the period 2011–12 to 2015–16	NABEP is intended to help working-age adult northerners acquire basic education skills needed to participate in the labour market. Funding is provided to territorial colleges to improve their adult basic education services.	Colleges located in the territories, as educational institutions that have the authority to provide accredited adult basic education services.	6 contribution agreements were signed between 2011–12 and 2012–13.

Source: Canadian Northern Economic Development Agency

The Agency delivers programs in a challenging environment

6.4 Since its creation, the Agency has faced a number of challenges related to employee recruitment and retention, and setting up office accommodations. In addition, it inherited a number of economic development programs previously delivered by Aboriginal Affairs and Northern Development Canada. Past departmental evaluations and an audit had identified deficiencies in some of these programs that had not been fully addressed when the transfer occurred. While dealing with these challenges, the Agency also had to develop and deliver new programs to fulfill its mandate.

Focus of the audit

6.5 Our audit examined whether the Canadian Northern Economic Development Agency manages and delivers selected economic development transfer payment programs in accordance with key

requirements of the Policy on Transfer Payments. Three programs were selected for audit: the Targeted Investment Program (TIP), the Community Economic Development Program (CEDP), and the Northern Adult Basic Education Program (NABEP). We examined the agreements the Agency has with recipients of program funds to determine how well agreements are administered. We also examined the management framework used by the Agency to manage its transfer payment programs. Finally, we examined whether the Agency has established the organization and aligned its resources to carry out its overall mandate.

6.6 Audit work for this chapter covers the period from 1 August 2009 to 15 August 2013. More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Delivery of contribution agreements

6.7 Funds that the Canadian Northern Economic Development Agency (the Agency) provides to recipients through its economic development transfer payment programs are intended to promote economic development in Canada's three territories. The government has committed to ensuring that transfer payment programs are delivered and managed fairly and effectively.

6.8 The Treasury Board Policy on Transfer Payments and its Directive and Guideline specify the requirements that departments are to follow in managing transfer payments. As well, payments to recipients must be made in accordance with the *Financial Administration Act*. Among other things, the Agency is required to

- fund only eligible recipients and activities;
- include in its contribution agreements monitoring and reporting requirements that are proportionate to risk;
- monitor reporting requirements and other obligations set out in contribution agreements; and
- collect performance information on individual projects, and use this information to demonstrate and report on whether transfer payment programs are achieving their intended objectives.

6.9 To assess whether the Agency managed and delivered transfer payment programs in accordance with key requirements, we selected a random sample of 25 projects approved for funding under the

Targeted Investment Program (TIP) and a random sample of 11 projects approved for funding under the Community Economic Development Program (CEDP). The samples included projects from all three territories approved over three fiscal years, from 2010–11 to 2012–13. We also examined all six projects approved under the Northern Adult Basic Education Program (NABEP) over the 2011–12 and 2012–13 fiscal years. The funding for these 42 projects ranged from \$15,000 to just under \$3 million.

The Agency's assessment of project eligibility is adequate for two of three programs

6.10 For each economic development program, the Agency specifies eligible recipients, activities, and costs. We examined whether the Agency had conducted sufficient analysis to determine the eligibility of each of the 42 projects in our selection before signing contribution agreements with recipients. We also examined whether Agency officials ensured that the applications included the required information and that Agency assessments were complete.

6.11 We found that the Agency adequately assessed project eligibility in two of the three programs we examined—NABEP and TIP. However, the Agency did not adequately assess project eligibility in CEDP.

6.12 The Northern Adult Basic Education Program. For the six NABEP projects we examined, we found that the Agency received complete applications. In turn, the Agency conducted complete assessments of eligibility before funding these projects.

6.13 The Targeted Investment Program. Of the 25 TIP projects we examined, we found that the Agency's assessment of eligibility was adequate for 23 projects. For the remaining two projects, the eligibility assessments were incomplete.

6.14 For example, for one of these projects, the Agency determined that the project was eligible for funding, but the eligibility assessment did not clearly specify the reason for the decision. The project had previously received government funding in 2007 for a feasibility study, and again in 2009 for the development of a business plan and tender-ready documents for final design and construction. In 2011, officials assessed an application requesting additional funds to take the project forward to the construction phase. Instead, officials approved funding for another study of the project's potential economic benefits. Their assessment did not fully explain why the Agency made this decision nor did it explain the rationale for the amount of funding awarded.

As well, the assessment did not take into account previous funding the recipient had received, including whether the projects had achieved their intended results.

6.15 We found that the Agency collaborated with territorial stakeholders by funding TIP projects consistent with priority areas set out in investment plans for each territory. This collaboration was important because the territorial governments have their own programs to further economic development, and it was recognized that investment should be coordinated.

6.16 The Community Economic Development Program. For CEDP, we found that the Agency adequately assessed project eligibility for only 3 of 11 projects. It did not ensure that applications were complete. As well, officials did not sufficiently document analyses of applications to demonstrate whether recipients, activities, and costs were eligible.

6.17 For example, one application simply stated that funding was for business support for a convenience store, motel, and gas bar without specifying the activities to be carried out or the expected results. The Agency did not ask the applicant to provide the missing information before completing the assessment and funding the project. Because the application was incomplete, the Agency did not have assurance that supporting this project was consistent with the program's objectives or that eligible activities were being funded. We noted another case where the Agency completed an assessment and approved project funding before receiving an application.

6.18 Officials told us that incomplete CEDP applications and assessments could be explained, at least in part, because funding is formula-based—according to populations in communities—and that it provides recipients with funding regardless of economic opportunities. However, the Agency remains responsible for assessing the eligibility of proposed project activities, as set out in the Agency's own guidelines and as required by the Directive on Transfer Payments.

6.19 In summary. Complete assessments of project eligibility are important for all projects to ensure that only projects consistent with the overall objectives of the programs receive funding, and to ensure compliance with the Policy on Transfer Payments. If there are questions surrounding eligibility, the credibility of programs and the Agency may be compromised.

6.20 Recommendation. The Canadian Northern Economic Development Agency should ensure that complete assessments of eligibility for assistance under its economic development programs are

completed and documented as required by the Policy on Transfer Payments. In cases where applications are incomplete, the Agency should work with applicants to ensure that they provide all information required to complete assessments.

The Agency's response. Agreed. The Agency recognizes the importance of conducting thorough project assessments to determine eligibility. It is developing new application forms to assist recipients in providing the required information so that it can better assess projects. New project assessment forms are also being developed for both the Aboriginal Economic Development (AED) Program and the Strategic Investments in Northern Economic Development (SINED) Program. The application forms and the project assessment forms will be implemented by 1 April 2014.

The Agency's administration of contribution agreements is weak

6.21 A contribution agreement constitutes the entire agreement between two parties. It should be signed before the project start date, and before eligible expenses are incurred. Under the Directive on Transfer Payments, a contribution agreement must include a description of the objective of the contribution, the activities being funded, and the results that the recipient is expected to achieve. We examined whether contribution agreements in our selection specified the objective of the project and the activities being funded. As well, we assessed the process the Agency follows to assess and approve applications for assistance.

6.22 We found that 7 of the 42 contribution agreements did not specify the objective of the project or include a work plan that did so. Nor did they describe the activities being funded. Clearly specifying the objective and activities is required in all agreements to ensure that expectations are clear, and so that the Agency can hold the recipients accountable.

6.23 Before an agreement is signed, the application must be assessed by officials who prepare documents recommending funding approval by senior managers and finally by the Minister. For the agreements in our selection, it took, on average, over nine months after an application was received for a contribution agreement to be signed (completing the initial assessment took the longest time). As a result, some of these agreements were signed late in the fiscal year they covered, and some recipients had only a short period of time to spend funds. In our selection of agreements, 23 of 42 were signed in the last quarter—and 13 of these 23 were signed in March. Recipients have told the Agency that they do not consider the turnaround time for

the application process to be appropriate. The Agency has not yet established and communicated service standards to its clients, a requirement under the Policy on Transfer Payments.

6.24 Finally, we found inconsistencies in 38 of 42 contribution agreements we examined, including dates specified for recipient reports to be submitted and payments to be made to recipients in advance of the dates the agreements were signed. We also found contradictory statements in the agreements about the basis on which payments are to be made. These inconsistencies have the potential to reduce the credibility of the Agency and the reputation of its programs.

6.25 Recommendation. The Canadian Northern Economic Development Agency should formally review the processes in place for the review and approval of projects so that decisions on funding to recipients are made in a timely manner.

The Agency's response. Agreed. The Agency is committed to providing efficient and effective service to clients. To further improve and strengthen its administration of contribution agreements, program officers will use the new application and assessment forms to assess applications in a thorough and expedient manner, taking into consideration the needs of clients based in the North. The Agency will develop service standards for project assessments by 1 April 2014 and track performance against these standards.

6.26 Recommendation. The Canadian Northern Economic Development Agency should review its quality assurance processes to ensure that, before contribution agreements are signed, they do not contain inconsistencies.

The Agency's response. Agreed. The Agency is committed to improving its quality assurance process by 1 April 2014 to ensure that it is more robust. The aim of the quality assurance process will be to eliminate any inconsistencies in the contribution agreements and ensure that these agreements contain provisions related to payment schedules and performance measurement tracking.

The Agency uses risk assessments, but has not yet defined appropriate monitoring and reporting requirements

6.27 The Policy on Transfer Payments and its Directive emphasize a risk-based approach to recipient monitoring and reporting. Agency officials are responsible for ensuring that the monitoring and reporting requirements set out in contribution agreements reflect

the level of funding and the risk profile of the recipient and project. We examined whether the Agency had incorporated a risk-based approach to establish monitoring and reporting requirements.

6.28 We found that the Agency started using a risk assessment tool in the 2011–12 fiscal year. The Agency completed both recipient risk assessments and project risk assessments for projects approved in the 2011–12 and 2012–13 fiscal years. The Agency completed analyses to support its recipient risk assessments; however, it did not do so for project risk assessments.

6.29 Risk assessments were not used to specify monitoring and reporting requirements in individual contribution agreements. We observed a range of reporting requirements in agreements for projects with the same risk rating. The Agency has not defined appropriate levels of monitoring and reporting for different risk ratings.

6.30 Recommendation. The Canadian Northern Economic Development Agency should document its recipient and project risk assessments. It should also define appropriate levels of monitoring and reporting to be specified in contribution agreements, proportionate to recipient and project risks.

The Agency's response. Agreed. The Agency will develop and implement better tools to assess recipient and project risks by 1 April 2014. Recipient risk assessments will be used to determine agreement duration, and the levels of financial reporting will be based on agreement amounts. High-risk projects will be subject to increased monitoring by project officers.

The Agency does not adequately monitor compliance with contribution agreements

6.31 As set out in the Policy on Transfer Payments, the Agency is responsible for ensuring that recipients comply with the obligations set out in contribution agreements. This is important so that the Agency knows whether recipients are carrying out activities in accordance with requirements set out in agreements. If monitoring shows that this is not the case, the Agency can then intervene. For all projects, we examined whether the Agency obtained the required reports and reviewed them to monitor compliance. We also examined the project files for evidence of other monitoring activities, such as correspondence, site visits, or phone calls.

6.32 For our selection of 42 projects, we found that the Agency had not received all the recipient reports required under contribution agreements. About 15 percent of the reports due for the 2010–11 and

2011–12 fiscal years had not been received. About 75 percent of the reports due for 2012–13 were outstanding at the end of our audit.

6.33 Of the reports that were received, about 80 percent were late, most by several months. When the Agency does not receive the reports on time, it does not have the information needed to monitor the progress of project activities. While we found that the Agency sometimes sent recipients reminder letters when reports were overdue, overall, we found little documentation in the project files that the Agency contacted recipients at regular intervals to obtain reports or to do other monitoring, such as phone calls or site visits.

6.34 We found little evidence that officials challenged the information included in the reports or asked for more details when information was lacking or was questionable. Our assessment of the reports concluded that about 20 percent of the reports accepted by officials did not include all the information required of recipients in agreements.

6.35 For example, for a CEDP contribution agreement for almost \$600,000, the final report was submitted almost two months late and described all of the organization's activities without specifying which were funded by the Agency. There was no information in the file showing that the Agency reviewed the report or challenged the recipient to demonstrate that Agency funds were spent on eligible activities. The Agency told us it reviewed the audited financial statements provided by the recipient to the Agency after the end of the project. Although the auditor of the financial statements identified in a management letter significant internal control weaknesses in the recipient organization, the Agency did not follow up with the recipient about addressing these weaknesses. The Agency continued to fund the recipient in the following year.

6.36 In another case, a TIP project, we found that officials did not adequately question recipient reports and supporting documentation, such as invoices and receipts. In this project, the Agency provided approximately \$200,000 to a recipient to buy assets as per the budget in the contribution agreement. The budget listed specific amounts for specific assets, including vehicles, office equipment, and camp cook training equipment. We reviewed the project file and recipient reports, and had a number of concerns.

6.37 First, Agency officials did not challenge recipient reports even though our review of these reports found discrepancies. For example, officials did not question receipts provided in one report that did not match the invoice; a receipt for a \$31,000 truck was missing, and there

was an additional receipt for a \$7,000 truck not included on the invoice (the Agency was able to obtain the missing receipt at the end of our audit and the recipient was not reimbursed for the \$7,000 truck).

6.38 Second, officials did not challenge the differences between the amounts originally budgeted for each category of specific assets and the amounts actually spent in each category (the agreement specified that the recipient had to obtain written approval for any changes in spending by category). For example, about \$8,000 was budgeted for camp cook training equipment, but the actual expenditures were almost \$25,000 according to the audited financial statements provided to the Agency after the end of the project. While obtaining financial statements is important, the Agency is also required to monitor projects as they are being implemented to resolve issues as they arise.

6.39 We also observed a lack of monitoring for NABEP projects. Under the program, adult basic education is defined as education-related activities that assist adults in achieving sufficient levels of literacy, numeracy, and other essential skills required to obtain employment or access vocational training. The program does not allow for support for vocational training or post-secondary education.

6.40 However, recipient reports referenced courses for subjects such as outdoor power equipment technician training, as well as courses given by community elders on subjects such as traditional clothes and traditional culture. We did not see evidence that officials challenged recipients regarding the eligibility of these courses or questioned how the courses would improve literacy and numeracy.

6.41 In many contribution agreements we examined, payments to recipients were scheduled before recipient reports were due. Most agreements specified that only 10 percent of funding was to be held back until all required reports were received. It is within the Agency's discretion to structure payments in this manner. However, this means there is little financial consequence for recipients if they do not submit the required reports on time. For example, for one project, the full amount of the contribution (just under \$700,000) was released to the recipient because no reports were required prior to the release of funds and there was no 10 percent holdback. We noted that as of August 2013, the recipient had not yet provided any reports, although the first required report was due in March 2013. For another project, the file showed that the Agency had received a report, even though it had not, because the Agency did not want to withhold a payment to a recipient.

6.42 Finally, Treasury Board requires that delegation instruments be in place and that signature specimen documents exist for employees with delegated authority. We found that the Agency's delegation instruments lacked clarity because they did not include the maximum amount of funds for which officials could sign. We also found that for a short period, no official at the Agency had delegated authority. We reviewed a selection of payments made under contribution agreements to determine if Agency employees who provided certification had the appropriate delegated authority. Although we found that in 2010 three payments were signed off by officials who did not have an appropriate signature card documenting delegated authority, we noted no such cases in the following years.

6.43 Recommendation. The Canadian Northern Economic Development Agency should review recipient reports and follow up on cases where information is incomplete or does not support activities specified in the contribution agreements. It should also document follow-up and monitoring activities to ensure that agreements are being monitored in accordance with the requirements of the Policy on Transfer Payments.

The Agency's response. Agreed. To further improve monitoring requirements and compliance with contribution agreements, the Agency will conduct training for program officers on the use of the Grants and Contributions funding system and on improving monitoring, documentation, and information management for projects, by 1 April 2014.

The Agency has not measured or reported on the achievement of program objectives

6.44 The Policy on Transfer Payments requires departments to establish performance measurement strategies for their programs, and to ensure there is adequate and relevant information to support program management, program evaluation, and external reporting. We examined whether the Agency has implemented performance measurement strategies and reported on the achievement of program objectives.

6.45 We found that the Agency did not implement performance measurement strategies for either TIP or CEDP. We also observed that reporting requirements in individual TIP and CEDP contribution agreements did not require information the Agency needs to measure whether projects contribute to overall program objectives.

6.46 The Agency did establish a performance measurement strategy for NABEP. The strategy contains the key elements set out in the Treasury Board of Canada Secretariat’s guidance, including performance indicators. These indicators were included as reporting requirements in five of the six contribution agreements. Most recipient reports included some information on these indicators. While these indicators allow the Agency to measure some aspects of the program, we noted that the performance measurement strategy does not include indicators to measure whether basic workplace skills, such as literacy and numeracy, have improved, which was one of the objectives of the program.

6.47 Our review of the Agency’s performance reports and other public documents found that they did not contain adequate information on the achievement of objectives for economic development transfer payment programs that we examined.

6.48 Recommendation. The Canadian Northern Economic Development Agency should fully implement performance measurement strategies for its economic development programs. The Agency should incorporate performance information requirements set out in the strategies into contribution agreements and use this information to report on program performance.

The Agency’s response. Agreed. The Agency’s performance measurement strategies and indicators are being updated systematically as each program is renewed. This will ensure that its performance measurement strategies and indicators are kept current and up to date, while meeting the Agency’s monitoring needs. At the same time, a new tracking system to capture this data has been built and is being implemented beginning 1 April 2014. This includes ensuring that measures are incorporated into reporting sections of agreements, and that information is captured as reports are submitted by recipients. This approach is being incorporated as part of the Economic Development Officer “Tool Kit.” In addition, the Agency is currently consulting with other regional development agencies and Shared Services Canada on potential common strategies and systems for performance measurement.

The Agency’s management framework

6.49 The Policy on Transfer Payments and its Directive require that departments have in place cost-effective oversight, internal controls, and tools to support the management of transfer payment programs. They also require that departments ensure these programs are accessible for applicants, and that they consider multi-year agreements and alternative funding approaches for transfer payments to Aboriginal recipients.

The Agency is implementing a management framework for transfer payment programs

6.50 We examined whether the Canadian Northern Economic Development Agency (the Agency) had in place a management framework for transfer payments that allowed it to meet key requirements set out in the Policy.

6.51 We found that the Agency has made efforts to standardize management practices across its programs and its regional offices. In March 2012, the Agency released a Management Control Framework for Grants and Contributions. The framework contains expectations on how transfer payments are to be managed within the Agency. The Agency committed to implementing the framework in the 2012–13 fiscal year. However, we found that many of the requirements have not yet been fully implemented. The full implementation of this framework may help the Agency improve its management of transfer payment programs.

6.52 The Agency also has in place a set of manuals and tools to manage individual transfer payment programs. However, they predate the establishment of the Agency and do not reflect the current operational environment. The Agency told us it plans to update these documents as part of its efforts to better harmonize transfer payment programs. It has established a harmonization transition plan to guide this work. The updated guidance is to be implemented across the Agency in the 2014–15 fiscal year.

6.53 The Agency has affirmed that values and ethics are important in the administration of grants and contributions. This is particularly so for the Agency because in small northern communities, there is a higher risk that an employee, family member, or friend of the employee may be able to benefit directly or indirectly from the funding provided. In 2013, the Agency issued its Values and Ethics Code of Conduct. We found the Code to be consistent with federal government requirements. The Agency has committed to reviewing the Code's requirements annually.

6.54 We found that the Agency's communication of information on transfer payment programs to potential applicants did not ensure that programs were accessible. Although officials used their existing contacts to inform stakeholders of programs to which they could apply, and did other things, such as participating in trade shows, overall there had been limited publicity. As well, program information for potential applicants available on the Agency's website was not complete as late as August 2013. We noted that the Agency established an external communications strategy in 2013. However, it does not contain specific actions to promote the programs to potential applicants.

6.55 Finally, the Directive on Transfer Payments requires departments to consider alternative funding approaches for transfer payments to Aboriginal recipients. It also states that departments should determine whether multi-year agreements are appropriate when the achievement of the objectives may involve a relationship with a recipient over multiple years. The Agency has not yet formally considered alternative funding approaches or multi-year agreements. Only two agreements we reviewed were for multiple years. Multi-year agreements may serve to reduce the administrative burden on recipients.

6.56 Recommendation. The Canadian Northern Economic Development Agency should finalize implementation of its Management Control Framework for Grants and Contributions, and follow through on its commitments to update the manuals and tools used to manage contribution agreements.

The Agency's response. Agreed. The Agency will complete implementation of the Management Control Framework by 1 August 2014. It is presently updating manuals and tools as part of the new Economic Development Officer "Tool Kit" for managing both the Strategic Investments in Northern Economic Development and Aboriginal Economic Development programs. The Agency has recently updated its website with a strong focus on making program-related information accessible to clients.

6.57 Recommendation. The Canadian Northern Economic Development Agency should assess, in conjunction with Aboriginal transfer payment recipients, whether alternative funding approaches should be considered. It should also consider the use of multi-year agreements.

The Agency's response. Agreed. To further improve service and reduce the administrative burden for clients, the Agency is examining alternate funding approaches as per the Directive on Transfer Payments, and multi-year agreements in the context of the new Terms and Conditions for the Aboriginal Economic Development program that will come into effect 1 April 2014.

Establishment of the Agency

6.58 When the Canadian Northern Economic Development Agency (the Agency) was created, the government determined that the headquarters would be located in the North, as part of the federal government's Northern Strategy. This was consistent with stakeholders' identification of the need to have the Agency located in the North, and for decisions regarding programs and policies affecting the North to be made in the territories. The government selected

Iqaluit as the location for the Agency headquarters. Consistent with other federal economic development agencies, it was also to have a liaison office in Ottawa.

The Agency has not been able to fill some positions at its Iqaluit headquarters

6.59 We examined the Agency's progress in establishing its organization and aligning its resources to the delivery of its overall mandate. The Agency indicated that while the Iqaluit headquarters were being established, some of the functions would operate out of the Ottawa liaison office, and that these would be transferred to Iqaluit as staff was hired in the North and as office space and staff accommodations became available. The Agency identified human resources management as a priority. Its Integrated Business Plan included a human resources plan for the 2010–13 period.

6.60 In the plan, the Agency estimated that about 45 percent of employees would be working at the headquarters and one regional office, both located in Iqaluit. The remaining employees would be located in regional offices in Yellowknife and Whitehorse, and just under 10 percent of employees would be assigned to a liaison office in Ottawa.

6.61 As of August 2013, only 30 percent of the Agency's employees worked in Iqaluit, although the Agency has made concerted efforts to recruit staff for this location. For example, job postings are advertised locally and nationally in English, French, and Inuktitut. The Agency told us that of 32 positions advertised for the Iqaluit office, only 15 have been staffed, including some temporary positions. The remaining positions were not filled (six competitions were still in progress at the end of our audit).

6.62 We found that the Agency's human resources plan has not been updated, although it has started work to do so. As well, the Agency has not yet finalized its Inuit employment plan, which is required of government organizations working in Nunavut. Under the Nunavut Land Claims Agreement, organizations must establish and maintain the employment of Inuit at a representative level. We noted that the Agency's human resources plan did include a target of 50 percent of staff being Inuit at the Iqaluit headquarters. As of August 2013, 25 percent of the Agency's Iqaluit employees were Inuit.

6.63 The Agency has faced many challenges in recruiting and retaining employees to work in Iqaluit. Within Nunavut, high school and post-secondary graduation rates are low, and many Agency

positions require a university degree. Officials told us that there is competition for a limited local pool of qualified candidates. They also told us that people located elsewhere in Canada were reluctant to move to Iqaluit. Despite these challenges, the number of staff in Iqaluit has doubled since 2010.

6.64 We also noted the Agency's involvement in a project designed to increase Inuit employment in federal departments and agencies. In 2013, the federal government launched the Inuit Learning and Development Pilot Project, intended to provide participants with practical work experience in federal government departments and agencies, the Government of Nunavut, and Nunavut Tunngavik Incorporated. The Agency is one of the lead federal organizations developing and participating in this project. At the end of the project, the names of successful participants are to be placed in an inventory for possible consideration for employment. The Agency believes that this pilot project will help meet Nunavut Land Claims Agreement requirements and develop Inuit with applicable skills for future staffing needs.

6.65 Recommendation. The Canadian Northern Economic Development Agency should update its human resources plan and establish an Inuit employment plan as required under the Nunavut Land Claims Agreement. The Agency should monitor implementation of these plans and adjust them as required.

The Agency's response. Agreed. The Agency is committed to achieving a professional workforce that represents the clients it serves. To fully staff the Iqaluit headquarters and meet the requirements of the Nunavut Land Claims Agreement, the Agency is renewing its human resources plan and finalizing its Inuit employment plan with a target completion date by the first quarter of 2014. The Agency will review these plans on an annual basis.

Key corporate functions and senior management positions are in the Ottawa liaison office

6.66 In the Integrated Business Plan, the Agency planned for just under 10 percent of employees to be located in the liaison office in Ottawa. The plan and other documentation committed the majority of management positions to be located in the headquarters in Iqaluit and in the regional offices.

6.67 As of August 2013, there were more employees located in the Ottawa liaison office (just under 35 percent) than at headquarters in Iqaluit (30 percent). The Agency's Ottawa office has many key

corporate functions, including policy, planning, and communications. As well, key positions are based in the Ottawa office, including

- president;
- vice president for policy, planning, communications and the Northern Project Management Office (a temporary assignment); and
- senior advisor for Inuit community relations.

We noted that the President and Vice President do travel to the North frequently. However, the Agency does not have a plan to relocate key corporate functions to Iqaluit.

6.68 Recommendation. The Canadian Northern Economic Development Agency should review its staff complement with a view to fulfilling its mandate of having an organization based in the North.

The Agency's response. Agreed. The Agency will continue to increase its staff complement including internal services in Iqaluit using staffing, retention, and development efforts to address challenges associated with employment in the North. Guided by its human resources and Inuit employment plans, the Agency will work to increase its current Iqaluit complement by nine additional positions by the end of the 2014–15 fiscal year and gradually transfer more internal services from Ottawa to Iqaluit.

The Agency's office accommodation framework is incomplete

6.69 The Treasury Board Policy on Management of Real Property sets out requirements for planning, acquisition, use, and disposal of real property for which both custodian and tenant departments are responsible. The Policy states that deputy heads are responsible for ensuring that an appropriate real property management framework is in place that supports timely, informed real property management decisions. We examined whether the Agency had in place a real property management framework, and had properly planned its request for office space.

6.70 We found that the Agency has a draft Office Accommodation Framework, dated 2011—two years after the Agency was created. As well, it has not implemented and updated the framework to support timely, informed real property management decisions.

6.71 We observed that as the Agency sought to determine accommodation requirements for its headquarters in Iqaluit, it modified initial requirements, specified additional requirements, and

revised downwards its office space requirements after construction on a new headquarters building had started. The Agency ended up with more space than needed in Iqaluit. We also noted that it had more space than needed in both the Yellowknife regional office and in the Ottawa liaison office. It subsequently released approximately one third of its total space. In our opinion, an office accommodation framework may have helped the Agency better deal with some of the challenges it faced in identifying accommodation requirements.

6.72 Recommendation. The Canadian Northern Economic Development Agency should update its Office Accommodation Framework taking into consideration lessons learned since its establishment.

The Agency's response. Agreed. The Agency will implement its Office Accommodation Framework by 31 March 2014 to meet the guidelines outlined in Appendix D (Accommodation Guidance for Departments) of the Treasury Board of Canada Secretariat's Guide to the Management of Real Property.

The Agency has started to harmonize economic development programs

6.73 The Policy on Transfer Payments requires that officials should ensure, when appropriate, the harmonization of transfer payment programs within a department. In our 2010 audit on Sustaining Development in the Northwest Territories, we recommended that the Agency clarify the objectives of its economic development programs and develop a strategic approach to delivering them that included the identification of needs and gaps, and clear, coordinated objectives. We examined the Agency's progress in implementing this recommendation.

6.74 We found that while the Agency has not yet finalized its work to clarify the objectives of and to harmonize its economic development programs, it planned to send documentation for the Minister to approve the renewed programs by the end of 2013. The Agency's goal was to have new objectives and terms and conditions for several of its Aboriginal economic development programs in effect by the 2014–15 fiscal year. Officials told us that a similar exercise will be completed in the future for some of its other economic development programs, which have not changed significantly since 2005.

6.75 As well, the Agency committed to consider the development of enabling legislation in 2009. The Agency has communicated to the government that it would like its own legislation setting out its roles

and responsibilities. To date, the government has not proposed enabling legislation for the Agency.

6.76 Recommendation. The Canadian Northern Economic Development Agency should finalize harmonization of its economic development transfer payment programs as soon as possible so that the objectives are clear and accountability is clarified.

The Agency's response. Agreed. The Agency is launching a new harmonized Aboriginal Economic Development Program 1 April 2014.

Conclusion

6.77 The Canadian Northern Economic Development Agency has not managed and delivered selected economic development transfer payment programs in accordance with key requirements of the Policy on Transfer Payments. The Agency's administration of contribution agreements is weak, monitoring of recipients is inadequate, and the Agency has not measured and reported on whether its programs are achieving their objectives. However, the Agency has begun to address these issues. In 2012, it established a management control framework that sets out expectations on how its transfer payment programs are to be managed, and it is implementing this framework. As well, it has started to harmonize its economic development programs.

6.78 While the Agency has established the organization to deliver economic development programs, key corporate functions and senior management positions remain in the Ottawa liaison office instead of being located at headquarters in Iqaluit. The Agency has been unable to fill some positions in Iqaluit. The Agency is updating its human resources plan and finalizing its Inuit employment plan to guide its future efforts. However, it does not have a plan to relocate key corporate functions to Iqaluit.

About the Audit

The Office of the Auditor General’s responsibility was to conduct an independent examination of the Canadian Northern Economic Development Agency’s transfer payment programs to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government’s management of resources and programs.

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management’s confirmation that the findings reported in this chapter are factually based.

Objective

The overall objective of the audit was to determine whether the Canadian Northern Economic Development Agency

- managed and delivered selected economic development transfer payment programs in accordance with key requirements of the Policy on Transfer Payments, and
- has established the organization and aligned its resources to deliver its overall mandate.

Scope and approach

Our audit examined whether the Canadian Northern Economic Development Agency manages and delivers selected economic development transfer payment programs in accordance with key requirements of the Policy on Transfer Payments. Three programs were selected for audit—the Targeted Investment Program (TIP), the Community Economic Development Program (CEDP), and the Northern Adult Basic Education Program (NABEP). We examined the agreements it has with recipients of program funds to determine how well agreements are administered, and the management framework used by the Agency to deliver its transfer payment programs. Finally, we examined whether the Agency has established the organization and aligned its resources to carry out its overall mandate. We interviewed officials responsible for the delivery of transfer payment programs, and analyzed relevant policies, procedures, and expenditures. We conducted our work at the Agency’s headquarters, three regional offices, and its liaison office.

We selected a random sample of 25 projects approved for funding under the Targeted Investment Program (TIP) and a random sample of 11 projects approved for funding under the Community Economic Development Program (CEDP). The samples included projects from all three territories approved over three fiscal years, from 2010–11 to 2012–13. We also examined all six projects approved under the Northern Adult Basic Education Program (NABEP) over the 2011–12 and 2012–13 fiscal years.

Criteria

Criteria	Sources
To determine whether the Canadian Northern Economic Development Agency managed and delivered selected economic development transfer payment programs in accordance with key requirements of the Policy on Transfer Payments, has established the organization and aligned its resources to deliver its overall mandate, we used the following criteria:	
<p>The Canadian Northern Economic Development Agency approves funding and monitors recipients in accordance with key elements of the Policy on Transfer Payments, the <i>Financial Administration Act</i>, program terms and conditions, and individual contribution agreements. Specifically, the Agency</p> <ul style="list-style-type: none"> • funds only eligible recipients and activities, • includes in funding agreements reporting requirements that are proportionate to risk, • monitors reporting requirements and other obligations set out in agreements, and • makes payments to recipients in accordance with the <i>Financial Administration Act</i> and delegated authorities. 	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • <i>Financial Administration Act</i> • Guideline on Performance Measurement Strategy under the Policy on Transfer Payments, Treasury Board of Canada Secretariat • Terms and Conditions of the Targeted Investment Program, the Community Economic Development Program, and the Northern Adult Basic Education Program • Selected funding agreements
<p>The Canadian Northern Economic Development Agency collects performance information on individual projects and uses this information to demonstrate and report on whether transfer payment programs are achieving their intended objectives.</p>	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • Guideline on Performance Measurement Strategy under the Policy on Transfer Payments, Treasury Board of Canada Secretariat
<p>The Canadian Northern Economic Development Agency has established the organization and aligned its resources in a manner to deliver its overall mandate.</p>	<ul style="list-style-type: none"> • Report on Plans and Priorities, Canadian Northern Economic Development Agency, 2010–11, 2011–12, 2012–13, 2013–14 • Management Accountability Framework, Treasury Board of Canada Secretariat, 2003 • Policy on Financial Management Governance, Treasury Board, 2010 • Integrated Planning Guide, Treasury Board of Canada Secretariat, 2007 • Policy on Learning, Training and Development, Treasury Board, 2006 • Policy on Management of Real Property, Treasury Board, 2006
<p>The Canadian Northern Economic Development Agency has aligned its transfer payment programs to its objective of developing a diversified, sustainable, and dynamic economy across Canada's three territories.</p>	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • 2010 Spring Report of the Auditor General of Canada, Chapter 4, Sustaining Development in the Northwest Territories, Recommendation 4.85 and related response of the Agency
<p>The Canadian Northern Economic Development Agency collaborates with territorial economic development departments to maximize the impact of its economic development transfer payment programs.</p>	<ul style="list-style-type: none"> • Report on Plans and Priorities, Canadian Northern Economic Development Agency, 2013–14 • Targeted Investment Program, Program Terms and Conditions

Criteria	Sources
To determine whether the Canadian Northern Economic Development Agency managed and delivered selected economic development transfer payment programs in accordance with key requirements of the Policy on Transfer Payments, has established the organization and aligned its resources to deliver its overall mandate, we used the following criteria: (continued)	
The Canadian Northern Economic Development Agency ensures that transfer payment programs are accessible for applicants, and that alternative funding approaches for transfer payments to Aboriginal recipients are considered.	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008
The Canadian Northern Economic Development Agency has in place cost-effective oversight, internal controls, and tools to support the management of its transfer payment programs.	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Delegation of Financial Authorities for Disbursements, Treasury Board, 2009
The Canadian Northern Economic Development Agency has performance measurement strategies for transfer payment programs that provide for appropriate collection of performance information on individual projects and for transfer payment programs overall.	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • Guideline on Performance Measurement Strategy under the Policy 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 between 1 August 2009 and 15 August 2013. Audit work for this chapter was completed on 17 December 2013.

Audit team

Assistant Auditor General: Ronnie Campbell

Principal: Glenn Wheeler

Director: Nadine Cormier

Amélie Beaupré-Moreau

Toby Climie

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. 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
Delivery of contribution agreements	
<p>6.20 The Canadian Northern Economic Development Agency should ensure that complete assessments of eligibility for assistance under its economic development programs are completed and documented as required by the Policy on Transfer Payments. In cases where applications are incomplete, the Agency should work with applicants to ensure that they provide all information required to complete assessments. (6.10–6.19)</p>	<p>Agreed. The Agency recognizes the importance of conducting thorough project assessments to determine eligibility. It is developing new application forms to assist recipients in providing the required information so that it can better assess projects. New project assessment forms are also being developed for both the Aboriginal Economic Development (AED) Program and the Strategic Investments in Northern Economic Development (SINED) Program. The application forms and the project assessment forms will be implemented by 1 April 2014.</p>
<p>6.25 The Canadian Northern Economic Development Agency should formally review the processes in place for the review and approval of projects so that decisions on funding to recipients are made in a timely manner. (6.21–6.24)</p>	<p>Agreed. The Agency is committed to providing efficient and effective service to clients. To further improve and strengthen its administration of contribution agreements, program officers will use the new application and assessment forms to assess applications in a thorough and expedient manner, taking into consideration the needs of clients based in the North. The Agency will develop service standards for project assessments by 1 April 2014 and track performance against these standards.</p>
<p>6.26 The Canadian Northern Economic Development Agency should review its quality assurance processes to ensure that, before contribution agreements are signed, they do not contain inconsistencies. (6.21–6.24)</p>	<p>Agreed. The Agency is committed to improving its quality assurance process by 1 April 2014 to ensure that it is more robust. The aim of the quality assurance process will be to eliminate any inconsistencies in the contribution agreements and ensure that these agreements contain provisions related to payment schedules and performance measurement tracking.</p>

Recommendation	Response
<p>6.30 The Canadian Northern Economic Development Agency should document its recipient and project risk assessments. It should also define appropriate levels of monitoring and reporting to be specified in contribution agreements, proportionate to recipient and project risks. (6.27–6.29)</p>	<p>Agreed. The Agency will develop and implement better tools to assess recipient and project risks by 1 April 2014. Recipient risk assessments will be used to determine agreement duration, and the levels of financial reporting will be based on agreement amounts. High-risk projects will be subject to increased monitoring by project officers.</p>
<p>6.43 The Canadian Northern Economic Development Agency should review recipient reports and follow up on cases where information is incomplete or does not support activities specified in the contribution agreements. It should also document follow-up and monitoring activities to ensure that agreements are being monitored in accordance with the requirements of the Policy on Transfer Payments. (6.31–6.42)</p>	<p>Agreed. To further improve monitoring requirements and compliance with contribution agreements, the Agency will conduct training for program officers on the use of the Grants and Contributions funding system and on improving monitoring, documentation, and information management for projects, by 1 April 2014.</p>
<p>6.48 The Canadian Northern Economic Development Agency should fully implement performance measurement strategies for its economic development programs. The Agency should incorporate performance information requirements set out in the strategies into contribution agreements and use this information to report on program performance. (6.44–6.47)</p>	<p>Agreed. The Agency’s performance measurement strategies and indicators are being updated systematically as each program is renewed. This will ensure that its performance measurement strategies and indicators are kept current and up to date, while meeting the Agency’s monitoring needs. At the same time, a new tracking system to capture this data has been built and is being implemented beginning 1 April 2014. This includes ensuring that measures are incorporated into reporting sections of agreements, and that information is captured as reports are submitted by recipients. This approach is being incorporated as part of the Economic Development Officer “Tool Kit.” In addition, the Agency is currently consulting with other regional development agencies and Shared Services Canada on potential common strategies and systems for performance measurement.</p>

Recommendation	Response
The Agency's management framework	
<p>6.56 The Canadian Northern Economic Development Agency should finalize implementation of its Management Control Framework for Grants and Contributions, and follow through on its commitments to update the manuals and tools used to manage contribution agreements. (6.50–6.55)</p>	<p>Agreed. The Agency will complete implementation of the Management Control Framework by 1 August 2014. It is presently updating manuals and tools as part of the new Economic Development Officer “Tool Kit” for managing both the Strategic Investments in Northern Economic Development and Aboriginal Economic Development programs. The Agency has recently updated its website with a strong focus on making program-related information accessible to clients.</p>
<p>6.57 The Canadian Northern Economic Development Agency should assess, in conjunction with Aboriginal transfer payment recipients, whether alternative funding approaches should be considered. It should also consider the use of multi-year agreements. (6.50–6.55)</p>	<p>Agreed. To further improve service and reduce the administrative burden for clients, the Agency is examining alternate funding approaches as per the Directive on Transfer Payments, and multi-year agreements in the context of the new Terms and Conditions for the Aboriginal Economic Development program that will come into effect 1 April 2014.</p>
Establishment of the Agency	
<p>6.65 The Canadian Northern Economic Development Agency should update its human resources plan and establish an Inuit employment plan as required under the Nunavut Land Claims Agreement. The Agency should monitor implementation of these plans and adjust them as required. (6.59–6.64)</p>	<p>Agreed. The Agency is committed to achieving a professional workforce that represents the clients it serves. To fully staff the Iqaluit headquarters and meet the requirements of the Nunavut Land Claims Agreement, the Agency is renewing its human resources plan and finalizing its Inuit employment plan with a target completion date by the first quarter of 2014. The Agency will review these plans on an annual basis.</p>
<p>6.68 The Canadian Northern Economic Development Agency should review its staff complement with a view to fulfilling its mandate of having an organization based in the North. (6.66–6.67)</p>	<p>Agreed. The Agency will continue to increase its staff complement including internal services in Iqaluit using staffing, retention, and development efforts to address challenges associated with employment in the North. Guided by its human resources and Inuit employment plans, the Agency will work to increase its current Iqaluit complement by nine additional positions by the end of the 2014–15 fiscal year and gradually transfer more internal services from Ottawa to Iqaluit.</p>

Recommendation	Response
<p>6.72 The Canadian Northern Economic Development Agency should update its Office Accommodation Framework taking into consideration lessons learned since its establishment. (6.69–6.71)</p>	<p>Agreed. The Agency will implement its Office Accommodation Framework by 31 March 2014 to meet the guidelines outlined in Appendix D (Accommodation Guidance for Departments) of the Treasury Board of Canada Secretariat’s Guide to the Management of Real Property.</p>
<p>6.76 The Canadian Northern Economic Development Agency should finalize harmonization of its economic development transfer payment programs as soon as possible so that the objectives are clear and accountability is clarified. (6.73–6.75)</p>	<p>Agreed. The Agency is launching a new harmonized Aboriginal Economic Development Program 1 April 2014.</p>