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Internal Audit Services Branch

# Audit of the Management of Projects within Employment and Social Development Canada

February 2014

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## ***Executive Summary***

Employment and Social Development Canada (ESDC) is currently managing a significant investment portfolio, with 87 projects estimated at over \$500 million.<sup>1</sup> The Department has initiated projects that respond to the government priorities to modernize service delivery, implement new policies, and increase effectiveness and efficiency of operations. In order to effectively manage these projects, ESDC had developed an Investment Management Process (IMP) which included the approval and review of projects throughout their life cycle. The department-wide process provides oversight to all large projects and procurements in ESDC in order to deliver value for money to Canadians.

## ***Audit Objective***

The objective of the audit was to assess the adequacy and effectiveness of the Department's Project Management Framework.

## ***Summary of Key Findings***

Over the course of the audit, major findings relevant to the assessment of the Project Management Framework emerged from document review, consultations, interviews and case studies. The key findings are summarized as follows:

- ESDC has established some components of a Project Management Framework but a complete framework has not been developed to support project management across the Department;
- The Department adopted an industry standard gating process to prioritize, select and approve projects through decision gates throughout the life cycle of a project but it was not consistently followed by project stakeholders. Documentation was available to guide project stakeholders through the process but stakeholders were attempting to work outside the departmental gating process. A formal mandate to enforce the gating process has not been established;
- Progress reporting to track the status of large projects relies on information provided by project stakeholders but it is incomplete to accurately track progress. The rating system to provide progress on projects is interpreted in an inconsistent manner by project stakeholders. The Enterprise Project Management Office (EPMO) does not have a formal mandate to monitor the completeness of the project information that is reported to them, nor do they have the tools that would allow them to assess the accuracy of project information; and

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<sup>1</sup> Source: The ESDC Project Portfolio Report for the fourth quarter of 2012–2013 and the first quarter of 2013–2014, September 9, 2013.

- A Project Management Information System (PMIS) has been developed but the full functionality is not used by project stakeholders. The capacity of the system has not been leveraged to generate reliable and accurate project reports, as well as to share knowledge and best practices among project stakeholders. The PMIS is being upgraded and needs to be mandatory to resolve the inconsistent use by project stakeholders.

### ***Audit Conclusion***

The audit concluded that the Department has not developed and articulated a consistent enterprise level framework to manage its investment projects. Although the Department has implemented some components that are part of a Project Management Framework, there is a lack of project stakeholder buy-in and compliance with the established processes. A comprehensive approach is required to establish a framework that will support reliable project delivery and oversight.

### ***Recommendations***

The Chief Financial Officer (CFO) should:

- Develop and communicate to the Department a comprehensive Project Management Framework with formal accountability, roles and responsibilities;
- Assign the accountability to enforce the gating process as part of the development of the Project Management Framework;
- Redesign the project progress reporting to include baseline data and develop a follow-up system to escalate projects of concern; and
- Establish the PMIS as the mandatory departmental system to be used for project management.

## **1.0 Background**

### **1.1 Context**

In 2007, the Treasury Board (TB) of Canada introduced the Policy on Investment Planning – Assets and Acquired Services and the Policy on the Management of Projects. These policies introduced a significant change in how government carries out investment planning and project management. The successful implementation of these policies by April 1, 2012, was intended to support improved accountability and strengthen management practices across government.

ESDC implemented the IMP in 2008 to meet the requirements of the Policy on the Management of Projects and since that time has embarked on a journey to continuously improve the Department's project management practices.

In compliance with the policies and standards,<sup>2</sup> ESDC prepared the 2011–2016 Investment Plan, which was approved by TB in 2012. As part of the policy requirements, ESDC also completed a self-assessment of their organizational capacity in 2011 using the TB Organizational Project Management Capacity Assessment (OPMCA) tool. Based on the results of the self-assessment, ESDC prepared an OPMCA Action Plan to address areas needing improvement, which became the Streamlining Plan to improve project management practices in the Department. The OPMCA self-assessment was approved by TB in 2012 and resulted in an organizational capacity class rating of Level 2 – Tactical of five potential levels.<sup>3</sup> The rating established the expenditure authority granted to the Department for the approval of projects, which is to be reviewed every three years.

In December 2012, the ESDC Major Projects and Investments Board (MPIB) presented a Streamlining Plan to the Corporate Management Committee (CMC) to address weaknesses in the Project Management Framework and to improve departmental project management practices. The Department also identified key priorities to advance the Project Management Framework. However, the audit team noted that the Streamlining Plan to address the areas targeted for improvement had not been implemented.

### **1.2 Audit Objective**

The objective of the audit was to assess the adequacy and effectiveness of the Department's Project Management Framework.

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<sup>2</sup> TB Secretariat Standards: Enterprise Resource Planning Systems, Organizational Project Management Capacity, Project Complexity and Risk and Electronic Documents and Records Management Solutions.

<sup>3</sup> The five levels are: Level 0 – Limited, Level 1 – Sustaining, Level 2 – Tactical, Level 3 – Evolutionary and Level 4 – Transformational.

### **1.3 Scope**

The audit examined the components of ESDC's Project Management Framework. This included governance, roles and responsibilities and processes established as part of the framework.

### **1.4 Methodology**

This audit used a number of methodologies to assess the Project Management Framework within ESDC including:

- Document review and analysis;
- Interviews with project managers and other project stakeholders within the Department; and
- A random sample of nine project case studies from the departmental Investment Plan.



## **2.0 Audit Findings**

### **2.1 A Project Management Framework is not sufficiently established to support project management**

A Project Management Framework defines the roles and responsibilities, establishes the processes to be followed, and provides the tools to be utilized by project stakeholders in order to support the consistent management of projects across an organization. Our audit expected that ESDC established and articulated a Project Management Framework for all departmental project stakeholders to follow.

The audit found that ESDC has established some components of a Project Management Framework but the Department has not articulated a complete framework to guide project stakeholders through the project life and control cycles. The audit team noted that the Department developed a draft document describing the Project Management Framework for ESDC but it was not completed for approval or communicated to the Department. Our review of the draft framework identified that it was insufficient as a Project Management Framework as it focused primarily on the gating process. The Department has adopted the industry standard Stage-Gate<sup>4</sup> process as an integral part of the Project Management Framework. This structured gating process is used to prioritize, select, and approve projects through five management decision gates as well as to prescribe the activities required in each stage to develop the project from idea through to close. Although a key element of a Project Management Framework, a project approval process alone is not sufficient to support project management across an organization. For example, a comprehensive Project Management Framework would include:

- A definition of the type of projects subject to follow all aspects of the framework and the minimum project management standards for all large and small projects;
- Performance management of projects to support informed decision making;
- Prioritization and resource management processes to achieve business objectives;
- A quality assurance process for project outputs to comply with standards;
- Processes for communication, change management and continuous improvement to support the framework;
- Defined roles and responsibilities for project life and control cycle management; and
- Fundamental information on all processes, tools and techniques stakeholders are required to use in carrying out their respective roles and responsibilities.

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<sup>4</sup> Stage-Gate™ divides the effort into five distinct management decision gates: Gate 1 – Opportunity Identification, Gate 2 – Concept Initiation, Gate 3 – Plan, Gate 4 – Develop and Build, and Gate 5 – Deploy, Install and Stabilize.

Our audit confirmed that ESDC has established governance for project management in the Department. The MPIB is the enterprise-wide governance body responsible for investment planning and project oversight. MPIB, as per its Terms of Reference, is mandated to support rigorous and transparent project planning, project management, and investment decisions. MPIB is supported by the Director General-level Major Projects Review Committee (DG MPRC). Within the direction set by MPIB, the DG MPRC is responsible to review the initial phases of all large projects prior to MPIB's review of the final phases of the project.

In support of governance, the IMP Team, within the Chief Financial Officer Branch (CFOB) is responsible for maintaining the Investment and Project Management Frameworks. As per the investment plan, the IMP Team has been designated as the EPMO and the Project Management Centre of Excellence (CoE) for the Department. The IMP Team coordinates the investment planning exercise, prepares the departmental investment plan, and monitors and reports on project investments. The IMP Team collaborates with Branch Project Management Offices (BPMO) to coordinate investment planning and project management activities. The BPMO within the Innovation, Information and Technology Branch also provides additional information technology (IT) support to project stakeholders for projects that are IT-enabled.

Although there is an active governance structure in place, the audit revealed that the IMP Team's role as the EPMO and CoE is broadly defined and the roles and responsibilities are not formalized. Project stakeholders across the Department did not understand the role of an EPMO and did not always follow the guidance provided by the IMP Team. For example, it was not clear to project stakeholders as to the degree of control and influence that the IMP Team had on projects within the Department. As a result, the IMP Team could not consistently enforce the application of standards when providing guidance to project stakeholders.

Within a Project Management Framework, the EPMO requires a mandate with sufficient resources to provide support and control functions to project stakeholders across the Department. This would allow for the consistent application of standards, mentoring, resource development, reporting and technology to manage project outcomes on a portfolio basis within the Department. A comprehensive Project Management Framework with clear roles and responsibilities is needed to implement standard project management approaches to keep projects on-track, on-time and within budget.

### ***Recommendation***

The CFO should develop and communicate to the Department a comprehensive Project Management Framework. This includes establishing formal accountability to enforce the application of the framework and clearly defining the mandate, roles and responsibilities of all project stakeholders.

## **Management Response**

Agree. The CFOB will finalize and communicate a comprehensive Project Management Framework taking into consideration policy obligations, stakeholder input and sound project management practices. The estimated completion date is March 2014.

### **2.2 The Stage-Gate process is not consistently followed by project stakeholders**

A Project Management Framework provides a consistent process for the required approvals throughout the life cycle of a project. Our audit expected that the Department implemented a project management process which is followed by project stakeholders to prioritize, select, and approve projects through decision gates as well as to prescribe the activities required in each stage to develop the project from idea through to close.

As per the departmental Investment Plan and the MPIB Terms of Reference, all investment projects greater than \$1 million or deemed sensitive must use the Department's standard Stage-Gate Process. The audit revealed that although the Department has adopted a standard process, gating is not followed consistently by project stakeholders. The audit team randomly selected nine projects as case studies and of the nine selected, five projects had not scheduled their next management decision gate and four were not gating as expected. Of the four projects that did not gate we noted the following:

- The first project was cancelled after Gate 2 without any evidence of cancellation;
- The second project was completed without gating;
- The third project stopped gating after Gate 2; and
- The fourth project was almost completed without gating and has since returned to gate.

Some of the reasons mentioned by project stakeholders for inconsistent gating were a lack of awareness of the gating process and that project guidance and tools were not sufficient to navigate the project life cycle. MPIB has identified that improvements to the gating process and tools and templates are required through the Streamlining Plan. However, the audit team determined that guidance provided by CFOB on the gating process, as well as the project list approved as part of the annual Investment Planning exercise, were available to all project stakeholders on the Department's Intranet site under the IMP. The audit team noted that there was a lack of buy-in to gating and that project stakeholders were attempting to work outside of the gating process.

Without consistent gating, senior management does not have the opportunity to assess how a project is performing against planned goals at all stages. Although MPIB provides departmental oversight for project management, a formal mandate to enforce gating has not been assigned. This, coupled with the need to develop a comprehensive Project

Management Framework, has left a void to enforce consequences for project stakeholders who choose not to follow the gating process. Formal accountabilities to enforce gating are required so that project stakeholders acquire the discipline and rigour needed to manage large investment projects in a consistent manner. A fully defined and functioning Project Management Framework will require project stakeholders to proceed through the departmental gating process.

### ***Recommendation***

The CFO, in consultation with members of the MPIB, should assign the accountability to enforce the gating process as part of the development of the Project Management Framework.

### ***Management Response***

Agree. The Project Management Framework and Directive will outline the project gating requirements and assign accountability to the Project Sponsors to support mandatory compliance. The estimated completion date is March 2014.

## ***2.3 Project progress reporting needs to be improved***

Progress reporting is essential to monitor the achievement of project outcomes against planned results, identify issues and make necessary course corrections. Our audit expected that the Department established a reporting approach as part of the Project Management Framework to assess results against planned activities.

Our audit observed that the IMP Team established a reporting approach to track the status and progress of large projects within the Department. The approach consists of preparing two key reports, the Executive Dashboard and the ESDC Project Portfolio Report. The Executive Dashboard contains details on the progress of individual projects and is periodically updated by project stakeholders. Using the Executive Dashboard, the IMP Team creates the ESDC Project Portfolio Report on a quarterly basis. The Project Portfolio Report contains key project information and uses project health indicators consisting of a green, yellow and red rating system to identify if projects are on track, are experiencing challenges, or have major concerns related to budget, schedule, scope, risks and issues. The IMP Team also prepares a quarterly progress report to provide MPIB and CMC an overview of project progress. As the IMP Team does not have a formal mandate to monitor the accuracy or completeness of the project information, they rely on and report data provided by project stakeholders.

The audit team reviewed the project status reports and observed that the information provided by project stakeholders was incomplete to accurately track progress. For example:

- Some approved projects with a value of more than \$1 million were not included in the project status report;
- Baseline data, such as the actual start date, was not captured in order to assess and report on project progress;
- Some projects did not provide a status update; and
- Projects that identified issues provided minimal information regarding the cause or mitigating actions.

Our analysis of the reports also confirmed that the Executive Dashboard rating system of green, yellow and red is not interpreted in a consistent manner by project stakeholders. For example:

- Some projects identified changes in scope, delays in meeting the original timeline, or a missed scheduled gate, yet these projects reported their status as green. Explanations were not provided for the scope change or for the delays. Resulting impacts on other projects were also not identified;
- Some projects were rated yellow for the overall project health indicator and included a red rating for risk. An explanation of the risk or the mitigating strategy was not provided; and
- Dates to identify the next decision point for some projects were identified as “TBD”, which indicated that the date was to be determined. Follow-up information was not provided to indicate a specific date for future monitoring.

The fidelity of the reporting needs to be improved by project stakeholders to provide MPIB with information in order to measure objectively how well a project is accomplishing its deliverables. There is also an opportunity for the EPMO to revise the reports to include baseline data related to cost, schedules, and resources. This would allow MPIB the capability to monitor projects of concern, identify project interdependencies, and determine if further corrective action is required.

Currently, the EPMO does not have monitoring tools that would allow them to compare or assess the accuracy of project information provided by stakeholders. As such, the EPMO does not have the capability to identify discrepancies and bring them to the attention of MPIB.

### ***Recommendation***

The CFO should redesign the project progress reporting to include baseline data as part of the development of the Project Management Framework and develop a follow-up system to escalate projects of concern to MPIB.

## **Management Response**

Agree. CFOB will review current reporting requirements and tools to identify opportunities for enhancements to escalate projects of concern to MPIB.

The estimated completion date is June 2014.

### **2.4 The PMIS is not consistently used by project stakeholders**

The use of a PMIS has been found to contribute to the successful delivery of projects. Our audit expected that the Department established a PMIS to be used by all project stakeholders to collect, store and distribute project information to support decision making and monitor progress.

The Department has a PMIS that was previously used exclusively for IT and projects that were IT-enabled. However, in 2011–2012 the Department began expanding the use of this system to include all investment projects. The PMIS contains information essential to initiating, planning, executing and closing a project. The audit did not include an assessment of the PMIS as we were advised that the Department is currently upgrading to Microsoft (MS) Project Server 2010 from the 2003 version. The Department is also implementing the SAP Enterprise Resource Planning System planned for 2014, which will include a Project Module to manage project financial information. Microsoft Project Server 2010 and the SAP Module are intended to form the future PMIS.

The audit team noted that project stakeholders were working in a somewhat manual environment. For example, project stakeholders were:

- Storing project documents on branch common drives, which limits access to project stakeholders who may need the information and contributes to version control issues;
- Using MS Word and Excel derived templates, which required users to input information and data multiple times; and
- Submitting project status information manually to the IMP Team rather than entering the information directly into PMIS.

The full functionality of PMIS is not being used by project stakeholders. The automated tools available within PMIS are used inconsistently and project information is not captured nor consolidated so that interdependencies between projects can be managed. In addition, the capacity of PMIS has not been leveraged to generate reliable and timely reports that would allow MPIB to monitor progress of projects. Transition to an updated version of PMIS will not resolve the inconsistent use of the system by project stakeholders. The PMIS will need to be aligned to the Project Management Framework with mandatory use to maximize the functionality and value for money of a single system. Additionally, the development of a change management strategy would help identify gaps, possible points of resistance, and a strategy to address issues before they emerge.

A centralized information system also provides opportunities for project stakeholders to share project management knowledge, experiences and best practices. These lessons learned would provide all project teams with the opportunity to benefit from the experiences of others and apply this knowledge to their own projects.

***Recommendation***

The CFO should establish the PMIS as the mandatory departmental system to be used for project management in order to facilitate accurate information and knowledge sharing across the Department.

***Management Response***

Agree. The Project Management Framework and Directive will identify the PMIS as the mandatory departmental tool to support projects and will assign accountability to Project Sponsors to ensure it is used. The estimated completion date is March 2014.

### **3.0 Conclusion**

The audit concluded that the Department has not developed and articulated a consistent enterprise level framework to manage its investment projects. Although the Department has implemented some components that are part of a Project Management Framework, there is a lack of project stakeholder buy-in and compliance with the established processes. A comprehensive approach is required to establish a framework that will support reliable project delivery and oversight.

### **4.0 Statement of Assurance**

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the assessment of the departmental Project Management Framework. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.



## **Appendix A: Audit Criteria Assessment**

It was expected that the Department's Project Management Framework is working effectively to demonstrate that:

1. The Department has the capacity to manage its investments through:
  - A collaborative project portfolio environment;
  - Efficient systems and processes;
  - Project prioritization;
  - The allocation of resources to support top priorities;
  - Interdependency management;
  - Project managers with the necessary knowledge, skills and experience; and
  - Clear and consistent information, tools and training.
  
2. Project delivery is on time, on budget and on scope as a result of timely and appropriate:
  - Project oversight supporting decision making;
  - Management of project issues, risks and change requests;
  - Project tracking and reporting; and
  - Access to real-time data on costs, benefits, and schedules.
  
3. The Project Management Framework supports project delivery by:
  - Understanding the current state of project management and developing an action plan that addresses weaknesses;
  - Executing strategies to address the identified weaknesses;
  - Ensuring that lessons learned improve project management governance and oversight mechanisms; and
  - Clearly communicating best practices and lessons learned to all stakeholders.

## **Appendix B: Glossary**

<b>BPMO</b>	Branch Project Management Office
<b>CFO</b>	Chief Financial Officer
<b>CFOB</b>	Chief Financial Officer Branch
<b>CMC</b>	Corporate Management Committee
<b>CoE</b>	Centre of Excellence
<b>DG MPRC</b>	Director General Major Projects Review Committee
<b>EPMO</b>	Enterprise Project Management Office
<b>ESDC</b>	Employment and Social Development Canada
<b>IMP</b>	Investment Management Process
<b>IT</b>	Information Technology
<b>MPIB</b>	Major Projects and Investments Board
<b>MS</b>	Microsoft
<b>OPMCA</b>	Organizational Project Management Capacity Assessment
<b>PMIS</b>	Project Management Information System
<b>TB</b>	Treasury Board