Audit of the Performance Tracking Directorate

January 2007

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EXECUTIVE SUMMARY

In response to the Internal Audit report - *Program Integrity of Grant & Contribution Programs,* the Performance Tracking Directorate (PTD) was established in the fall of 1999 to support the work of strengthening the administration of Grants and Contributions (G&C) in Human Resources Development Canada. PTD is responsible for assessing the overall program integrity of G&C activities within Human Resources and Social Development (HRSD) and Service Canada by performing quality assurance reviews and on-site financial monitoring of G&C recipients. Their reviews provide senior program management with ongoing detailed information on the level of compliance with administrative requirements for G&C programs.

The audit was identified in the Internal Audit annual plan based on cyclical coverage. Internal Audit has made a commitment to undertake an audit on a three-year cycle as PTD is a key component in the quality control framework of the administration of G&C programs delivered by HRSD and by Service Canada.

This audit is intended to provide assurance that PTD is fulfilling its mandate of ensuring that:

- G&C funds are being managed and expended in accordance with program terms and conditions,

- key areas of risk are highlighted and guidance is provided on approaches to mitigate those risks and

- its mandate of contributing to knowledge transfer with its stakeholders has been achieved.

In addition, the audit will follow-up on recommendations made in our 2001 audit of PTD.

The field work was conducted from May to September 2005. The audit team visited the British Columbia/Yukon, Nova Scotia and Ontario regions. A number of methodologies and tools used included file reviews, on-site observations, documentation analysis and interviews with employees and management both at National Headquarters and in the selected regions.

Audit Conclusion:

Overall, based on the results of our audit, we conclude that the Performance Tracking Directorate has fully met expectations in the performance of its mandate.

However, in our opinion, the high compliance rates reported in the last two annual reports and the generally minor observations made following file reviews suggest that PTD is now able to re-examine its activities and refocus on areas of higher risks, while maintaining a core functionality to report G&C results on a national basis.

Main Findings

- The compliance rate increased and then stabilized over the past five years. Very few risks or problem areas were identified in the last two PTD annual reports.

- In ensuring that recommendations of the 2001 Audit of the National Grants and Contributions Performance Tracking Directorate Activities have been addressed, the audit team concludes that the PTD quality control framework has not changed significantly since the previous audit. An individual file is still subjected to multiple complete file reviews before management review and sign-off. We recommend that PTD streamline the internal quality control process in order to improve its efficiency.

- PTD draws statistically valid samples to do its reviews. However, due to the criterion used to determine the population, which is the start dates of projects, the files are rarely closed at the time of PTD reviews. This leads to a high number of "Not Applicable" answers in the close-out section of the PTD questionnaire; thus senior management does not obtain the same level of assurance for this phase of the project life cycle as it does with other phases. We recommend that PTD re-examine their sampling methodology to provide a greater level of assurance in its assessment of the close-out section.

- PTD has good relationships with its many stakeholders. Given the various departmental transformational initiatives underway, we recommend that PTD maintain its close working relationships within Service Canada and with HRSD and begin to build similar relationships with other government departments as Service Canada begins to deliver programs on their behalf.

The Management Action Plan to address the audit recommendations is contained in Appendix A.

1.0 BACKGROUND

Introduction

In response to the Internal Audit report, Program Integrity of Grant & Contribution Programs, the Performance Tracking Directorate (PTD) was established in the fall of 1999 to support the work of strengthening the administration of G&C in Human Resources Development Canada (HRDC).

PTD is responsible for assessing the overall program integrity of G&C activities by performing quality assurance reviews of Departmental G&C files and by performing on-site financial monitoring of G&C recipients.

PTD is resident in the Financial and Administrative Services (FAS) Branch of Service Canada. In December 2003, Human Resources Development Canada was divided into two new departments, Social Development Canada (SDC) and Human Resources and Skills Development Canada (HRSDC). With the creation of Service Canada, PTD came under their accountability. The recent reintegration of SDC and HRSDC by the government has not affected their reporting relationship with FAS in Service Canada nor their program quality assurance role with respect to programs administered either directly by Human Resources and Social Development (HRSD) or by Service Canada on behalf of HRSD or other program authorities.

PTD's mandate is to:

- provide assurance that G&C funds are being managed and expended in accordance with program terms and conditions,

- highlight key areas of risk and provide guidance on approaches to mitigate those risks,

- contribute to knowledge transfer among its stakeholders and

- coordinate activities with other monitoring and audit functions carried out by internal and external agencies to ensure adequate coverage, without duplication of effort.

PTD reviews provide senior program management with ongoing detailed information on the level of compliance with required administrative standards for G&C. PTD produces two reports each year.

PTD has a resource base equivalent to 21 full-time employees and an annual budget of approximately $2 million. In the 2003-04 PTD annual report, PTD reviewed 200 agreements valued at $26,117,342. The total population of G&C was 11,399 agreements and $741,324,764. This excludes Aboriginal Human Resources Development Agreement (AHRDA), Summer Career Placement (SCP) and Skills Development (SD)[1]. This continuing level of review is intended to provide assurance that PTD's findings are correct plus or minus 2.25%, 19 times out of 20.

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[1] Excluded programs are not included in PTD reviews because either they have different administrative requirements or their inclusion in the reviews would have an impact on national results that would not be in proportion to the value of the programs. They are covered in special cyclical reviews.

Our audit is intended to provide assurance that PTD is fulfilling three of its four mandates:

- providing assurance that G&C funds are being managed and expended in accordance with program Terms and Conditions,

- highlighting key areas of risk and providing guidance on approaches to mitigate those risks and

- contributing to knowledge transfer among its stakeholders.

Scope

The audit work examined all PTD activities except for sampling methodology and its external audit review function.

Interviews were conducted at NHQ and in three regions which were selected based on the proportion of files selected in PTD samples. A total of 30 files were reviewed from the files selected by PTD for their 2003-04 report.

Methodology

As per the Treasury Board's Internal Audit Guidelines and Professional Internal Audit Standards, assurance is provided through a number of methodologies and tools including:

- interviews with the PTD management and staff, senior program managers and key clients,

- documentation analysis,

- on-site observations and

- file reviews conducted at NHQ.

The file reviews were sampled using a combination of judgemental and random sampling methodology to ensure that files from all regions visited would be included. File reviews were conducted using PTD assessment tools. The overall file review process was also assessed.

The Terms of Reference approved by the Audit and Evaluation Committee are found in Appendix C.

2.0   AUDIT FINDINGS BY OBJECTIVE

2.1   Follow-up of Previous Audit Recommendations

Objective 1

To ensure recommendations of the 2001 "Audit of the National Grants and Contributions Performance Tracking Directorate Activities" have been addressed by the PTD.

The first recommendation of the 2001 audit stated that "PTD re-examine the time allocated to local HRCC, RHQ and NHQ program officers to forward files selected for PTD review."

We were informed by program officers in the regions that the ten working day period allocated to forward files to the PTD is reasonable. The concern was that any period longer than ten days would permit an opportunity to clean up the files and therefore skew the PTD data. The implementation of the Common System for Grants and Contributions (CSGC) has substantially reduced the risk of manipulated data because the text of the agreement is locked once approved. No problems were identified.

With the implementation of the CSGC, we conclude that this issue is no longer a concern.

The second recommendation of the 2001 audit stated that "PTD review all excluded programs to find cost-effective methods of measuring HRDC (now HRSD and Service Canada) performance."

PTD has excluded three programs: Aboriginal Human Resources Development (AHRD), Summer Career Placement (SCP) and Skills Development (SD). Excluded programs are not part of the PTD audit universe for regular national reports. The AHRD program was not part of the sample because they cover five-year agreements, many of which included requirements that differ from current policy. Skills Development agreements are not part of the universe because of the low risk and materiality level of the payments made under this program. Finally, SCP is not part of the universe because this program does not have the same administrative requirements as other G&C programs. Due to the high numbers of files and their low dollar values, including SCP files in the random selection would have an impact on national results that would not be in proportion to the value of the program.

We were informed by PTD management that the excluded programs are covered in special reviews on three-year cyclical basis. Thus, AHRD was covered in the fiscal year 2001-02, SCP in 2002-03 and SD in 2003-04.

We conclude that an adequate review process has been implemented.

The third recommendation of the 2001 audit report stated that "PTD initiate discussions for the development and implementation of a formal follow-up and tracking system for situations that cannot be immediately corrected."

When the 2001 audit work was being conducted, there were a large number of unresolved issues on each file. Internal Audit was concerned that without a formal tracking system, some of the corrective actions would not be undertaken in a timely fashion.

During the conduct of this audit, we observed that the majority of observations are acted upon immediately. For those that are not, PTD receives assurance from regional/local management that they will be corrected in a timely fashion. Although no formal follow-up process has been implemented, the low number of observations that are not acted upon immediately can be adequately tracked by informal methods.

We conclude that a formal tracking system is no longer required.

The fourth recommendation of the 2001 audit report stated that "PTD should continue to examine its quality control framework in order to identify areas where efficiencies may be found."

We were informed that the quality control framework has not changed significantly since the 2001 report. While the framework was examined as recommended, the resulting changes were primarily to standardize the way PTD makes recommendations and communicates results. In examining the current quality control process, we were informed that the initial reviewer examines the file by answering 100% of the questions in PTD's Tool Use Guide (TUG) and sends it to quality control. The quality control officer also examines the file by answering 100% of the questions in the TUG. The file is then forwarded to management for a review of all instances of non-compliance and final sign-off.

We observe that there is still a very high level of redundancy in the quality control process. While all quality control processes require a certain level of redundancy in order to be effective, the current level appears to be higher than necessary.

Recommendation #1:

We recommend that PTD streamline its internal quality control process in order to improve efficiency.

Conclusion

All of the recommendations of the 2001 report have been addressed. We conclude that this objective has been fully met.

2.2   Assurance Services

Objective 2

To assess the extent to which the PTD is achieving its mandate of providing assurance that G&C funds are being managed and expended in accordance with program Terms and Conditions.

The Tool Use Guide (TUG) is the main tool to review files. This document provides direction to the senior quality assurance officers on the way to assess files. When PTD developed the TUG they wanted to ensure that every step of the G&C life cycle was reviewed.

The TUG is updated each time a new sample of files is selected to ensure that any change in the G&C environment has been considered. The changes are the result of new policies and changes in the internal procedure related to the steps of the project life cycle.

The audit team has made a comparison between the TUG and the HRDC (HRSD) Grants and Contributions Internal Control Framework, and concludes that most of the controls are adequately addressed by the TUG. There is a gap between the TUG and the Internal Control Framework in the areas of financial monitoring and segregation of duties (see Appendix B). Assessment of these areas is not easily accomplished by a file review program. Other monitoring and internal audit work done by the department adequately addresses these gaps.

Furthermore, all G&C programs are assessed. As stated in Objective 1, the excluded programs are to be covered through special reviews on a three-year cyclical basis. We noted that the AHRDA review was scheduled for 05/06; the other two excluded programs have yet to be scheduled.

To produce the national reports, PTD uses a statistical sampling methodology to ensure that the results can be applied to the whole population of files. PTD uses the file start dates to identify the population. The start date must be in a specific timeframe without consideration of the length of the project.

In the close-out section our conclusions are based on a smaller sample because not all selected files are closed. These conclusions are not as reliable as those where the full sample was used. The following five questions, therefore, have results that are not as reliable because the majority of the files picked by PTD are not closed:

- assets were disposed of in accordance with the agreement,

- the final contribution was paid after receipt of the final Claim Form, unless early payment was justified on file and allowable by program terms and conditions,

- overpayment has been recorded as a receivable and recovery procedures initiated,

- close-out summary including evaluation report prepared by program officer is on file and

- close-out report including a summary of outcomes is included on file at end of project.

While PTD contends that increasing the file sample is too costly and the statistics will become more reliable over time, we still have a concern regarding the reliability of the assessments on the close-out section.

Conclusion

We conclude that this objective is partially met. PTD reports a very high rate of compliance; however, results are not equally reliable for all criteria reviewed by PTD.

Recommendation #2:

We recommend that PTD revise its sampling protocols in order to provide a greater level of assurance in its assessment of the close-out section.

2.3   Risk Analysis

Objective 3

To assess the extent to which the PTD highlights key areas of risk and provides guidance on approaches to mitigate those risks.

After each review, PTD provides recommendations to local program managers. The recommendations are provided through a final summary of PTD results for each file reviewed where issues were identified. The individual summary is sent to the local office responsible for the file. The summary report contains a description of the issues noted and recommendations for corrective action to be taken. Local offices review the recommendations and provide PTD with their management response. If the management response is satisfactory, it is accepted and the file is closed.

PTD identifies risk and/or problem areas, based on statistically valid results, at the national level. Compliance rates under 90% are considered risk factors and are reported to senior management through the National Report.

PTD has also provides management information through the Cognos Powerplay Suite using the PTD cube[2]. The information can be used to analyze and identify risks at the national, regional and local level and by programs. The cube is composed of all the data collected in each PTD file review including observations, recommendations, management action plans, file name, compliance rates by region, by local office and by national level, etc. The Cognos tool allows the cube data to be arranged in different ways and provides a

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[2] A cube is a multidimensional database that holds data more like a three-dimensional spreadsheet than a relational database. A cube structure allows for different views of the data to be accessed quickly.

large range of reports and allows the user to drill down to the detailed information. The cube is available to be used by program areas and other groups that require its use.

Furthermore, PTD does national, regional and program trend analysis. Compliance rates that weaken by 5% or more are highlighted and brought forward. Some of the benefits of this exercise are that PTD has the ability to identify areas where correct interpretation of specific program terms and conditions has decreased as well as identifying training requirements for specific areas of the project life cycle, by local, regional and national offices.

Conclusion

We conclude that this objective is fully met as PTD has a robust mechanism in place to identify risks and problem areas.

2.4   Knowledge Transfer

Objective 4

To assess the extent to which the PTD is achieving its mandate of contributing to knowledge transfer throughout the department.

Internal Audit interviewed staff from the national, regional and local perspective, all of whom provided positive feedback.

During the individual file review, there is communication between the PTD senior quality control officer and the responsible project officer. PTD depends on protocols in place in regions for the dissemination of information.

The Financial Policy and Internal Control Directorate plays a role in regards to the Transfer Payments Policy and the Delegations of Authority. PTD is an early warning system for the directorate which is also responsible for standardizing the interpretation of policies. PTD is consulted in the process of developing and modifying G&C policy.

PTD also has a very good relationship with the Business Process Unit which is responsible for the development and maintenance of the Common System for Grants and Contributions (CSGC). During the development of the system, PTD provided advice to strengthen the rules by recommending automated edit checks.

A variety of units use PTD reports. The Employment Program Learning Directorate uses the reports in their needs identification process for both course delivery and curriculum design. The Corporate Risk Management & OAG Liaison unit consults the reports during the development of the Corporate Risk Profile. Internal Audit and the OAG use the reports to refine audit risk and to identify areas that may require audit effort.

In addition to the informal protocols, PTD reports are made available to interested parties via the intranet.

Conclusion

PTD is contributing to knowledge transfer within the Department and with its key clients. We conclude that this objective is fully met.

Recommendation #3:

We recommend that PTD maintain its close working relationships with HRSD and Service Canada policy units and to build similar relationships with other government departments as Service Canada begins to deliver programs on their behalf.

3.0 CONCLUSION

Overall, the audit team concludes that PTD has fully met expectations in the performance of its mandate. However, some further efficiencies can be achieved in the areas described below:

- At least two people do a complete review of each file before sending it to management for a review of the observations. We recommend that PTD streamline their quality control framework in order to improve its efficiency.

- Due to the criterion to select files for review, which is the start date of the project, the selected agreements are usually not closed at the time of PTD reviews. This leads to a high numbers of "N/A" answers in the close-out section of the PTD questionnaire; thus the compliance data collected on this phase of the project life cycle does not provide assurance at the same level of reliability. The audit team recommends that PTD revise its sampling protocols to provide a greater level of assurance in its assessment of the close-out section.

- PTD must work to maintain its close working relationships with HRSD, within Service Canada, and to begin to build similar relationships with other government departments as Service Canada begins to deliver programs on their behalf.

In performing our audit work, we have found that the compliance rate has increased and stabilized over the years. Accordingly, the latest observations made by PTD are usually minor in nature. Moreover, no area of high risk has been discovered recently. The work done by PTD is an important control element for G&C administration, however, the current high compliance rates suggest that it is time for PTD to re-examine its activities and refocus on areas of higher risks, while maintaining a core functionality to report G&C results at a national level.

We also note that Internal Review Committees have been implemented as an integral part of the HRSD G&C Internal Control Framework. These committees support management by providing both program and financial expertise to ensure that project proposals:

- meet program terms and conditions,

- meet *Financial Administration Act* requirements and priorities set out in the business plan,

- provide value for money and

- have a sound risk management plan in place.

Moreover, review committees ensure that mitigating strategies are identified to reduce departmental risk and that due diligence has taken place in the development and assessment of any project proposed for funding. We recommend that PTD realign some of the work performed in the application and assessment phases to strengthen the other areas or life cycle phases where compliance data is not as statistically reliable and are of high impact.

Statement of Assurance

In our professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The conclusions are only applicable for the Performance Tracking Directorate examined.

This internal audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

APPENDIX A – Management Action Plan

This appendix provides the details of management's response to the recommendations. Detailed management action plans should use the following table format.

Internal Audit Recommendations	Management Plan Action(s) to be undertaken	Planned Completion Date	Responsibility Title and RC Number
1. We recommend that PTD streamline its internal quality control process in order to improve efficiency.	PTD proposes to streamline the internal quality control review process based on following criteria: -complexity of file; -risk of the program; -dollar value of agreements -experience/expertise of reviewers	4th quarter 2006-07	Brian McSheffrey A/Director General RC 9052 953-2939
2. We recommend that PTD revise its sampling protocols in order to provide a greater level of assurance in its assessment of the close-out section.	PTD will revise the sampling methodology with the advice of our statistician to provide a greater level of assurance in its assessment of the close out section in line with the 2007-08 national report.	1st quarter 2007-08	Brian McSheffrey A/Director General RC 9052 953-2939
3. We recommend that PTD maintain its close working relationships with HRSD and Service Canada policy units and to build similar relationships with other government departments as Service Canada begins to deliver programs on their behalf.	PTD will continue to maintain its close working relationships with HRSD and Service Canada policy units and to build similar relationships with other government departments as Service Canada begins to deliver programs on their behalf with liaison and cooperation with Corporate Affairs in Service Canada.	3rd quarter 2007-08	Brian McSheffrey A/Director General RC 9052 953-2939

APPENDIX B – HRSD Grants and Contributions Internal Control Framework

HRSD Internal Control Framework Environment	Reporting Regime
• Values and Ethics Code • Treasury Board Transfer Payment Policy • Standard HRSD Policies / Program Operational Policy, Procedures and Tools • HRSD Program treasury Board Approved Gs and Cs Terms and Conditions • Comptrollership and Operational Gs and Cs Training • Formal Delegation of Authorities • Program and Financial and Administrative Services (FAS) functional direction and guidance • Risk Management Audit Framework • Results Based Accountability Framework	• Public Reporting of HRSD Grants and Contributions • Public Reporting of Performance Tracking Directorate Review Reports • Public Reporting of Internal Audit Findings • Reporting to Parliament through HRSD Performance Report

Application	Assessment	Recommendation & Approval	Agreement	Monitoring	Claims Processing / Payments	Close out
Segregation of Duties: Community Relations			**Segregation of Duties: Agreement Administration**			

• Mandatory for all programs (A10-010.01)
• Standard Information available to public
  – Program description
  – Forms / processes
• Gov't web-site
• HRSD Web site
• HRSD offices
• Call for proposals for projects valued at or above $500K
• Information fields (A10-010.02)
• ***Information / guidance / assistance to applicants***
  – ***documentation***
  – ***Internet site***
• Application received maintained on file (A10-010.01)
	• Formal assessment required (A20-030.05, A20-030.10)
	• Standard eligibility criteria
	• Standard program assessment process
	• ***Mandatory assessment items***
	  – ***previous activities / outcomes with HRSD***
	  – existing overpayments
	  – eligibility (A20.030.15)
	• Internal and external consultation required for specific programs (A20-030.35)
	• Confirmation of consultations required (A20-030.35)
	• All applicants rejected notified in writing
	• Assessments retained on file / CSGC
		Recommendation
		• Written recommendation required (A30-020.05)
		• Recommendation must contain written supporting rationale and mandatory elements (A30-020.10)
		• ***Segregation of duties between recommendation and approval authority***
		• Copy of all recommendations retained on file (A30-020.05)
		Approval
		• Internal Review Committees
		  – Informal (A20-030.36)
		  – Formal
		  – Regional
		• Formal Delegation of Authorities (A30-020.20)
		  – by Program
		  – dollar value
		  – organizational position
		  – segregation of duties from agreement
		• Standard approval forms
		  – Mandatory Information Fields
		• Approval documentation retained on file (A30-020.05)
		• ***Ability for conditional approval***
		• ***Conditions of approval documented***
			• Standard Program agreements
			• Mandatory clauses in agreements
			  – ***Recipient obligations***
			  – basis of payment (A40-020.40)
			  – ***conflict of interest***
			  – lobbyist (A40-020-46)
			  – stacking
			  – audit: external audits mandatory for agreements equal to or greater than $350K
			  – (A40-020.42 and 43)
			• Formal Delegation of Authorities
			  – by Program
			  – dollar value
			  – organizational position (A40-021.15)
			• Documentation retained on file (A40-020.05)
			• System confirmation of available funding, prior to agreement completion (Section 32 FAA) (A40-021.10)
			• Automated Interface to CMS to transfer commitment accounting data
				• Standard Risk evaluation for determining monitoring (A60-030.05)
				• ***100% of expense claim monitoring***
				• Risk assessment performed on all agreements to determine monitoring type and frequency (A60-030.05)
				• ***Mandatory monitoring schedule and report***
				• ***Standard activity and financial monitoring process***
				• Monitoring reports retained in CSGC (A60-050.05)
				• ***Supervisory review and approval on monitoring reports***
				• Automated BF system for follow-up action in CSGC
				• ***Audits required for certain programs***
					• Standard claim process, forms, documentation and instructions
					• Claims certified by claimant (A50-040.25)
					• Claim certified by Program Officer (Section 34) (A50-020.55)
					• Segregation of claim processing approvals to input into CMS for payment (50-020.65)
					• Claims information inputted into CSGC to assist payment entitlement (class of allowable expenditure) and calculation
					• Claim documentation retained on file (A50-020.20)
					• Agreement cash flow requirements interfaced with payment processing / Revision of cash flow as required (A50-020.50)
					• Automated payment determination by CSGC process upon advances and claims
					• Payment information interfaced with CMS for budgetary purposes and cheque issue
					• Payment authorization by FAS for transmission to PWGSC for cheque issue
					• Cash holdback required until final claim is processed (A70-010.15)
						• Standard program close out process
						• Calculation / adjustment of final payment (A70-010.15)
						• Standard close out documentation and report including evaluation and activity outcomes (A70-010.22 and 25)
						• Input of final claim notification / payment in CMS to close financial commitment and file
						• Documentation maintained in CSGC and on file (A70-010.22 and 25)
						• Establishment of overpayment in DARS as required (A70-010.20)

Quality Assurance Regime		System Regime

• HRSD National Gs & Cs Performance Tracking Directorate
  – National/Program/Major Region Compliance File Reviews and Reporting
  – G&C Sponsor expense validation reviews and Reports
• Regional Program Compliance / G&C Compliance File Reviews by Post Audit and Reporting
• Internal Audits
• Auditor General reviews and Audits
		• HRSD Corporate Management System (CMS)
		• HRSD Common System for Gs & Cs (CSGC)
		• HRSD Accounts Receivable System (DARS)

*In our opinion, the **underlined** controls are not covered in the PTD TUG. Bracketed notes refer to TUG section numbers.*

Terms of Reference

Audit of the Performance Tracking Directorate

Project Number: *6527/04*

Approved by:

Senior Director:	<u>*ORIGINAL SIGNED BY*</u>	<u>*MAY 27, 2005*</u>
Internal Audit	Barbara J. McNab	Date

Director General:	<u>*ORIGINAL SIGNED BY*</u>	<u>*MAY 27, 2005*</u>
	Anthea English	Date

May 2005

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1.0   INTRODUCTION

At the November 2004 meeting of the Audit and Evaluation Committee, the *Six-Month and Longer Term Work Plan for Internal Audit Services in HRSDC* was approved. An audit of the Performance Tracking Directorate (PTD) was scheduled for the fiscal year 2004/2005. Internal Audit has made a commitment to undertake this type of audit on a three year cycle as the PTD is a key driver in the performance assessment of the administration of HRSDC/SDC Grant and Contribution Programs.

The National Grants and Contributions Performance Tracking Directorate (PTD)

In response to the Internal Audit Report - Program Integrity of Grant & Contribution Programs, the Performance Tracking Directorate (PTD) was established in the fall of 1999 to support the work of strengthening the administration of grants and contributions in Human Resources Development Canada (HRDC).

In December 2003, Human Resources Development Canada was divided into two new departments, Social Development Canada (SDC) and Human Resources and Skills Development Canada (HRSDC). PTD is now part of the Financial and Administrative Services Branch of SDC which provides corporate services to both departments. However, the majority of the work performed by the PTD is related to Grant and Contribution programs administered by HRSDC.

PTD is responsible for assessing the overall program integrity of grant and contribution activities within HRSDC and SDC by performing quality assurance reviews and on-site financial monitoring of Grant and Contribution recipients.

The PTD's mandate is to:

- provide assurance that grant and contribution funds are being managed and expended in accordance with program terms and conditions,
- highlight key areas of risk and provide guidance on approaches to mitigate those risks,
- contribute to knowledge transfer throughout the Departments and
- coordinate activities with other monitoring and audit functions carried out within the Departments and by external agencies to ensure adequate coverage, without duplication of effort.

The PTD reviews provide senior program management with ongoing detailed information on the level of compliance with required administrative standards for grants and contributions. In addition, PTD produces two reports each year.

The objectives of the PTD reviews are to:

- provide HRSDC/SDC senior management with a timely assessment and feedback on the level of compliance to departmental policies and procedures,

- assess the extent to which the Regions and National Headquarters are adhering to the national directives and guidelines, operational manuals, the Treasury Board Transfer Payment Policy, and the Financial and Administrative Services Policy on G&Cs,
- assess and verify documentation to support the payments made to recipients in order to ensure that these payments adhere to the agreements and program terms and conditions and
- identify and report on any significant areas of risk that should be addressed in order to continue to strengthen the administration of G&Cs.

2.0   AUDIT OBJECTIVES AND CRITERIA

Objective 1

To ensure recommendations of the 2001 Audit of the National Grants and Contributions Performance Tracking Directorate Activities have been addressed by the PTD.

Criteria:

1.1 PTD has re-examined the time allocated to local HRCC, RHQ and NHQ to forward files selected for the PTD reviews.
1.2 PTD has reviewed all excluded programs to find cost-effective methods of measuring HRSDC/SDC Grants and Contributions performance.
1.3 PTD has developed and implemented a formal follow-up and tracking system.
1.4 PTD has continued to evaluate and improve upon its Quality Control Framework to ensure effectiveness and efficiency.

Objective 2

 To assess the extent to which the PTD is achieving its mandate of providing assurance that Grant and Contribution funds are being managed and expended in accordance with program Terms and Conditions.

Criteria:

2.1 PTD assesses the main controls put in place in the project life cycle in order to ensure that funds are being managed and expended in accordance with policies, procedures and guidelines.
2.2 PTD has a multi-year plan covering all Grant and Contribution programs.
2.3 PTD provides timely, accurate and statistically valid information to stakeholders.

Objective 3

To assess the extent to which the PTD highlights key areas of risk and provides guidance on approaches to mitigate those risks.

Criteria:

3.1 PTD has a mechanism in place to identify risks or problem areas:
   - at the national, regional and local levels and
   - by program.
3.2 PTD plans and conducts special reviews based on key risk areas.
3.3 PTD makes recommendations on the risk and problem areas, reviews action plans from accountable managers and ensures action plans have been implemented.

Objective 4

To assess the extent to which the PTD is achieving its mandate of contributing to knowledge transfer throughout the department.

Criteria:

4.1 Proper PTD results and findings are communicated to the appropriate level of management, administration and policy development of Grants and Contributions at the national, regional and local levels of both departments.
4.2 PTD findings are used in the development of the training related to Grants and Contributions.
4.3 PTD findings are considered in the process of policy and guidelines review.
4.4 PTD findings are used in the development of tools (i.e. On-line Operations manual, Common System for Grants and Contributions).

3.0   SCOPE

The audit work will encompass all of the PTD activities, except for sampling methodology and the new external audit functions which will be covered in a subsequent audit.

Interviews will be conducted at NHQ and in 3 regions which will be selected based on their relative importance in terms of files selected in the PTD sampling.

Note: Privacy issues will not be specifically covered since the PTD does not handle personal information on a daily basis. Although files reviewed by the PTD contain client information, they are carefully stored as was observed by the audit team during a visit of the PTD offices.

4.0   METHODOLOGY

As per the Institute of Internal Audit standards, assurance will be provided through a number of methodologies and tools including:

- interviews with the PTD management and staff, senior management and key clients,
- documentation analysis,
- on-site observations and
- file review to be conducted at NHQ. The file review will cover a sample of 30 files using a combination of judgemental and random sampling methodology.

5.0   REPORTING

Debriefings will be conducted as requested, and communication will be ongoing with the PTD management.

Verbal debriefings on preliminary findings will be conducted to validate and obtain feedback and to ensure that the appropriate context for the findings is included in the report.

Debriefings with senior management will take place prior to the finalization of the report as required.

The PTD management will be consulted before draft report is sent to senior management.

A management response and action plan in response to the findings and recommendations will be prepared by the PTD senior management and incorporated into the final report.

6.0   MILESTONES

Field Work .... May - July, 2005

- ➢ NHQ interviews and documentation review (throughout)
- ➢ Region interviews and documentation review (June 6 - 24, 2005)
- ➢ File review (June 27 - July 29, 2005)

Draft Report .... August, 2005
Management Action Plan .... September, 2005
Final Report .... November, 2005 (AEC Meeting)