



Audit of Grants and Contributions Segregation of Duties

March 2007

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EXECUTIVE SUMMARY

This is a post-implementation audit of the *Segregation of Duties Directive* covered under the *Specialization and Concentration Initiative* which came into effect on February 16, 2004. The objective of this audit is to determine if the *Segregation of Duties Directive* is an effective and efficient control and has been implemented in the delivery of programs and services for Grants & Contributions (G&C) programs in NHQ and selected regions.

The audit was identified in the *Annual Audit Plan for the fiscal year 2005-2006 for Internal Audit Services in HRSDC*. This audit started in January 2006 and the field work was conducted in March and April 2006 in the following eight regions: British Columbia/Yukon, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island and Quebec. The internal audit sample consisted of projects that were approved between the periods February 16, 2004 and December 31, 2005.

While the segregation of duties is a major control in the G&C process there are other controls that help mitigate the risk of misuse of funds like the Internal Review Committee, approval processes and agreement signatures.

The Internal Audit Branch is satisfied with the segregation of duties but the interpretation of the directive needs to be clarified. We observed that there were always at least two employees involved in all files and all the steps of the G&C process were followed. However, we also noted that some steps were completed by officers who were not deemed responsible as per the directive.

Main Findings

- The Internal Audit Branch is satisfied that the segregation of duties is still respected even though 100% compliance to the directive was not always noted. Based upon Internal Audit Branch's analysis of our sampling and observations, as well as interviews with staff and sponsors, non-compliance was related to staff prioritizing prompt client service, operational needs, and efficiencies. There was nothing to indicate any misuse of funds or fraudulent activity. While there is always a chance that non-compliance could contribute to less than desirable results, there was nothing to lead us to this conclusion in this audit.
- The Internal Audit Branch believes that the program administration could be made more efficient while addressing the issue of non-compliance at the same time. The directive's current segregation point between program officers can result in a redistribution of work that is not always efficient, overriding staff expertise and their proximity to sponsors.

- The directive was implemented differently across the regions. Two of the six models implemented did not completely comply with the requirements of the directive. However, from a control standpoint, the models implemented did not indicate any significant deficiency.
- The department did not ensure the various tools that were used for the management of the Contribution Agreement files, such as the Common System for Grants and Contributions (CSGC), were adequately modified to facilitate implementation of this directive.

Audit Conclusion

It is the auditors' opinion that the *Segregation of Duties Directive* on the delivery of programs and services is an effective policy for G&C programs in National Headquarters and the selected regions. However, improvements are needed to ensure greater compliance with the directive, enhance services to sponsors and clients, and to provide additional guidance and tools with regards to the implementation of this directive.

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

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 Grants and Contributions programs administered by Service Canada.

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.

1.0 BACKGROUND

At the April 2005 meeting of the Audit and Evaluation Committee, the *Annual Audit Plan for the fiscal year 2005-2006 for Internal Audit Services in HRSDC* was approved. This plan included an audit of the Grants & Contributions (G&C) – Segregation of Duties component scheduled for the fiscal year 2005-2006.

Grants & Contributions are used as a vehicle to provide Canadians with the tools they need to thrive and prosper in the workplace and community. Programs that Service Canada delivers include human capital development, labour market development and establishing a culture of lifelong learning for Canadians. Properly planned and managed grant and contribution programs give recipients a chance of success in the funded activities without contributing more public money than the recipient needs.

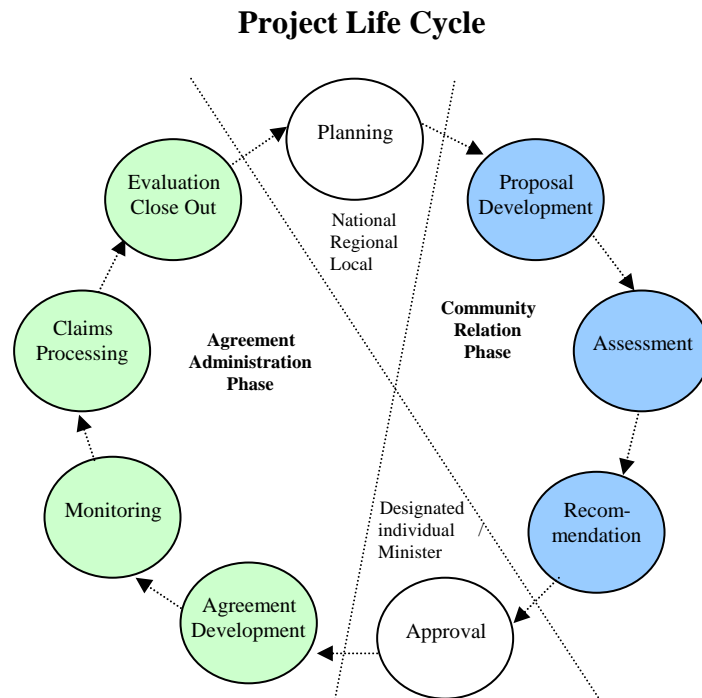
In response to specific findings of a 1999 departmental audit of G&C that had highlighted poor documentation practices, the department took action and designed and implemented an array of additional control measures. Chief among those additional measures was a six-point action plan which brought about enhancements such as a standard, automated administrative platform for G&C, and the addition of further administrative stringencies that included segregation of duties as part of a special initiative called Specialization and Concentration.

On February 16, 2004, the *Specialization and Concentration Initiative* came into effect. The objective of this initiative is to develop a program administration model featuring specialization and concentration as well as additional control features for G&C administration that will improve program outcomes while ensuring national consistency and accountability. The four elements identified in this initiative include the following:

1. Segregation of duties within the G&C Project Life Cycle
2. the use of Internal Review Committees
3. the use of a Call for Proposal Process and
4. Enhanced Financial Controls - Audit Clause.

Segregation of duties within the G&C Project Life Cycle was identified as a core component of the G&C business process controls. This directive was developed drawing on the expertise and advice provided by IBM, forensic auditors from Kroll Lindquist Avey, departmental financial advisors and lessons learned from the Nova Scotia and British Columbia/Yukon regional pilots.

Segregation of duties is one step in the implementation of an integrated organizational model incorporating the *Specialization and Concentration Initiative* in the delivery of programs and services. Segregation of duties is a key part of the Service Canada program delivery model to ensure that no single program officer executes all activities of the Project Life Cycle for an assigned file. The Project Life Cycle is divided into two discrete phases. In phase one, the project is assigned to a program officer with a focus on community relations and, in phase two, the project is assigned to a program officer with a focus on agreement administration. The specific division is illustrated below:



It is important to recognize the recent history of G&C and note the deliberate emphasis on increasing controls to better ensure the integrity of this work. Equally important to note are the events since the inception of Service Canada in 2005, and the attempts of this service-oriented organization to work with its community partners and strike an appropriate balance between risks and controls that ensures not only the probity of administration but also emphasizes services and results for individuals.

1.1 Scope

This audit examined the implementation of the *Segregation of Duties Directive* in the delivery of programs and services for selected G&C programs as outlined in the *Specialization and Concentration Initiative* effective February 16, 2004. However, all contribution agreements with single individuals will not be audited as these contribution agreements were excluded from this directive (Appendix A: List of Programs).

Internal audit visited eight regions, seven Regional Headquarters and 15 Service Canada Centres. Furthermore, internal audit drew samples from files that were approved between the periods February 16, 2004 and December 31, 2005.

1.2 Methodology

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

- interviews with staff in NHQ and selected regions who are involved in the delivery of contribution programs
- preliminary survey
- file review
- data analysis, validated through judgemental sampling
- documentation review and
- analysis of documentation, such as policies, operations manuals and directives.

To establish the departmental compliance rate of this directive, internal audit used a statistical sample with a 95% confidence level (Appendix B: Sampling Methodology). A random sample of 324 files was selected for review from all regions and covering all programs that were subject to the *Segregation of Duties Directive* (Appendix A).

2.0 AUDIT FINDINGS

2.1 Audit Objective

The objective of this audit is to conduct a post-implementation audit to determine how effectively the *Segregation of Duties Directive* in the delivery of programs and services has been implemented for Grants and Contributions (G&C) programs in NHQ and selected regions.

2.2 Findings by Criterion

Criterion 1.0

The department is in compliance with the *Segregation of Duties Directive* (Appendix D: Employment Programs Operations Directive on Segregation of Duties) covered under the *Specialization and Concentration Initiative* which came into effect on February 16, 2004.

Introduction

Under the current directive, a program officer will complete either the community relations phase (which includes proposal development, assessment and recommendation) or the agreement administration phase of the Project Life Cycle (this includes agreement development, financial and activity monitoring, claim processing and file evaluation and close out). A single program officer cannot execute all activities of the Project Life Cycle for an assigned file.

In determining whether a contribution agreement file complied with the directive, our analysis considered the following information:

- Which program officer made the recommendation to Internal Review Committee for project approval?
- Which program officer finalized the agreement development?
- Which program officer completed the monitoring report(s)?
- Which program officer verified the payment claim(s) and signed Section 34 (Appendix C: Definition of *Financial Administration Act* Section 34)?
- Which program officer completed and signed the close out report?

There was no tracking system or audit trail to determine which program officer finalized the agreement development phase of the Project Life Cycle. As such, we considered data from the background setting in the Common System for Grants and Contributions (CSGC) that identifies the program officer who saved the agreement phase to determine departmental compliancy with the directive. The CSGC is an automated, web-based system designed to support the management and administration of the department's G&C programs.

Findings

Under the current definition of the directive, a file is only considered to be compliant when a program officer who is responsible for the community relations phase is not involved in the agreement administration phase of the Project Life Cycle, and vice versa. Thus, based on our sample of files selected for review, we have determined the departmental compliance rate to the *Segregation of Duties Directive* to be lower than expected.

The main reason segregation is not occurring is that the directive may be too strict regarding segregation from a control standpoint.

Our file review indicated that the following agreement administration activities were not executed by agreement administration officers, but rather community relations officers. This is a non-compliance issue with the directive, however, in our opinion, there is minimal effect on the integrity of the administration of G&C when the community relations officer performs the following phases of the Project Life Cycle.

- Drafting the agreement:

Prior to drafting the agreement, a project has to be approved by the Internal Review Committee. Once the project is approved, the agreement administration officer is responsible for writing an agreement that reflects the recommendation made by the Internal Review Committee. From a control standpoint, the draft agreement could be done by either the community relations officer or the agreement administration officer. This would have no impact on the segregation of duties.

- Claims Processing

Section 34 Approval:

Claims processing requires two different individuals for claims verification and the approval of Section 34 as implemented in the system. Segregation of duties is already built into this process. Requesting a third person to sign off under Section 34 is not necessary. If the community relations officer is signing off under Section 34, there is still a segregation of duties.

Neither of these situations generates risk from a control standpoint. However, the following activities should not be performed by the community relations officers as they relate to the disbursement of public funds and performance of the contribution agreement.

In our opinion, to assure a proper segregation of duties, the verification of the claim should not be done by the community relations officer. However, there is also a need to balance the control, cost and efficiency.

- **Claims Processing**

Verification of Claims:

Payments are made as a reimbursement of expenses. When a claim is received, it is the program officers' responsibility to verify the legitimacy of expenditures, ensure that all payments are issued in accordance with the terms of the agreement and ensure that any revenue generated from the project has been offset against expenditures.

Some of the files we reviewed contained more than one claim, all of which were thoroughly reviewed. The tabulation of error rates was done based on files as opposed to the number of claims contained in each file. For example, if errors were detected in more than one claim contained in a multiple claim file, it would count as one error. In total, we found that 19% of the reviewed files were non-compliant with the directive (with no adverse monetary implications).

As specified before, the number of claims examined exceeded the number of files reviewed as several files contained multiple claims. Our audit observed that the community relations officer verified at least one claim when the file contained multiple claims. This represented about 5% of all claims reviewed. Most of the time, the community relations officer's verification of a claim was done because the agreement administration officers were not available and staff wanted to provide the money to the recipients. Our analysis of information collected during our audit led us to conclude that these non-compliance issues mainly occurred to meet operational needs, improve efficiency, or provide good service to clients.

The next two phases of the segregation of duties assure that segregation of duties is effective. The two together represent 7.1% of files that were not segregated in compliance with the directive. Managers should ensure segregation is taking place in these phases.

- **Closing the agreement:**

The purpose of closing the agreement is to finalize the activities under the agreement and to ensure that all of the requirements have been met and dealt with in an appropriate and acceptable manner prior to issuing the final payment. It requires that the file has been properly documented and that all financial concerns have been addressed.

- Monitoring the agreement:

Project monitoring is one of the five elements of the department Quality Assurance Framework. It is important for the program officers to be unbiased and independent when they conduct financial monitoring to ensure the proper administration of public funds and the contribution agreement is implemented as approved by both parties.

The non-compliance rate with the directive may be perceived as high, but the results need to be interpreted properly. There is no major concern because the percentage of non-compliance is not related to misuse of funds or fraudulent activities. Rather, non-compliance was related to staff prioritizing prompt client service, operational needs and efficiencies.

Implementation of Non-Compliant model

We visited eight regions during this audit, and observed that the segregation of life cycle duties was implemented in six different ways, two of which did not consistently comply with the *Segregation of Duties Directive*.

In one region, we found that approval was provided by National Headquarters to give this region's community relations officer the option of conducting the agreement signing process with the sponsor and the activity monitoring during the agreement administration phase. However, the agreement administration officer remains responsible for the financial monitoring (Model 4 of Appendix E).

In two of the regional offices we visited, we observed that the roles and responsibilities had not been segregated as per the directive. In these two offices, the agreement development activities were assigned to the community relations officer, in contravention of the directive which stipulates these duties belong to the agreement administration officer (Model 2 of Appendix E).

This contravention has not affected the purpose of the directive, which is to ensure that no single officer executes all the activities in the Project Life Cycle.

Conclusion

According to the current segregation of duties directive, the file review potentially revealed a high non-compliance rate. Nevertheless, due to the confusion surrounding the interpretation of the directive, the review of this directive may reveal to be more operationally-oriented towards the needs of the clients and the staff without increasing any risk. Hence, if this was the case, the level of non-compliance would decrease.

Recommendation #1:

We recommend that the department develops official interpretation or clarification of the directive in relation to the co-participation of community relations officers and agreement administration officer in the agreement development and claims processing phases of the Project Life Cycle.

Criterion 2.0

Segregation of duties in the delivery of programs and services is working effectively and efficiently for selected G&C programs in the department.

Introduction

This criterion was evaluated based on information collected during our field visits and a review of the other elements from a control perspective for the administration of G&C.

Effectiveness of the directive

Effectiveness of the directive as a policy

The objective of the *Segregation of Duties Directive* is to enhance the integrity of the management of G&C by ensuring that no one program officer executes all activities of the Project Life Cycle for an assigned file. This minimizes the risk of any single individual exerting undue influence over the outcome or the objectivity of the overall activities or, in extreme cases, collusion between individuals responsible for different activities or controls.

The Kroll Lindquist Avey report, *Review of HRDC Internal Control Framework for Grants and Contributions*, published in November 14, 2003, identified vulnerability in the department's control framework due to lack of segregation of duties in the G&C life cycle. On February 16, 2004, the department implemented the *Segregation of Duties Directive* to address the vulnerabilities identified in the report. Based on our assessment and analysis, it is our opinion the directive is an effective tool to enhance the integrity of the management of the administration of G&C. This directive is effective as it segregates monitoring, payments verification and close out activities from the community relations officer. This reduces the possibility of undue influence and lack of objectivity when the same individuals are involved in the marketing/planning, assessment, recommendation or approval activities for funding. However, effective implementation and compliancy to the directive is required to ensure the objective of the directive is being achieved.

Under the existing quality assurance framework for the management of G&C, there are multiple individuals who oversee the files in addition to the two program officers responsible for the community relations phase and the agreement administration phase.

These individuals include those who are involved in:

- Internal Review Committee

The committee consists of various departmental staff members, usually including the program operation consultant, service delivery manager, as well as appropriate Corporate Services representation. These individuals provide the designated signing authority with both program and financial expertise to ensure that project proposals are in accordance with the Program Terms and Conditions, *Financial Administration Act* requirements, and priorities set out in the business plan, as well as providing value for investment and having a sound risk management plan in place.

- Approval

To ensure that funding decisions are objective and follow proper controls, the person who approves the project must not be the same person who prepares the recommendation. This is why there is a division of responsibilities, with one person writing the recommendation rationale, and another authorized to approve it.

- Agreement signature

All agreements must be signed by another individual with whom the proper delegation resides if, in accordance to the departmental delegations of authority policy, the value of the agreement exceeds the signing authority of a program officer.

- Activity/financial monitoring/close out of projects

Program officers are usually responsible for initiating the monitoring and close out procedures. They do the monitoring visit, ensure compliance with the agreement, complete the required paperwork and initiate the final payment. Managers are responsible for reviewing and signing the monitoring visit and close out report, reconciling the budgets and ensuring that the funds have been de-committed.

The involvement of others mentioned above further enhances the integrity in the management of G&C by providing a supervisory and oversight function to the process. However, these integrity measures do not segregate the community relation function from the administration function to ensure no single individual exerts undue influence on a project. Therefore, the above mentioned procedures are only complementary measures and segregation of duties between program officers in the Project Life Cycle are required in order to further enhance the integrity of the process.

Effective implementation of the directive

Communications & Training

Interviews with front-line staff indicated that policy guidance received during the launch of the directive was inadequate. For instance, we did not find evidence of a guideline on how a file should be rotated among staff in a local office. In some cases, program officers were found to have rotated files amongst themselves. This may not completely mitigate the risk of collusion where the officers work in the same facility.

Tools

It was noted in our interviews that staff encountered confusion in the responsibilities of various duties within the Project Life Cycle, such as the signing of Section 34 and the completion of amendments. As a result, program officers had to resort to individual interpretation of the directive, especially during the initial stage of the implementation of the directive.

Furthermore, the CSGC was not fully modified to facilitate the implementation of this directive.

The following are examples where the CSGC fails to ensure controls are in place to carry out this directive:

- There is no mechanism to ensure community relations officers do not have “write access” beyond the recommendation and approval phase.
- There is no mechanism to validate the integrity and the completeness of the “Assign project officers” screen. The purpose of this screen is supposedly to inform users of the names of the program officers who are responsible in managing the project. This screen contains three fields: “Project Officer”, “Community Relations Officer” and “Adminstrating Officer”. However, the descriptions of these fields are not well communicated to users.

Thus, the interpretation of these fields varies from office to office and region to region. Furthermore, this screen is a stand alone screen where it does not connect to information otherwise collected in CSGC. As a result, the name that appears as the community relations officer, for instance, may not necessarily be the program officer who is responsible for the community relations phase of the file. Such discrepancy may result in providing false assurance to management that a file has been properly segregated.

- There is no electronic record of the program officer who drafted the contribution agreement, nor does the name of the program officer who prepared this document appear when the contribution agreement is printed. The only information available is the name of the program officer who “saved” the document, which is accessible only in the background setting of CSGC. Therefore, it is difficult for management to determine whether the exchange of files took place after the recommendation stage, as prescribed by the directive, when the information is not captured anywhere in the file.

Conclusion - Effectiveness of the *Segregation of Duties Directive*

The *Segregation of Duties Directive* is an effective tool to enhance the integrity in the management of G&C agreements by ensuring no one program officer executes all activities of the Project Life Cycle for an assigned file. Based on the findings presented, it is our opinion that in order to achieve the intended effectiveness of the directive, it is imperative for the department to provide additional guidance and tools with regards to the implementation of this directive. Furthermore, management has to ensure the department is compliant with this directive.

Recommendation #2:

We recommend that the department develops and communicates specific guidelines for the following:

- Method in which projects are rotated between the program officers and
- Section 34 approval completed by the community relations officers.

Recommendation #3:

We recommend that the department reviews and modifies the CSGC to ensure that it effectively supports the *Segregation of Duties Directive* and address the following issues:

- Write access was given to community relations officers beyond the recommendation and approval phase. These phases include access currently given in monitoring, claim processing/payment and close out phases
- Lack of integration of “Assign project officers” screen with other fields in the CSGC and
- No records of the program officer who drafted and prepared the contribution agreement.

Efficiency of the directive

In this section, we evaluated whether the *Segregation of Duties Directive* is working efficiently for selected G&C programs in the department.

Variation in operation requirement

For this audit, we have visited eight regions: British Columbia/Yukon, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, and Quebec. The 15 Service Canada Centres visited ranged from offices in remote areas with only one program officer to offices in major cities where there are up to 16 program officers. During these visits, we interviewed 95 staff, which included program officers, program operation consultants, team leaders, service delivery managers, and local and regional directors who are responsible for the delivery of G&C programs.

We observed variations in the requirement of the directive amongst different regions, as well as between rural and urban settings. The current directive requires that segregation of duties between program officers take place after the completion of the recommendation and approval phase in the Project Life Cycle and before the agreement development phase.

Smaller or rural offices

It was communicated to us during staff interviews at rural or smaller offices, where there is only one program officer, that this directive posed an operational challenge in the implementation. For these offices, staff noticed inefficiency in agreement administration due to the transfer of files between program officers in different offices. Furthermore, program officers are now required to travel outside their communities to negotiate or monitor an agreement as they are not allowed to act as both the community relations officer and the agreement administration officer on a single file. In the case where the program officer is located outside the community where the agreement takes place, extra efforts may be required to understand the parameters of the community in order to operate as effectively as a community-based program officer. The additional cost and time required to carry out this directive at rural or smaller offices may hinder the efficiency of program delivery.

Service providers

We have interviewed representatives from sponsors of various sizes and in different regions. During the interviews, sponsors said that the *Segregation of Duties Directive* increases their administrative burden, as they are now required to spend additional time and efforts to ensure that any new program officer assigned to a project is both knowledgeable of the agreement and cognizant of all ongoing issues. In addition, confusion arises when sponsors are now required to work with multiple contacts in relation to the agreement, especially in cases where the roles and responsibilities between different program officers are not transparent to the sponsors.

Point of segregation

Staff noted that the current directive on the point of segregation before the agreement development phase diminishes the overall efficiency in the management of a file, specifically reducing their ability to manage their workload and disrupting their workflow. The agreement administration officer, who has little knowledge of the project in comparison to the community relations officer, is now required to understand, often on short notice, the information in the file prior to explaining the content of the agreement to the sponsor/recipient.

During our interviews, some staff expressed concern over the point of segregation. To reiterate, the directive prescribes that the writing of the contribution agreement should be the responsibility of the agreement administration officer. From a control standpoint, this ensures that the contribution agreement is written by an unbiased individual, who has limited exposure to the sponsor and consequently it decreases the possibility of collusion between staff and sponsor. The process of agreement writing by the agreement administration officer ensures that there will be a thorough understanding of the agreement during the agreement administration phase, which includes monitoring and claim processing. However, the current practice in drafting the contribution agreement limits the effectiveness of this control.

In the current process, the community relations officer inputs the recommendation based on the review completed by the Internal Review Committee into the CSGC. This information is subsequently transferred into the agreement by the agreement administration officer. The intention, as stated, is to employ the agreement writing process as a control mechanism performed by an unbiased individual. However, staff interviewed acknowledged “copying and pasting” information written by the community relations officer into the contribution agreement, which essentially suggests that the content of the agreement was written by the community relations officers instead of the agreement administration officer and the intent of the point of segregation as a control is compromised.

Conclusion - Efficiency of the Segregation of Duties Directive

Based on the interviews conducted and our on-site file review, we conclude that efficiency for the *Segregation of Duties Directive* can be improved for selected G&C programs. While the directive is effective and achieved its objective of enhancing the integrity in the management of G&C files by ensuring no one program officer executes all activities of the Project Life Cycle for an assigned file, it increased the workload for staff and possibly amplified the administrative burden for sponsors.

We cannot quantify the incremental cost (time and resource) as a result of the implementation of the directive. The observations related to "efficiency" are based on interviews and on the fact that the audit team did not conduct any additional audit testing to validate these observations. We believe that the directive can be modified in order to alleviate some of the operational concerns expressed by staff and sponsors.

Effectiveness and Efficiency of Models Implemented

As mentioned earlier, we observed that the directive was implemented differently across the regions. Please refer to Appendix E for a more detailed analysis of the various models observed. This inconsistency, in our opinion, is primarily due to differences in geographical and operational requirements. All models examined in this audit did not indicate any significant deficiency from a control standpoint.

From an effectiveness standpoint, the current delivery model enhances the integrity in the management of G&C by ensuring no single individual exerts undue influence on a project (Model 1 of Appendix E). Based on our analysis, we believe that Model 6 in Appendix E best reinforces Service Canada’s strategic objectives of “delivering seamless citizen-centred service” and “enhancing the integrity of programs.” This model segregates the functions of the G&C process and is designed to be more client-focused and more responsive to community needs.

Under Model 6, the community relations officer is assigned to a sponsor for the entire life cycle of a project except for the financial activities of claim processing and financial monitoring which are assigned to a specialized administrative officer. We believe that the community relations officer will be better positioned to achieve Service Canada’s objectives through a client-focused approach where the sponsors will be supported to achieve the best project outcomes, as well as being better positioned to understand and evaluate the impact of a project in the community.

As stated in the previous analysis, this model ensures a community presence through the entire life cycle and facilitates enhanced client service from the perspective of relationship continuity with one program officer for all phases of the project except for conducting financial monitoring and claim processing. Furthermore, the specialization of function implies that officers specialize their skills in terms of community relations or files administration. In a region where this concept has been implemented, it was recognized that specialization of skills enhances the effectiveness of the respective function which translates to improved services and enhanced program integrity. It is also much easier to provide the right training to the right people since the skills needed vary from one function to another.

Recommendation #4:

We recommend that the department reviews all models that are currently employed across Canada to develop and implement a model that will be more client-focused, more efficient than the current model, while providing sufficient controls over the financial administration of programs.

3.0 CONCLUSION

Based upon the audit work performed, instances of non-compliance have been found with regards to community relations officers completing tasks in the agreement administration phase of the Project Life Cycle that ought to have been completed by the agreement administration officers. Furthermore, two offices have segregated the duties of program officers in a manner which does not comply with the requirements of the directive. The file review revealed that although the non-compliance of the directive is high, it is not the process used that needs changing for the most part, it is the directive that needs to be reviewed.

We also noticed program officers from both phases of the Project Life Cycle completing together the task of agreement development and authorization of Section 34, while not contravening the spirit of the directive that is to enhance the integrity of the management of G&C, it is considered to go against the letter of the directive.

Based on our assessment and analysis, the *Segregation of Duties Directive* is an effective policy that enhances the integrity of the management of G&C. However, in order to achieve the intended effectiveness of the directive, there is a need for additional training and communications to individuals involved, as well as adjustments to the tools relating to the management of contribution agreements and increase the rate of compliancy with the directive. Furthermore, the directive could be improved to increase the efficiency of program administration. Segregation of duties can result in a redistribution of work that is not always efficient, overriding staff expertise and their proximity to sponsors.

We believe that the delivery of program and services should be more client-focused and more efficient while still maintaining sufficient levels of controls over the financial activities.

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 Grants and Contributions programs administered by Service Canada.

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 – PROGRAMS SUBJECT TO SEGREGATION OF DUTIES DIRECTIVE

1. Citizen & Community Services Branch/Service Canada delivered programs affected by segregation of duties:

- Employment Assistance Services
- Labour Market Partnerships
- Targeted Wage Subsidies (agreements for multiple individuals¹)
- Job Creation Partnerships (agreements for multiple individuals¹)
- Self-Employment (agreements with organizations)
- Community Coordinators agreements (i.e. Skills Development, Targeted Wage Subsidies, Self-Employment)
- Skills Link (agreements with organizations)
- Career Focus (agreements with organizations)
- Youth Awareness (under the Labour Market Partnerships program)
- Opportunities Fund
- National Homelessness Initiative
- Enabling Fund
- Aboriginal Human Resources Development Agreements

2. For the purpose of internal audit, below is a list of programs to be included in the audit of segregation of duties with their corresponding program names used in CSGC.

Please note that the effective date for segregation of duties varies across programs. These dates have been included in the list below.

Employment Benefits and Support Measures (effective date: February 16, 2004)

Employment Assistance Services

- Employment Assistance Services - EI Part II

Labour Market Partnerships

- LLMP - Industrial Adjustment Service (IAS)
- Local Labour Market Partnerships - EI Part II
- Local Labour Market Partnerships (Pan-Canadian)

Targeted Wage Subsidies (agreements for multiple individuals only)

- Targeted Wage Subsidies - EI Part II

¹For Targeted Wage Subsidy (TWS) and Job Creation Partnerships (JCP) contribution agreements for three (3) or more clients, the Segregation of Duties will apply. TWS and JCP contribution agreements with or for a *single individual* are therefore excluded from Segregation of Duties.

Job Creation Partnerships (agreements for multiple individuals only)

- Job Creation Partnerships - EI Part II

Self-Employment (agreements with organizations)

- Self-Employment Assistance. Organizational Agreement - EI Part II

Community Coordinators agreements (i.e. Skills Development, Targeted Wage Subsidies and Self-Employment)

- Community Coordinator - Skills Development
- Community Coordinator - Targeted Wage Subsidy
- Community Coordinator - Self Employment Assistance

Youth (effective date: February 16, 2004)

Skills Link

- Youth - Skills Link - Project

Career Focus (agreements with organizations)

- Youth - Career Focus - Project

Youth Awareness (under Labour Market Partnerships Programs)

- Youth Awareness
- Youth Awareness – Nat. Labour Market Partnership

Opportunities Fund (effective March 17, 2004)

- Opportunities Fund (Regional) – Community Coord.
- Opportunities Fund (Regional) – Developmental
- Opportunities Fund (National) – Community Coord.
- Opportunities Funds (Regional) – Self Employment
- Opportunities Funds (National) – Enhanced Employment Assistance
- Opportunities Funds (Regional) – Enhanced Employment Assistance
- Opportunities Funds (Regional) – Wage Subsidy
- Opportunities Funds (Regional) – Work Experience

National Homelessness Initiative (effective date: June 1, 2004)

- NHI – National Research Program
- NHI – Regional Homelessness Fund – Designated
- NHI – Regional Homelessness Fund – Non-Designated
- NHI – SCPI – Community Entity
- NHI – SCPI – Specific Projects
- NHI – Urban Aboriginal Homelessness – Non-Designated
- NHI – Urban Aboriginal Homelessness – Designated

Official Language Minority Community (effective date: October 1, 2004)

- Support Fund (2004)
- Enabling Fund (2005 – The name of the Supporting Fund program was changed to Enabling Fund)

Due to the transition of the source of funding for the Support Fund/Enabling Fund from EI Part II to CRF, the agreements for the October 1, 2004 to March 31, 2005 period are not recorded in the CSGC. As of the introduction of the Enabling Fund in April 1, 2005, the agreements are entered in the CSGC.

Aboriginal Human Resources Development Agreements (effective date: April 1, 2005)

- Aboriginal - Child Care – CRF
- Aboriginal - First Nations – CRF
- Aboriginal - First Nations – EI Part II
- Aboriginal - Inuit – CRF
- Aboriginal - Inuit – EI Part II
- Aboriginal - Local Labour Market Partnerships
- Aboriginal - Metis – CRF
- Aboriginal - Metis – EI Part II
- Aboriginal - National Projects – CRF
- Aboriginal - National Projects – EI Part II
- Aboriginal - Urban – CRF
- Aboriginal - Urban – EI Part II
- Aboriginal - National Urban AHRDA – CRF
- Aboriginal - National Urban AHRDA – EI Part II
- Aboriginal - Cree Regional Government – CRF
- Aboriginal - Cree Regional Government – EI Part II
- Aboriginal - Kativik Regional Government
- Aboriginal - Kativik Regional Government CRF

For the fiscal year 2004-2005, the Aboriginal Human Resource Development Agreements (AHRDA) were exempt from the Segregation of Duties Directive. For AHRDA projects with start dates prior to April 1, 2005, and that have since been amended annually since that date, the Directive on Segregation of Duties does not apply.

In terms of the April 1, 2005, effective date of Segregation of Duties with respect to AHRDA, applied to all of the following:

- projects that started on or after April 1, 2005

APPENDIX B – SAMPLING METHODOLOGY

Population identification:

The population for this study was defined as the projects in the CSGC system that belonged to a number of "major" program areas that were subject to the *Segregation of Duties Directive* that were initiated after the directive came into force.

Sample frame:

CSGC does not capture the "major" program areas for a project. Rather, it captures larger number of "minor" program types in a field called "program name". The sample frame was defined by mapping these entire "minor" program types against the list of "major" program areas defined in the directive and selecting only those projects that mapped into one of these major program area groups. This mapping was done by staff from the program areas who also provided us with the appropriate rules that determined at what date each program area became subject to the directive and what date field should be used for screening purposes for each program area. (Project recommendation date, project start date or date that the project application was received.)

Projects were dropped from this sample frame where the project was cancelled or withdrawn or where the project had not yet made it to the management stage. Furthermore, programs which could include projects that could be provided to both individual recipients and groups of recipients were also excluded as there was no reliable systematic way of identifying those that would not fall under the directive because they were only providing service to a single recipient.

Sample design:

The sample was drawn from the sample frame using a simple random strategy (SRS) allowing for a national estimation (with an accuracy of plus or minus 5 percentage points 19 times out of 20) of project compliance with the *Segregation of Duties Directive*.

Sampling metrics:

Sample frame size:	5,229 projects
Sample error (confidence interval):	5.3%
Confidence level:	95%
Maximum expected rate of non-compliance:	50%
Sample size:	324

APPENDIX C – DEFINITION OF FINANCIAL ADMINISTRATION ACT SECTION 34

Section 34

Payment for work,
goods or services

34. (1) No payment shall be made in respect of any part of the federal public administration unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by that Minister, certifies
- (a) in the case of a payment for the performance of work, the supply of goods or the rendering of services,
 - (i) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to the contract, or if not specified by the contract, is reasonable,
 - (ii) where, pursuant to the contract, a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is according to the contract, or
 - (iii) where, in accordance with the policies and procedures prescribed under subsection (2), payment is to be made in advance of verification, that the claim for payment is reasonable; or
 - (b) in the case of any other payment, that the payee is eligible for or entitled to the payment.

Policies and
procedures

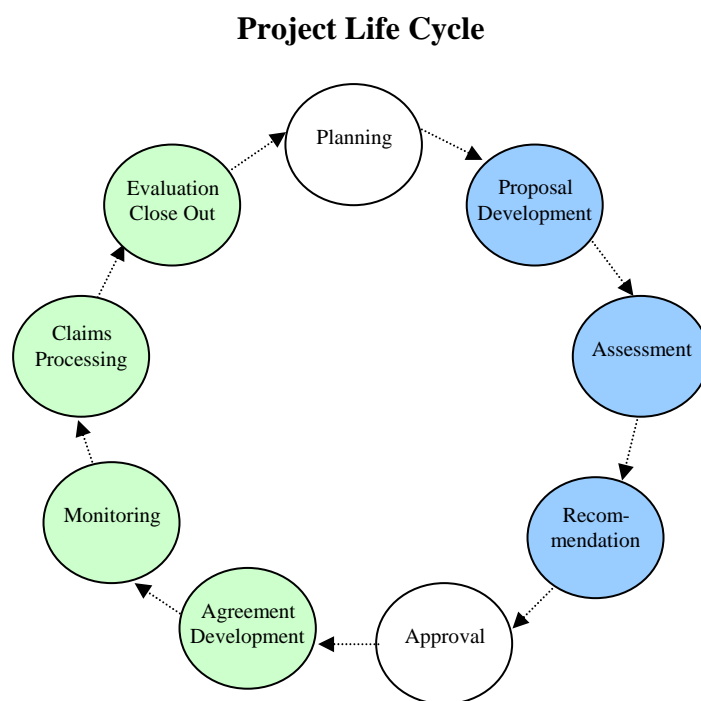
- (2) The Treasury Board may prescribe policies and procedures to be followed to give effect to the certification and verification required under subsection (1).

R.S., 1985, c. F-11, s. 34; 1991, c. 24, s. 13; 2003, c. 22, s. 224(E).

http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/TBM_142/Accver1_e.asp

APPENDIX D – EMPLOYMENT PROGRAMS OPERATIONS SEGREGATION OF DUTIES DIRECTIVE

Segregation of duties is one step in the implementation of an integrated organizational model featuring specialization and concentration in the delivery of programs and services. Segregation of duties refers to a program delivery model where no one program officer executes all activities of the Project Life Cycle for an assigned file. The Project Life Cycle can be divided into two discrete phases where one program officer will focus on community relations and another program officer will focus on agreement administration. The specific division is illustrated below.



Segregation of Duties - Roles and Responsibilities of Program Officers

Phase 1: Community Relations	Phase 2: Agreement Administration
Proposal development	Agreement development
Assessment	Monitoring
Recommendation	Claims processing
	Evaluation and Close Out

The planning phase of the Project Life Cycle is a team effort that enables staff to come together to focus on how they can best use programs and services to respond to the identified needs of the community. While the manager is responsible for initiating, leading, developing the plan and providing orientation based on departmental and/or regional action plans, program officers provide input based on their experience, knowledge of departmental programs and services and the communities.

The Approval phase of the Project Life Cycle is ultimately the Minister's responsibility. This responsibility is often delegated to officials at the national, regional and local levels. Because this varies from program to program and according to the value of the proposed project, the program officer must check the program-specific *Delegation of Authority Instrument* for the approval process.

Implementation

Under the segregation of duties model, a program officer will complete either the community relations phase up to recommendation **OR** the agreement administration phase up to file evaluation and close out, **but not both**. These functions could be rotated among several officers on a file to file basis. For example, a program officer could complete the community relations phase for project "A", but the agreement administration phase for project "B".

For those Human Resource Centres of Canada (HRCCs) which have only one program officer, that officer would complete the community relations phase and arrangements would have to be made with another HRCC or sub-regional office to undertake the agreement administration phase.

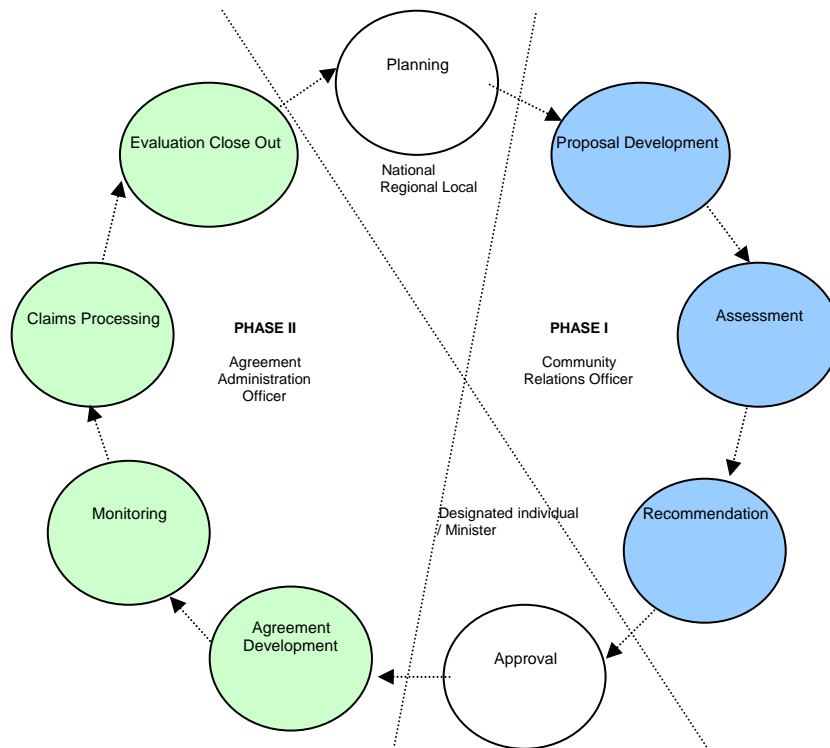
APPENDIX E – ANALYSIS OF IMPLEMENTED MODELS

The following section describes the various models that were observed and our analysis on the advantages and disadvantages of each model.

Model 1: Status quo

Description

The Project Life Cycle is divided into two discrete phases. In phase one of its life cycle, the project is assigned to a program officer with a focus on community relations, and in phase two the project is assigned to a program officer with a focus on agreement administration.



Advantages

This model improves the overall management of the project as it necessitates the agreement administration officer to obtain a thorough understanding of the project at the very outset, prior to the writing of the agreement. It also serves as a good relationship-building exercise between the agreement administration officer and the sponsor to facilitate the agreement signing process. Furthermore, it forces that materials prepared by the community relations officer, including the budget negotiation notes and recommendation report, will be written in a language that is clear and concise in order to ensure proper knowledge transfer to the agreement administration officer.

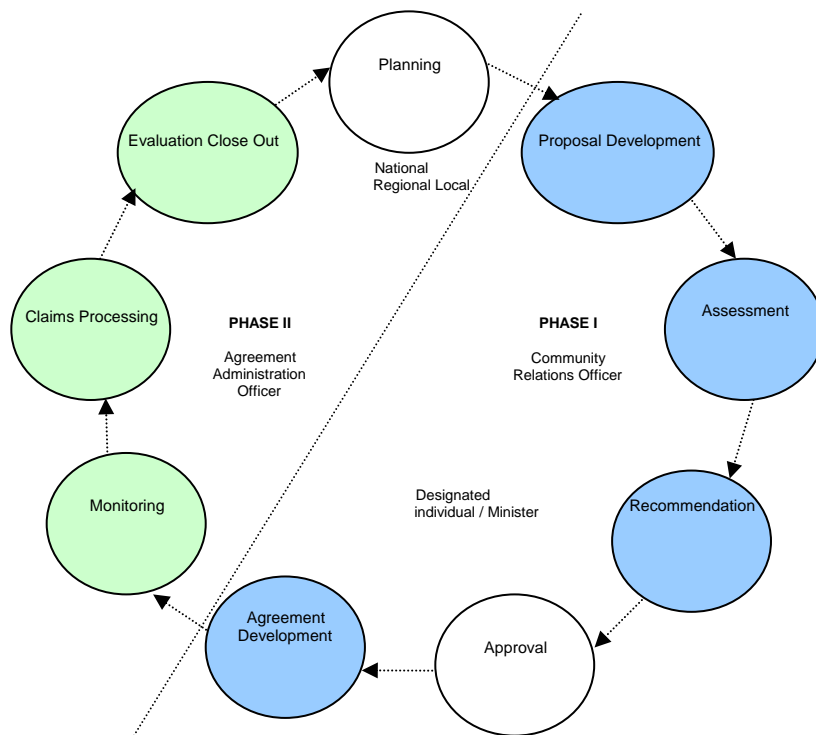
Disadvantages

This model entails additional communication required between the community relations officer, the agreement administration officer and the sponsor, in which case may increase the probability of mismanagement of agreements and, in extreme instances, it may create friction between stakeholders. Also, in relations to the point of segregation, there may be circumstances where agreement administration officers will have to write the agreement under time pressure when they are unfamiliar with the negotiation and the nature of the agreement. Furthermore, it is operationally challenging for smaller offices to implement the directive, including those agreements that are delivered regionally that require specialized knowledge, such as Homelessness and Aboriginal Human Resources Development Agreement (AHRDA) agreements. Finally, it increases the possibility of confusion for sponsors to work with multiple program officers.

Model 2: Status quo, but move the segregation point from before agreement to after.

Description

Under this model, the Project Life Cycle is divided into two discrete phases. In phase one, the project is assigned to a program officer with a focus on community relations, who is responsible up to agreement signing. In phase two, the project is assigned to a program officer with a focus on agreement administration, who is responsible for the management of the agreement after it is signed.



Advantages

This model alleviates the time pressure on the writing and signing process as the responsible agreement administration officer is familiar with both the agreement and the sponsor. In cases where the community relations officers are community-based, the travel time required for the agreement signing process is reduced.

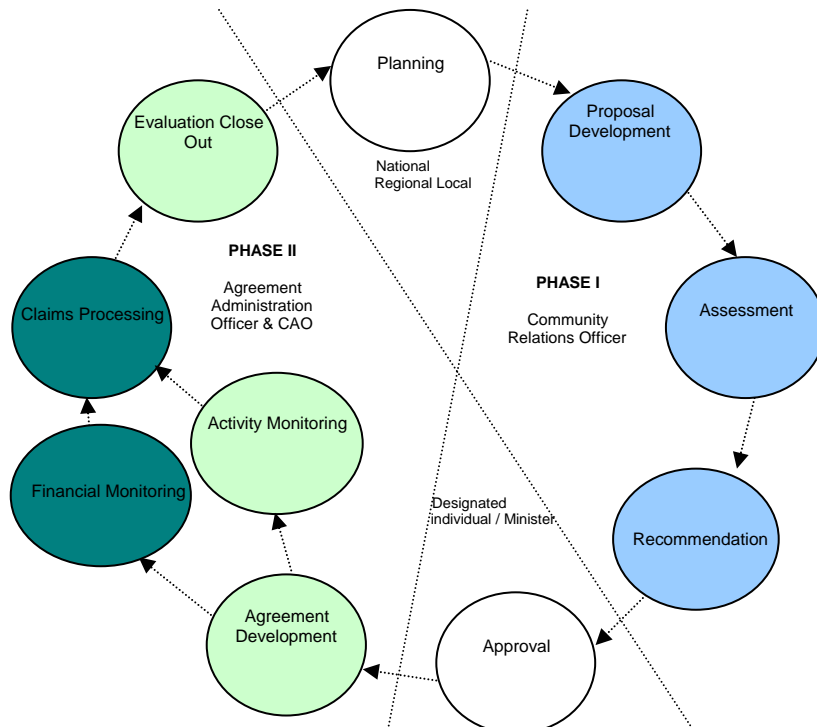
Disadvantages

There may be less oversight in the agreement writing process for this model as, in cases where the transfer of the file takes place before the agreement writing process, the agreement administration officer will act as a control measure to assure the quality of the agreement. Furthermore, there is no mechanism to ensure that the agreement administration officer has an in-depth knowledge of the project and a chance to meet the sponsor at the outset. Knowledge and research of the project ensures proper management of the file throughout the Project Life Cycle. Finally, this model does not mitigate the potential confusions which the sponsors may encounter as they have to work with multiple program officers.

Model 3: Status quo with financial specialist

Description

While similar to the existing model where the community relations officer is responsible up to recommendation and approval and the agreement administration officer resumes at agreement development, an additional staff with financial expertise, the contract administration officer, would be facilitating all claim payment approvals and financial monitors, as well as acting as financial expert at Internal Review Committees and throughout the Project Life Cycle.



Advantages

This model strengthens the specialization aspect of this directive by utilizing a contract administration officer to facilitate all financial-related tasks in the Project Life Cycle. This initiative is increasingly important due to the fact that, as noted during the interviews with staff, not all program officers felt comfortable working with the financial aspect of an agreement. Furthermore, since the position of contract administration officer reports to Corporate Services, its presence throughout the key intervals in the Project Life Cycle and its independency from the programs unit enhances objectivity and credibility of the overall management process. From a control perspective, the payment and monitor processes ensure that *Financial Administrative Act* requirements are satisfied, and as such, having an impartial financial expert dealing with these aspects diminishes the chance of misuse of funds.

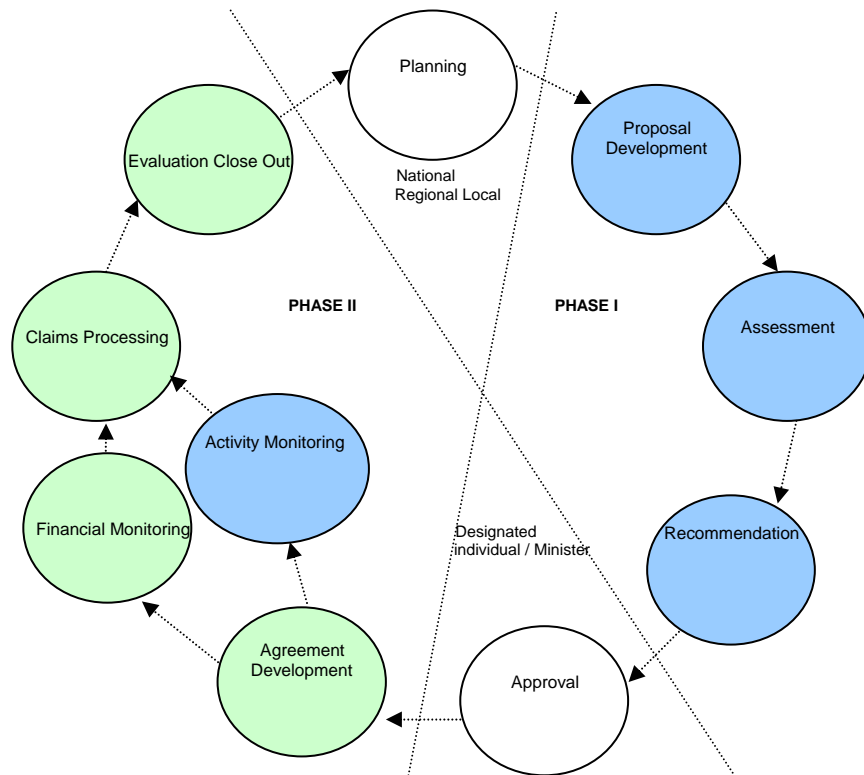
Disadvantages

Since the sponsor is required to communicate with three representatives from the department, this model increases the chance of miscommunication and confusion between the stakeholders. Moreover, the simplification of the claim forms and the consolidation of cost categories, as a result of the Change Agenda implemented in January 2006, may diminish the role the contract administration officer plays as a financial expert in the management of a project. In addition, it is important that the contract administration officers are aware of the activities and that the program officers are informed of the financials; otherwise, there may be a risk of disconnect between payments and progress made in the project.

Model 4: Status quo with agreement signing and activity monitors conducted by community relations officer

Description

Under this model, the Project Life Cycle is divided into two distinct phases. While it is similar to Model 1, in this model, the community relations officers have the option of bringing the agreement to the sponsor for signature and conducting the activity monitoring. This model considers the activity monitoring as part of the community relations process as it serves as an exercise that evaluates the impacts of the project in the community. The agreement administration officer maintains responsibility for developing and managing the agreement, processing payments and conducting the financial monitoring.



Advantages

This model enhances client service and satisfaction by facilitating the explanation of the agreement during the signature process as a result of the extensive experience of the community relations officers with the agreement and the sponsors. The benefits are most profound in cases where the community relations officers are based in the area where the project takes place and the agreement administration officers who operate outside of the community. This can potentially generate savings as program officers no longer have to travel when they conduct activity monitors and agreement signing. Furthermore, program officers have an in-depth knowledge of the local community and are consequently in a better position to monitor and evaluate the results of the project.

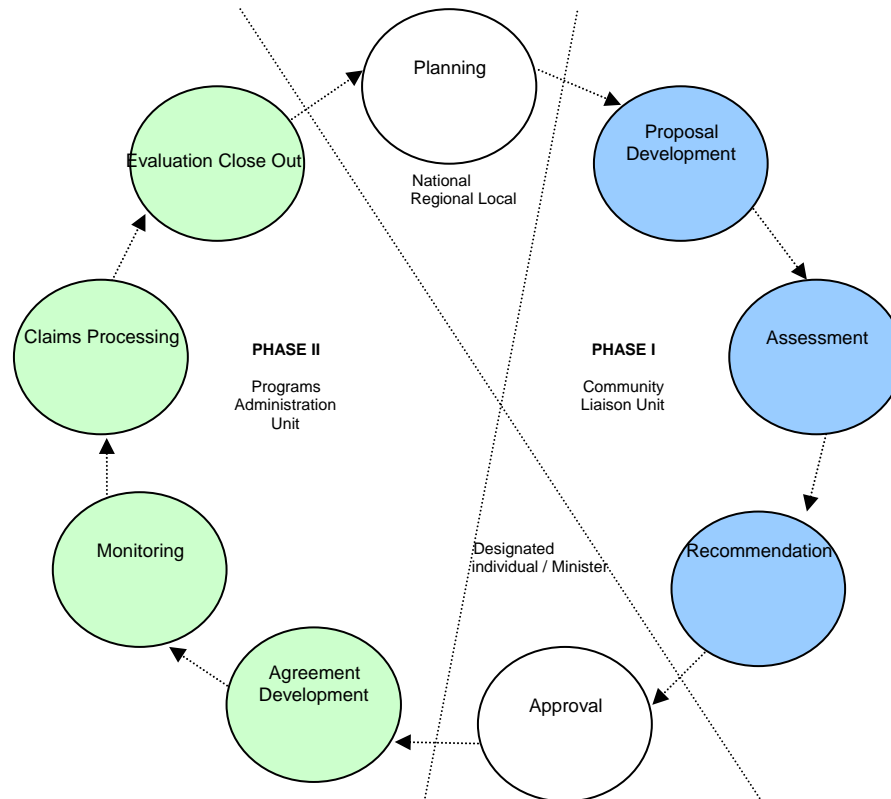
Disadvantages

This model can result in confusion with the sponsor as not only is the sponsor required to work with two program officers, the project is also functionally segregated during the monitoring phase of the Project Life Cycle. Furthermore, this necessitates communication between the program officers as activity and financial management are closely connected, thus it is important that the program officers are aware of both the financial and activities progress of the project.

Model 5: Discrete function model

Description

Unlike other models previously described, program officers are always specialized in only one of the two discrete functions: community relations or agreement administration. Furthermore, most community relations officers are community based and reports to the local Service Canada Centre managers. The agreement administration officers are functionally concentrated as they report to the Project Administration Unit and these program officers can be geographically centralized.



Advantages

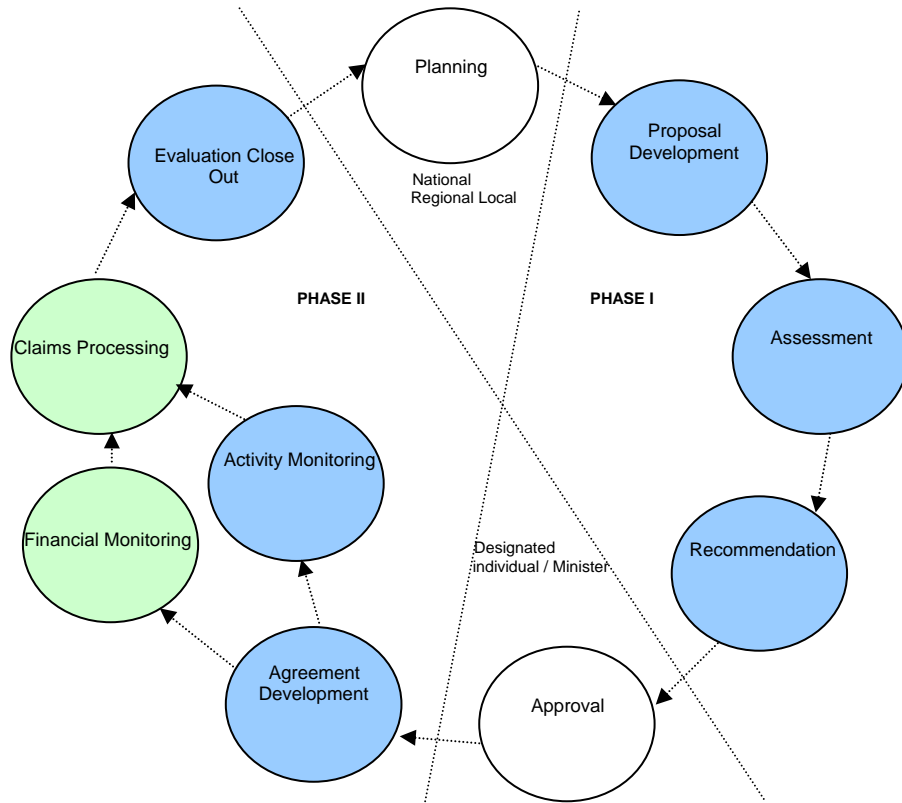
This model relies on the realization of a competency-based management where staff can develop expertise by only focusing on either the community relations or agreement administration aspect of the project. It was noted during our interviews and our file reviews that the implementation of this model resulted in greater compliance to terms and conditions of programs as a result of specialization and standardization. In addition, this model facilitates clear accountabilities for full commitment and expenditure due to vertical segregation of functions up to the management level.

Disadvantage

One of the disadvantages with this model is that, in the long run, program officers would inevitably lose perspective of the entire Project Life Cycle. With the two functions operating discretely, the risk of compartmentalization increases. As such, better lines of communication between the units are required. As a result of concentration, the potential lack of localized knowledge could present a risk in the quality of service delivered in instances where the agreement administration officer is coming from a different community than the sponsors.

Model 6: Segregation through the specialization of financial monitoring and claims processing

The community relations officers perform all functions of Project Life Cycle except for financial monitoring, claim processing and evaluation close out in this model. This ensures that community presence is available throughout the Project Life Cycle by positioning community relations officers in the community, and utilizing centralized units of administration officers to conduct financial monitors and claim processing.



Advantages

It was noted during our interviews that some program officers do not have a strong financial background and do not feel comfortable in administrating the financial aspect of an agreement. Therefore, having a specialized unit that deals with the financial aspect of an agreement improves the overall quality of the administration of the agreement and diminishes the chance of fraud and misuse of funds. Furthermore, this model facilitates enhanced client service from the perspective of relationship continuity with one program officer responsible for all phases in the Project Life Cycle except for conducting financial monitors and claims processing. Thus, this should mitigate possible confusions as sponsors are dealing primarily with a single program officer.

Disadvantages

The disadvantage for this proposed model is that there is a risk where the community relations officers have asymmetric control over the Project Life Cycle. In addition, the specialization of functions may result in disconnection between the activities and expenditure of a project when communications are not effective between the community relations officers and agreement administration officers. Moreover, in the long run, community relations officers would inevitably lose perspective of the financial aspect of the Project Life Cycle.

Internal Audit Recommendations	Management Plan Action(s) to be undertaken	Planned Completion Date	Responsibility Title and RC Number
<p>3. We recommend that the department reviews and modifies the CSGC to ensure that it effectively supports the <i>Segregation of Duties Directive</i> and addresses the following issues:</p> <ul style="list-style-type: none"> • Write access should not be given to community relations officers beyond the recommendation and approval phase. These phases include access currently given in monitoring, claims processing/payment and close out phases. • Lack of integration of “Assign project officers” screen with other fields in the CSGC; and • No records of the program officer who drafted and prepared the contribution agreement. 	<p>Following the review of the point of segregation of duties (recommendation #4), request adjustments to the project life cycle module of the Common System for Grants and Contributions to support the point of segregation review results. While the changes required will be affected by the review of the point of segregation, changes to be requested may include:</p> <ol style="list-style-type: none"> 1) Enhancing the Assign Project Officers screen for greater clarity; and 2) Having the CSGC capture the name of the Program Officer who prepared the agreement <p>Currently a “Break/Fix” is in place with respect to the CSGC and changes identified to ensure the CSGC effectively supports the Segregation of Duties directive are not feasible at this time. Required changes will be requested at a later point when non-urgent changes will be examined.</p>	<p>April 2008</p>	<p>Élise Boisjoly, Service Offerings and Strategies, CCSB</p> <p>RC: 7406</p>

