AUDIT OF
THE SUSTAINABLE CITIES INITIATIVE

INDUSTRY CANADA

FINAL REPORT

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Prepared by

Hallux Consulting Inc.

For the Audit and Evaluation Branch, Industry Canada

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1.0   EXECUTIVE SUMMARY

Under the Sustainable Cities Initiative (SCI), Industry Canada (IC) facilitates a process whereby Canadian companies, nongovernmental organizations and municipalities, work with cities in developing countries or with an economy in transition, to address a range of urban problems generated by rapid urbanization. Nine million dollars in funding was provided in 2002-03 for a three year initiative to build upon an earlier pilot. The target was to engage 17 cities in total in Africa, Asia, Central America, Eastern Europe and South America. SCI management determined that an audit of key elements of the program would be beneficial to support any decisions that might be made on the format SCI would take, if it is continued. Hallux Consulting Inc. was contracted to undertake the audit.

The audit assessed whether management has reasonable assurance that the program is well managed and has been implemented in a timely manner, and that proper financial controls exist for its management. The 2003 Treasury Board of Canada Secretariat's (TBS) *Management Accountability Framework* (MAF) was used as a benchmark.

There is a broad consensus that SCI has achieved a lot in the short period available (less than twenty-eight months from the time approval was given to when it was originally scheduled to sunset). Its effectiveness during this period has been hampered, however, by a lack of an effective measurement system that would facilitate the collection of program performance information (both financial and non-financial) on a timely basis to support decision-making. Staffing levels throughout the initiative that were lower than originally planned were a key contributing factor to this situation.

The financial controls in place reflect Departmental requirements. The procedures implemented for hospitality in 2004-2005 are having a negative impact on SCI's ability to achieve the desired results with the cities it is working with. Structural factors such as the implemented organizational structure and delays in implementing the program have contributed to the significant amount of funding that has not been used for SCI during the period 2002-2003 to 2004-2005. Funds were transferred to meet other departmental priorities, were reprofiled or lapsed. This contributed to the challenges experienced in delivering SCI. Funding was also provided through contracts when transfer payments would have been a more appropriate vehicle due to the funding framework created for SCI at the outset.

2.0   INTRODUCTION

2.1   Background

The idea of the Sustainable Cities Initiative (SCI) was first put forward by the Foreign Policy and Sustainability Committee of Canada's National Round Table on the Environment and the Economy (NTREE) in advance of and in the context of the 1997 Asia-Pacific Economic Forum Environment Ministers' meeting. There was a recognition that the growing number of people living in the cities of the developing world was straining the natural environment and negatively impacting the local economies.

A pilot of the concept was launched in the fall of 1999 and involved five cities in Argentina, Brazil, Costa Rica, China, and Poland. A review of the Pilot Project published in October 2001 concluded that SCI had demonstrated its effectiveness and should be expanded. During the World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, the Government of Canada announced September 1, 2002 funding of $9 million over a period of three years as shown in Table 1 to expand SCI. In the intervening period, SCI has expanded to an additional 11 cities. It is now active in Africa (Algeria, Senecal, South Africa and Tanzania), Asia (China and Mongolia), Central America (Costa Rica, Honduras and Mexico), Eastern Europe (Poland and Romania), and South America (Argentina, Brazil and Chile).

Table 1: Approved Funding for SCI

All figures in '000s	**2002-03**	**2003-04**	**2004-05**	**Total**
Operating (Vote 1)				
Operating & Maintenance (O&M)	$713.8	$2,839.7	$3,305.2	$6,858.7
Salaries	$140.0	$910.0	$560.0	$1,610.0
Employee Benefit Plan (EBP)	$28.0	$182.0	$112.0	$322.0
Accommodation (PWGSC)	$18.2	$118.3	$72.8	$209.3
Total	$900.0	$4,050.0	$4,050.0	$9,000.0

SCI results in the development of integrated strategies and solutions, through cooperation and partnerships, to the range of urban problems generated by rapid urbanization. This is achieved through a four step process:

- *city identification*. SCI staff in consultation with key stakeholders (e.g., the Department of Foreign Affairs and International Trade (DFAIT), the Canadian International Development Agency (CIDA), other government agencies, the private sector, non governmental organizations (NGOs) and the candidate cities) identify potential cities for participation in the initiative. Key criteria for selecting cities include:

  - city is located in a developing country or an economy in transition;
  - the city is ideally between one and five million in population;
  - it has progressive governance and a commitment at the most senior levels to sustainable commitment;
  - a Canadian presence already exists in the city;
  - the city has at least some technology and knowledge needs that are available from Canadian sources;
  - realistic opportunities exist for financing identified projects.

  In addition to the city selection criteria, the selection process has also tried to ensure that:

  - there is a good distribution of SCI cities among the continents of the world;
  - selected cities address expected future international priorities, both with respect to disaster relief and with respect to availability of financing to enable Canadian organizations to meet international priorities within the objectives and principles of the SCI; and
  - world-class Canadian expertise is available to meet the needs of the nominated cities.

- *team formation*. SCI staff identify companies, municipalities, provinces, non-governmental organizations and others who have an interest and who are able to make a contribution, to participate in the city team. The city team focuses on the SCI city and works with the Industry Canada SCI team (City Team Manager and Project Officer) to prepare a roadmap. The design of individual projects, which together comprise the SCI within a specific city, is entirely the work of the city team members in partnership with the municipal government and other organizations from the SCI city.

- *roadmap building*. The objective of this phase is to identify and design projects in a manner that best meets the city's needs. Discussion is focussed on key pillars such as solid waste, water/wastewater, sustainable economic development, energy, transportation and governance[1]. SCI staff facilitate a series of workshops and small group discussions to ensure

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[1]While certain pillars are common to a number of cities, the key pillars for a specific city vary and are determined in consultation with senior municipal officials usually at the city identification stage. The program approval documents indicated that the "key areas of focus are: clean water, sustainable waste management, clean energy, urban transportation, housing, capacity-building, urban planning and telecommunications."

that Canadian participants have a complete understanding of the city's problems and preferred solutions. The workshops also serve to build the relationship between the potential client and Canadian suppliers.

There are generally two steps to the roadmap building process. The first focuses on presentations by the City officials and group discussions involving City and Canadian partners. The second step is the presentation of the draft understanding by the Canadian Team and verification by the City officials. Outcomes of the process are a working document that is accepted by City officials that outlines the opportunities for future collaboration.

- *implementation*. Using the working document accepted by City officials, project teams, made up of the private sector with NGO and public sector partners, take lead responsibility for working with the city's project teams to achieve the specific goals described in each pillar of the Roadmap. As part of this process, more detailed objectives and project proposals will be developed. The speed at which proposals move forward is dependent on the business case, the extent to which it can be self-financing over a reasonable period of time or the extent to which financing can be provided from local, national or international sources.

  The IC SCI city team manager continues to provide a coordination role by taking the lead in monitoring the overall progress towards the city's sustainable development objectives. SCI team members are often involved in exploring sources of funding such as the international funding institutions and Canadian or international investors.

  Not all the needs of participating cities are dependent on the sale of technologies and services. Some aspects of capacity building for example, are best achieved through technical exchanges with municipalities in Canada and/or technical training provided by a Canadian educational or professional organization.

  The approved Roadmap document may also require expertise beyond that already available on the SCI city team. If this is the case, city team members will seek out appropriate expertise from the Canadian private, NGO, municipal or academic sectors. This is coordinated by the IC SCI city team manager.

The government's role (Industry Canada/SCI) is to develop and maintain an official framework for the relationship with selected cities and to facilitate projects. It does not finance projects. Some funding was provided during the Roadmap phase to help defray some of the participation costs.

In achieving its overall objective of increasing exports of Canadian sustainable development technologies and services, SCI also:

- brands Canada as a pre-eminent source of technology, expertise and products for urban sustainable development;
- promotes market development and trade opportunities for Canadian firms;
- enhances the quality of life in developing and emerging economies as well as promotes sustainable development;
- facilitates business partnerships among firms, NGOs, and government to access market opportunities.

SCI management determined that an audit of key elements of the program would be beneficial to support any decisions that might be made on the format SCI would take, if it is continued. Hallux Consulting Inc. was contracted to carry out the audit.

2.2   Audit Objectives and Scope

The audit assessed whether management has reasonable assurance that the program is well managed and has been implemented in a timely manner, and that proper financial controls exist for its management.

The fieldwork for the audit was conducted between January and February 2005.

2.3   Approach and Methodology

Information for this audit was obtained through the following methods:

- inspection of documents (approval documents, business and activity plans, activity and financial reports, organizational charts, email correspondence, etc.) related to SCI;
- interviews with management and staff directly responsible for SCI. This included staff and management who had been present at the outset of the pilot in 1999 but are no longer with SCI;
- a program evaluation undertaken concurrently with the audit. Some of the information gathered through interviews and a web-based survey of SCI participants was utilized to support audit observations.

The detailed audit criteria that were utilized are provided in Annex A. Criteria were also drawn from the Treasury Board Secretariat *Management Accountability Framework* as applicable.

3.0   CONCLUSIONS

There is a broad consensus that SCI has achieved a lot in the short period available (less than twenty-eight months from the time approval was given to when it was originally scheduled to sunset). Its effectiveness during this period has been hampered, however, by a lack of an effective measurement system that would facilitate the collection of program performance information (both financial and non-financial) on a timely basis to support decision-making. Staffing levels throughout the initiative that were lower than originally planned were a key contributing factor to this situation.

The financial controls in place reflect Departmental requirements. The procedures implemented for hospitality in 2004-2005 are having a negative impact on SCI's ability to achieve the desired results with the cities it is working with. Structural factors such as the implemented organizational structure and delays in implementing the program have contributed to the significant amount of funding that has not been used for SCI during the period 2002-2003 to 2004-2005. Funds were transferred to meet other departmental priorities, were reprofiled or lapsed. This contributed to the challenges experienced in delivering SCI. Funding was also provided through contracts when transfer payments would have been a more appropriate vehicle due to the funding framework created for SCI at the outset.

4.0   OBSERVATIONS AND RECOMMENDATIONS

4.1   Program Performance

SCI reports its achievements through several different vehicles. The information, however, is not based on measurable outcomes. The on-going reporting is heavily reliant on data compiled for the October 2001 review of the pilot project. Data has not been captured in a meaningful format to update the information in the 2001 review, which is hindering on-going decision making.

In the approval documents for SCI in December 2002, commitments were made to provide semi-annual reporting on the results and achievements (e.g., number of cities participating, number of visits made, number of partners, number of projects underway, etc.). Formal reports for SCI were not consistently prepared on a semi-annual basis. A business plan for SCI was prepared for 2003-2004 and a mid-year review was prepared in 2004-2005. Other input has been provided for departmental reports including:

- Sustainable Development Strategy II, April 2001 to March 2003
- Sustainable Development Strategy III, 2003-2006
- Team Canada Inc. Annual Report, 2003 and 2004
- Departmental Performance Report, 2002-2003 and 2003-2004

Information provided about SCI in these reports included:

- number of cities SCI was active in;
- number of Canadian firms, NGOs and governments participating in SCI;
- new cooperation and trade opportunities were being identified; and
- Canadian capacity to respond to international business opportunities was enhanced

A draft Results-based Management and Accountability Framework (RMAF) was also developed in the summer of 2003. While not required as part of the approval process for SCI, the 2001 review of the pilot project determined that a RMAF would provide the most appropriate tool to evaluate SCI's performance. The draft RMAF identified short-term and long-term outcomes and ultimate impacts and associated performance indicators. The report indicated that information would be collected and analysed on an annual basis. SCI management advised the audit team that the ongoing process for data collection and analysis was never discussed during the development of the RMAF and was not implemented.

The audit team found that some information is available but it is not in a format that facilitates analysis. Other information is not consistently up-to-date or is difficult to interpret. For example:

- data on the number identified proposals, number of Canadian organizations involved in projects, type of activities, number of Canadian partners at initial and subsequent visits to the

cities, number of meetings with international financial institutions is available in the technical mission books, trip reports, project tracking sheets and project budget tracking sheets. A significant effort, however, is required to extract the relevant information to put it in a useful format for management decision making.

- Each City Team Manager is required to maintain a project tracking sheet (PTS) for each of his/her cities. The PTS provides a description of each project as it relates to the pillars set out in the Roadmap sessions as well as information on Canadian partners, city partners, funding from SCI or other sources, projected value of projects, financing sources, and the current status/action. The audit team reviewed the PTS for 14 of the 16 cities involved with SCI. Two PTS were not provided as they were not up-to-date. The level of detail provided by City Team Managers on the PTS varied significantly.

- SCI maintains a database of approximately 1,500 individuals using Microsoft Access. SCI performance reporting has suggested that the growth of this database over time is indicative of increased recruitment of new members and partners to SCI. In the program evaluation that was undertaken concurrently with this audit, several problems were found with the database:

  o Microsoft Access' file structure is not conducive to tracking when records were added or the nature of the changes made. This information is necessary to track growth over time.

  o approximately 15% of the names on the database are Government of Canada employees with CIDA, Canada Mortgage & Housing Corporation, Canadian Heritage, Environment Canada, Foreign Affairs, Heath Canada, Indian & Northern Affairs Canada, Industry Canada, International Trade, Natural Resources Canada, or Public Works & Government Services Canada. SCI management and staff were included on the database. Many of these individuals are key partners in the delivery of SCI and played a critical role in its delivery but the program was not targeted at them. To include them in a measure that is attempting to demonstrate increasing exports of Canadian sustainable development technologies and services or the promotion of market development and trade opportunities for an increasing number of Canadian firms, is in the audit team's opinion, inappropriate.

  o more than 15% of the emails that were sent out using the database as part of the evaluation, were returned as undeliverable. Keeping addresses up-to-date is the bane of anyone who has to maintain any form of mailing list. Nonetheless, various methods need to be employed to keep mailing lists as accurate as possible to maximize the number of individuals/organizations who will receive messages on program initiatives and activities. A name that messages do not reach is of no value. Others responded to the survey indicating that they didn't know why it had been sent to them as they have no involvement with SCI.

It appears to the audit team that anyone who showed any interest in or was in anyway involved with SCI had their name added to the database so that they could receive periodic updates on what was happening. No record was consistently maintained of when records were added to the database or why names were added. The absolute size of the database, the number of different organizations represented, and its growth therefore are not synonymous with the number of Canadian organizations who might be willing to participate in SCI.

The audit team is of the opinion that the information reported focussed on inputs and outputs rather than the results achieved.

The audit team also found when it conducted its fieldwork that the estimate of the amount of trade opportunities that were attributable to SCI had not been updated since the October 2001 review of the pilot project. As of April 2005, SCI management estimated that $2 billion in potential projects had been identified as a result of SCI for which $44 million of secured funding was reported. These figures are based on estimates prepared by SCI City Team Leaders. They have not been independently verified. As part of the concurrent evaluation, an analysis of Project Tracking sheets for seven of the 16 cities was undertaken. It showed that while the value of the potential projects was estimated by staff at over $600 million, few projects had moved beyond the planning phase. The total value of the completed projects during the period 2002-2005 was found to be approximately $22 million. This total included a project which is valued at $15.3 million. It is not clear, however, how the project is directly related to SCI as it involved the installation of hydro-meteorological monitoring stations along major rivers and their tributaries throughout the country.

As set out in the Treasury Board *Management Accountability Framework*, all managers are expected to gather relevant information based on measurable outcomes of the programs for which they are responsible so that timely decisions can be made if necessary, on the allocation of human and financial resources. Maintaining it on individual Project Tracking Sheets is not sufficient. It needs to be consolidated so that management can easily access program performance.

Several factors directly impacted on management's ability to put in place the information systems necessary to capture pertinent and timely information for management decision-making. These included:

- ***Resources available to SCI.*** At the outset, it was expected that SCI would have at its peak 20 FTEs as shown in Figure 1 on the next page, with two Regional Managers reporting to the Director and City Managers and Project Officers reporting the Regional Managers. The planned structure was never implemented. At a critical juncture in SCI's implementation, hiring was limited to within the Industry Sector and staff were recruited for 18 or 24 month assignments.

Figure 1: SCI's Planned Organizational Structure
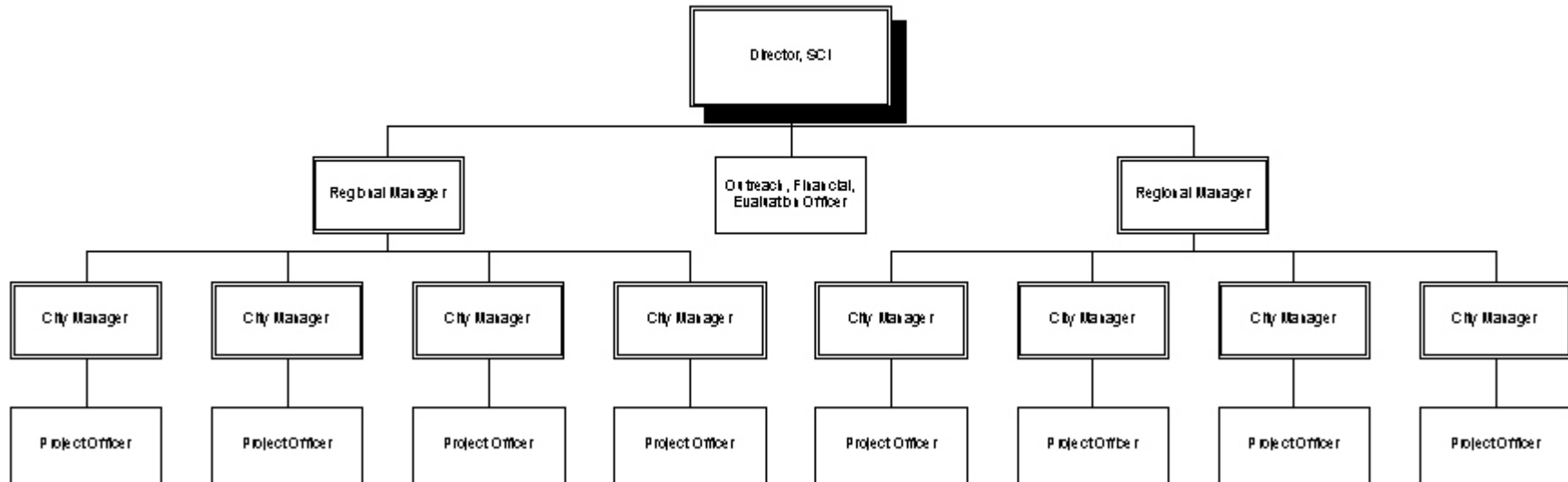
Formal organizational charts were not provided to the audit team. Based on listings provided of team members and their responsibilities at different times during the 2003-2004 fiscal year, it appears that SCI had a matrix structure with individual Project Officers working with two to three different City Team Managers and everyone formally reporting to the Deputy Director, SCI. In large measure this structure has continued in 2004-2005. The biggest change in 2004-2005 was the provision of administrative support by the Branch.

At the time of the audit, only one Regional Manager position was filled and there was no evidence of the planned structure of dedicated City Managers and Project Officers below that position. All the incumbents had responsibilities for cities in other parts of the world and the Regional Manager also acted as a City Team Manager. Two individuals were assigned responsibility for outreach and coordination of SCI's participation at major conference trade fairs, the production of a newsletter, maintenance of the database, maintenance of the web-site and other activities related to recruitment and marketing and awareness building. Both also had responsibilities for specific cities. Staff reported that there was little time available to identify potential funding sources for projects. Based on the audit team's review of the documentation available to it, SCI never had more than 15 FTE's even when other Branch resources essentially working full-time on SCI are included in the determination.

Funding from the first year (2002-2003) that would have otherwise lapsed was used to meet an Industry Sector salary shortfall and other Sector requirements. Formal approval to proceed with SCI was not obtained until mid December 2002, which was later than anticipated which contributed significantly to the amount of the funds that could have lapsed. Positions remained unfilled in 2003-2004 and O&M funds were not used so that funding could be reprofiled to 2005-2006, enabling SCI to continue for an additional year in a more limited fashion with some of its existing cities.

As a result of having fewer staff than originally planned, certain activities such as outreach and identification of potential sources of financing for city projects largely fell by the side. The Deputy Director has a greater administrative role (preparation of monthly budget summaries, updating travel plans, reviewing contracts, etc.) than was planned. While the audit team was told by staff that this was positive in that she has an excellent understanding of the details, it also presented challenges. Because everyone reports to the Deputy Director, she also participates in missions to SCI cities when an official IC presence is required (e.g., agreements signed) and City Team conference calls. At SCI's outset, the Director General responsible for SCI also participated when an official IC presence was required. Subsequent DGs responsible for SCI have not all carried out this role. As a result, the Deputy Director is frequently on travel status which has slowed down the administrative decision making process.

- *Understanding of Responsibilities*. Specific position descriptions were not developed for staff assigned to SCI. A two-page assignment opportunity memo that was circulated to

Industry Sector employees late in the 2002-2003 fiscal year, provides some guidance. The audit team was told that the Human Resources Branch advised SCI management that specific position descriptions would not be advisable nor necessary since SCI staffing was to be undertaken by an assignment process.

Regional Managers were described as overseeing the management of 4 to 5 cities in a given geographic region and City Team Managers are described as being responsible for the management, administration, development and implementation of two cities.

Staff told the audit team that they were not always certain of the distinction between the City Team Manager and the Project Officer. The contact listing on the SCI website as of March 2005 shows some cities with two City Team Managers assigned to it and in some instances an individual is a City Team Manager for one city and the Project Officer for another. Prior to the 2004-2005 fiscal year, no one was expected to be both a City Team Manager and a Project Officer. SCI team listings from late 2003 and early 2004 show City Team Managers assigned to 2-4 cities and Project Officers to 1 to 3 cities. Some of the blurring of responsibilities may be attributable to the departure of staff leading to increased responsibilities for those who remained and specific requests from staff for stretch and growth opportunities.

Since being assigned to SCI, some individuals have moved from the position of Project Officer to City Team Manager. No training was provided to support the change in responsibilities. The Deputy Director told the audit team that constrained resources precluded the development of a formal training program but where possible, mentor situations were put in place, including on-the-job training. New staff members were provided with documentation on SCI that they could consult and there was an expectation that they would learn on the job.

Staff who were newer to SCI and/or their current role, were more hesitant in making decisions in the absence of the Deputy Director and thus some issues relating to their cities were not resolved as quickly. If staff had a better understanding of their role and scope of authority, the likelihood of this situation arising could have been reduced.

Due to the limited staff resources, the fact that there was not a commensurate reduction in the number of participating cities when planned staffing levels were reduced, and the emphasis that was placed on program delivery (e.g., selection of new cities, identification of potential partners, roadmap sessions with city officials, etc.), not as much time was devoted to developing the information infrastructure necessary to support on-going management decision making. Without this type of performance information, management was less able to take corrective action if required, on a timely basis because they didn't realize that there was a problem and/or the extent of the problem, resulting in the possibility that resources were not optimally utilized.

Recommendations

1.   That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that on-going mechanisms be put in place to collect and report on established program performance measures on a regular basis.

2.   That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that program objectives be better matched with the actual assigned staff.

3.   That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that an appropriate administrative infrastructure be staffed (e.g., Outreach/Financial and Evaluation Officer, Regional Managers)

4.   That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that position responsibilities be more clearly defined.

4.2   Financial Controls

The Treasury Board *Management Accountability Framework* sets out an expectation that management will have systems in place that provide relevant information and early warning on resources, results and controls.

4.2.1   *Monitoring of Expenditures*

Processes were in place to monitor expenses closely. Structural factors such as the implemented organizational structure and delays in implementing the program have contributed to the significant amount of funding that has not been used for SCI during the period 2002-2003 to 2004-2005.

O&M expenditures are monitored closely against budgets. After the first year, SCI was set up as a separate project within Industry Canada's accounting system which permitted the ready generation of a range of reports from the departmental Financial Information Management System (FIMS). Salary expenses were more difficult to track since they were managed at a Branch level. Reports needed to be manually generated based on the salaries of the staff assigned to SCI.

On a monthly basis, City Team Managers update budgeting tracking sheets to summarize the incurred and committed O&M expenditures to date for each city and the remaining planned expenditures. The audit team was able to trace back most of the transactions indicated on the Budget Tracking sheets to the FIMS reports. Some small expenditures such as gifts, translation, printing and teleconferencing costs were not consistently included. Program staff told the audit team that if they

were pressed for time when preparing their budget tracking sheets, they would only ensure that the major expenditures were included. The audit team does not consider these differences to be material.

The individual city budget tracking sheets are then rolled up and added to SCI-wide expenditures (e.g., outreach/marketing, financing, administrative expenses, etc.) to provide a summary for SCI that can be compared to the budget. This report is provided to the Director General, Sustainable Technologies and Service Industries Branch.

Program staff told the audit team that despite efforts made over the past year to streamline the process, a lot of time is spent updating Budget Tracking sheets on a monthly basis. The audit team found the sheets difficult to follow and some of the information was more appropriate to the project tracking sheet than the budget tracking sheet. It also seemed inefficient to have the City Team Managers or Program Officers rekey information from the FMIS. It may be possible to have the necessary data exported from FMIS to an electronic spreadsheet for subsequent analysis.

Notwithstanding these processes, at least 25% of the funds allocated for SCI were not used for it during the period 2002-2003 to 2004-2005 as shown in Table 2 on the next page. Management and staff attributed several factors to this:

- approval to proceed was obtained late in 2002-2003;
- not as many staff were hired due to hiring restrictions imposed on the Sector;
- cities were not launched as early as planned;
- the outbreak of Severe Acute Respiratory Syndrome (SARS) in March 2003 had an impact on their ability to carry out their plans in 2003-2004;
- city staff were not available to participate in missions scheduled late in the fiscal year;
- elections of new SCI city governments set back rollout plans; and
- a desire to extend the program to 2005-2006 on at least a limited scale by reprofiling funds.

The audit team is of the opinion that the planned structure and the actual implemented structure were also significant contributing factors. The planned structure as shown in Figure 1 had no provision for administrative support. The structure as implemented had some clerical support (at least for 2004-2005 when other Branch resources were assigned to provide administrative support) but all decisions had to be funnelled through one individual who was frequently out of the country. While reachable by email, the decision making process was nonetheless negatively impacted.

Recommendations that have already been made on SCI's organizational structure should it be renewed, should help to address some of the factors that contributed to SCI's significant operating surplus.

Table 2: Comparison of Approved Budget to Actual Expenditures

	2002-03	**2003-04**	**2004-05[2]**
Approved Budget[3]			
Salary	$140,000	$910,000	$560,000
O&M	$713,800	$2,839,700	$3,305,200
Total[4]	$853,800	$3,749,700	$3,865,200
Actual Expenditures			
Salary	$0	$471,705	$469,432
O&M	$243,900	$1,858,535	$3,171,702
Transferred	$534,900	$265,216	$82,500
Reprofiled		$500,000	
Lapsed	$75,000	$654,244	$141,566[5]
Total	$853,800	$3,749,700	$3,865,200
FTEs			
IC A Base	7	7	7
Additional Funded	2	13	8
Total Budget	9	20	15
Actual	6.6	14.7	12.9

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[2]The figures for 2004-2005 are estimates based on SCI's expected year-end position.

[3]The budgeted amounts do not include benefits which are 20% of salaries or accommodation costs which are set at 13% of salaries.

[4]The difference in the total budget in Table 2 and that shown in Table 1 is attributable to Employee Benefit Plan (EBP) costs which are deducted before SCI is provided with its budget for the year.

[5]This is the amount that SCI expected as of early March 2005, would lapse at the end of the fiscal year. In April 2005, the Deputy Director SCI advised that approximately $200,000 lapsed.

Recommendation

5.   That the Deputy Director, SCI discuss with the Director Resource Management, the feasibility of obtaining electronic extracts from FMIS that would facilitate regular financial analysis.

4.2.2   Control Procedures

The control procedures applicable to SCI reflect Department-wide procedures. These procedures are impacting on SCI's ability to achieve the desired results with the cities it is working with.

The Financial Administration Act sets out a number of key controls that apply to all government departments:

•   Section 32–certification that there are sufficient unencumbered funds available
•   Section 33–authority to authorize payments
•   Section 34–certification 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
•   Section 41–authority to enter into contracts.

Signing authority for SCI has been delegated according to IC Departmental Signing Authorities. An Administrative Officer within SCI has delegated signing authority for Section 34. The Branch Director General has delegated authority under Section 32 or 33 of the FAA. She has chosen not to sign off on these unless the Deputy Director, SCI has first signed off as the Deputy Director is more familiar with the applicable specifics.

The Administrative Officer advised the audit team that she must rely on City Team Managers or Project Officers to advise her when work is completed. Confirmation is generally provided by email or by telephone. Our review of contract files found that the confirmation was not consistently recorded. This lack of formal recording on the contract file increases the time subsequently required to address any questions that might arise with respect to the work that was performed.

The audit team is of the opinion that the controls would be strengthened if written documentation was maintained on all contract files as to who provided confirmation that the work had been performed, goods supplied, or the service rendered. When a report was the project deliverable, a copy of the top page of the report should be placed in the financial file with a note indicating where the entire report has been filed.

Recommendation:

> 6.   That the Deputy Director, SCI ensure that written confirmation including a copy of at least the cover page of written deliverables, is provided to the Administrative Officer by the City Team Manager or Project Officer overseeing the work.

Tight control is exercised over all foreign travel and hospitality/gifts. The quarterly Foreign Travel and Conference Travel Plan is approved by the Director General, Sustainable Technologies and Services Industries Branch. This approval was recently delegated to the Director General by the Assistant Deputy Minister, Industry Sector. The audit team is of the opinion that this high level of required approval for what is routine business for SCI is reflective of the significant costs associated with foreign travel and current public scrutiny of foreign travel by civil servants. While it can delay the booking of travel, it provides greater assurance to the public that the travel is necessary.

Industry Canada staff when travelling abroad must abide by the Treasury Board *Hospitality Policy*. It is government policy to extend hospitality in an economical, consistent, and appropriate way when it will facilitate government business or is considered desirable as a matter of courtesy. The *Policy* indicates that government-owned facilities are to be utilized for hospitality when these are appropriate and available and that private residences or less formal or recreational settings are not to be used unless prior approval of the deputy head has been obtained.

SCI staff told the audit team that prior to the 2004-2005 fiscal year, they were able to claim for hospitality expenses and the purchase of gifts to exchange with the dignitaries/officials of the cities they were visiting, as part of their travel claim. Industry Canada's Financial and Material Management Directorate now requires that all gifts be selected from available Government of Canada promotional materials. Staff have accepted this change.

Concerns were raised however, about the need to now obtain preapproval by the Assistant Deputy Minister, Industry Sector for hospitality expenses. To obtain approval, a list of the guests to be entertained must be provided. SCI staff told the audit team, that they do not feel it is worth the time and effort required to obtain the necessary preapprovals. Identifying in advance who the hospitality will be offered to is even more problematic. Events and situations arise in the course of visiting a country that could not be anticipated in advance, where hospitality would be appropriate and further Canadian interests. Several staff noted that they find it embarrassing that they are unable to offer hospitality when they are on travel status. In many of the cities where SCI is active, a certain amount of hospitality is an accepted and required way of doing business.

The audit team understands that with the transfer of many of Industry Canada's trade related activities to International Trade Canada over the past year, there may be a reduced incidence of foreign hospitality within Industry Canada. There is also a heightened sensitivity across government to foreign travel and hospitality. Notwithstanding this, the controls that have been put in place are making it more difficult for SCI to achieve the desired results in developing and emerging cities it

is working with. It is not possible to determine well in advance all the individuals to whom hospitality should be offered.

Recommendation

> 7.   That the Director General, Sustainable Industries and Services Branch explore with the Corporate Comptroller practical solutions that balance the need for control over hospitality with the need to provide staff in travel status flexibility to offer hospitality on short notice.

4.2.3   Use of Funds

While all expenditures were associated with SCI, approximately 25% of the approved funds were not used for SCI during the period 2002-2003 to 2004-2005. Funds were transferred to meet other departmental priorities, were reprofiled or lapsed. This contributed to the challenges experienced in delivering SCI. Funding was also provided through contracts when transfer payments would have been a more appropriate vehicle due to the funding framework created for SCI at the outset.

The audit team found that all of the invoices that it examined were for expenses associated with SCI. Our comparison of actual expenditures to the originally approved budget as shown in Table 2, found that approximately 20% of the approved funds were not used by SCI during the period 2002-03 to 2004-05 and an additional 5.6% ($500,000) was reprofiled to 2005-06. Funds were used to meet shortfalls elsewhere in the Sector, to cover central administrative levies, to fund other priorities and a significant amount lapsed.

The inability to use all of the budgeted funds for the intended purposes had a direct impact on SCI's planned operations. Management and staff identified the following consequences to the audit team:

- cities could not be rolled out as planned;
- less detailed research that they would have liked was undertaken to identify potential cities;
- exploratory visits were not as well defined as they should have been to maximize their value;
- were unable to recruit as many Canadian companies as required. Finding the necessary expertise can be a time consuming prospect;
- appropriate financing vehicles for a significant number of identified SCI projects were not found;
- little time was allocated to training new staff;
- staff had to be very reactionary in their approach and spent a lot of time "fighting fires";
- a number of staff left SCI because they wanted a less demanding work schedule and a better work/life balance.

Stakeholders contacted as part of the evaluation commented on how in-place staff seemed over extended. Several commented on how much SCI was able to achieve on a "shoe-string" budget. Its

management and staff were seen as one of its greatest strengths, while its lack of staff was seen as one of its greatest weaknesses.

As noted in Section 4.2.1, a variety of factors contributed to all of the allocated funds not being utilized for SCI. The audit team notes that some of these factors (e.g., program approval not occurring as early as anticipated, and the need to support other departmental priorities) frequently occur and is not unexpected. What is unusual is the extent of funds not required, not withstanding the ability to roll SCI out to 11 of the 12 additional cities. The audit team is of the opinion that the recommendations it has made for SCI's structure should it be renewed will put in place the infrastructure necessary to better enable it to utilize the funds available for the intended purposes.

It was also noted that SCI used some of its O&M funding to defray the cost of feasibility studies and project definition studies, and to enable SCI city officials to travel to Canada. Criteria have been developed for providing support for project development in SCI partner cities. Only active members of the city team that have previous involvement with the partner city are eligible to apply. Funding is capped at a maximum of $20,000 and can be no more than 75% of the total project cost. Proposals are reviewed by the SCI Director, City Team Managers (Canadian and partner city) and the DFAIT Embassy champion. In each case a contract for services with IC was utilized. Over $1 million was committed for this purpose in 2004-2005. SCI was not the direct recipient of these services, SCI cities were.

Transfer payments which are defined in the Treasury Board *Policy on Transfer Payments* as "payments which are made on the basis of an appropriation for which no goods or services are directly received" would appear to be a more appropriate vehicle by which funding could be provided. Of the various types of transfer payments that can be made, the audit team is of the perspective that grants would be the most appropriate vehicle due to the small amount being provided. With a grant, an individual or organization does not need to account for the use of the funds. They must simply demonstrate that they are eligible and entitled to the money. Eligibility could be based on producing a report on a particular topic and be capped at a certain percentage of eligible costs.

Approval was only sought and obtained for salary and non-salary operating funding (Vote 1) for SCI in December 2002. Because it didn't have grant and contribution monies (Vote 5), SCI management deemed contracts for services as the only viable vehicle by which funding could be provided to stakeholders to help defray the cost of their participation in selected elements of the program delivery.

Recommendation

8. It is recommended that the Director General, Sustainable Industries and Services Branch ensure that if approval is sought to extend SCI, that the submission include a request for Vote 5 funding.

ANNEX A: DETAILED AUDIT CRITERIA BY OBJECTIVE

1.   Management has reasonable assurance that the program is well managed and has been implemented in a timely manner.
     a.   Systems are in place to track the performance of the program;
     b.   Management has implemented a system for maintaining the program;
     c.   Corrective actions are taken when necessary.

2.   Proper financial controls exist for its management.
     a.   Actual expenditures are monitored and controlled effectively;
     b.   A reporting mechanism exists which provides pertinent and timely information to management for decision-making;
     c.   Expenditures are monitored and due diligence is exercised in the spending of the funds;
     d.   Funding is used for the purposes agreed;
     e.   Project and program performance problems are resolved quickly.

ANNEX B: Management Response to Program Audit of Sustainable Cities Initiative

Recommendations	Management Response / Proposed Actions	Timing	Lead
Program Performance			
1.That the Director General, Sustainable Industries and Services Branch* ensure that if SCI is extended that on-going mechanisms be put in place to collect and report on established program performance measures on a regular basis.	Agree. New project tracking system established in September 2005. System facilitates the roll up of statistical indicators related to project activities. Summary report on program activities for last four years. Development of questionnaire for Canadian companies to measure impact of active participation in SCI program	Sept 2005 Feb 2006 April 2006	Director General
2. That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that program objectives be better matched with the actual assigned staff.	Agree. Activities in selected cities curtailed. Cities that had been part of the program for more than five years given reduced level of support. (Katowice, Quindao, Salvador) Activities with cites where local city engagement was weak assigned lower priority. (Cordoba, Algiers, Romania)	May 2005 September 2005	
3. That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that an appropriate administrative infrastructure be staffed (e.g., Outreach/Financial and Evaluation Officer, Regional Managers).	Agree. In the absence of individuals dedicated to project financing and recruitment city team managers assumed responsibilities for team recruitment and developing project-financing information. Any new SCI program would include the appropriate staffing levels and organizational structure to address administrative requirements related to outreach and recruitment, communications, and linkages to international financial institutions (IFI's).	January 2006	
4. That the Director General, Sustainable Industries and Services Branch ensure that if SCI is extended that position responsibilities be more clearly defined.	Agree. Merit criteria and statements of qualifications have been developed for new staff Additional work done with regard to appropriate staffing levels and classification.	December 2005 March 2006	

Financial Controls			
5.That the Deputy Director, SCI discuss with the Director Resource Management, the feasibility of obtaining electronic extracts from FMIS that would facilitate regular financial analysis.	Agree. Management will discuss with IFMS opportunities to enhance the available financial analysis and reporting. As an interim measure SCI developed a parallel Excel financial tracking system available to all city team managers that is reconciled with IFMS for reporting periods. The financial officer works with Deputy Director to ensure accuracy. New financial system established for 2005/2006 that draws from IFMS data.	January 2006 May 2005 April 2006	Director and Deputy Director SCI
Control procedures			
6. That the Deputy Director, SCI ensure that written confirmation including a copy of at least the cover page of written deliverables, is provided to the Administrative Officer by the City Team Manager or Project Officer overseeing the work.	Agree. Procedure implemented so that all invoices approved for payment be accompanied by proof of contract deliverable. Copies of all reports since September 2005 now in central files.	Effective November 2005	Director
7. That the Director General, Sustainable Industries and Services Branch explore with the Corporate Comptroller practical solutions that balance the need for control over hospitality with the need to provide staff in travel status flexibility to offer hospitality on short notice.	Disagree. Management will continue to ensure that all hospitality requests respect Treasury Board guidelines.	January 2006	Director
Use of Funds			
8. It is recommended that the Director General, Sustainable Industries and Services Branch ensure that if approval is sought to extend SCI, that the submission include a request for Vote 5 funding.	Agree. Proposals for the renewal of the SCI program would include provision for Vote 5 funding as an integral part of the program.	January 2006	Director General

* Footnote: In September 2005 the Sustainable Technologies and Service Industries Branch was reorganized. The Sustainable Cities Initiative is located in the newly created Service Industry Branch and reports through the Director (Trade) to the Director General, Service Industries Branch.