Environment and
Climate Change Canada

Environnement et
Changement climatique Canada

Audit of the Administration of Grants and Contributions at ECCC

Report I

Audit and Evaluation Branch

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Canada

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Executive summary

Why it is important

Since 2016, Environment and Climate Change Canada (ECCC)'s mandate has expanded considerably with an increased focus on program delivery to support the Government of Canada's efforts in addressing climate change and protecting the environment.

This has been accompanied by an unprecedented growth in the grants and contributions (G&C) funding provided to the Department to support priorities. The administration of this funding is a key departmental priority. Given the growth in funding, this area has been identified as a risk in multiple corporate documents.

Objective

The overall audit objective was to assess the operational effectiveness of the governance, risk management, and internal controls in place to administer departmental G&C programs, and to assess progress made in implementing the recommendations of the ad hoc Director General (DG) Committee's review of Grants and Contributions carried out in 2020 to 2021.

In the context of this audit, the administration of G&C encompasses both the delivery of G&C funds in program branches, as well as the various other management control and support functions that enable the delivery of G&C.

What we found

The increase in G&C funding since 2016 and moving from a small to a large-scale program delivery department has strained existing resources, infrastructure, and operational processes.

The structural and strategic foundations needed to support the program delivery model — such as governance, processes, systems, compliance framework, training, and capacity-building — have been developed and evolved organically and did not adapt in a manner that effectively supports the scale and complexity of the current number of programs being delivered and the variety of recipients that use the funding.

The current landscape reveals a decentralized approach to governance and program delivery across branches and programs, decentralized information technology and information systems to administer G&C funding, and inconsistent financial management approaches that do not fully support diverse recipient needs and efficient program delivery.

Opportunities for improvement have been identified and are presented throughout this report on governance, G&C recipient-focused delivery, coordination and training, financial management, controls and reporting, and the information systems and information management mechanisms to manage G&C. The interconnectivity of each element impacts the way the entire program delivery ecosystem is shaped, and improvements in one area affect all others.

The review conducted by the ad hoc DG Committee led to efforts and several good practices that were implemented to improve the G&C processes. We found that work to implement the 17 recommendations remains relevant, and these measures need to be reassessed, along with the other findings highlighted in this report, in the context of a broader departmental approach. A unified vision, concerted efforts, and a strategic departmental approach to G&C administration and program delivery that includes the implementation of an enterprise G&C management solution that links to the financial system are necessary to drive improvements and enable the Department to make necessary progress in this regard.

Recommendations

Five (5) recommendations were developed to address the opportunities for improvement identified in this report. Given the shared responsibilities and accountabilities for G&C administration at ECCC and the level of effort required for implementation, the recommendations are addressed to the Department, or to the Assistant Deputy Minister and Chief Financial Officer, Corporate Services and Finance Branch (CSFB), as appropriate:

1. The Department should define, communicate, and implement a common enterprise vision and strategy to managing G&C and review its current G&C delivery model to improve the overall effectiveness of its G&C programs.

2. The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with program branches, should review, update as required, and communicate the departmental governance and oversight functions, accountabilities, roles, and responsibilities that enable an effective enterprise approach to G&C program delivery.

3. The Department should review and address its Information Management and Information Technology (IM/IT) requirements in line with a common vision to support an enterprise approach to the effective delivery of G&C focused on recipients. This includes:

- In the short term, develop and implement an enterprise G&C management solution that includes the capacity to manage the full program lifecycle, and includes integration with the financial system, as well as with customer relationship management functionalities. Consideration should be given to a resourcing strategy that supports the management of the enterprise solution throughout its life cycle.

- Develop and implement a plan to mitigate information management risks associated with the Shared Drive and G&C Database, including developing guidance on document retention, and a strategy to monitor implementation.

4. In the context of a broader strategic approach based on a common vision and strategy, the Department should review and standardize processes, tools, guidance, and training required to support the delivery of G&Cs across their entire lifecycle, by adopting enterprise principles to support efficiency and consistency, and enable a more recipient focused delivery. This includes:

- Strengthening processes surrounding the development and administration of G&Cs, using a risk-based approach, with emphasis on the core values of accountability, transparency, sound financial management and stewardship of public funds (including value for money), and incorporating the department's commitment to reconciliation with our Indigenous partners.

- Strengthening the current departmental training approach to support the various stakeholders in the delivery of the G&Cs. Determine whether a strategic departmental approach should be taken that includes mandatory training elements.

5. The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with program branches, should review and update the internal controls that support the mitigation of program delivery risks and reflect the scope and scale of the current G&C environment by:

- Strengthening financial practices and processes around cashflow processes, the claim review process, and the use of advances and PAYEs.

- Strengthening departmental conflict-of-interest controls that support G&C program delivery, to mitigate the risk of fraud.

- Reviewing and updating the recipient audit framework to outline roles and responsibilities related to dispute mechanisms and recovery processes.

Background

Grants and Contributions (G&Cs) are transfer payments, which are transfers of money from the federal government to "recipients" (individuals, organizations, Indigenous groups, or other levels of government) who undertake specific projects or initiatives as part of programs that align with ECCC's mandate and priorities. ECCC's funding "enables" the recipients to carryout their own objectives, to engage their partners and communities, and to achieve results that promote their organizations, while simultaneously allowing ECCC to leverage the capacity, knowledge, experiences, strengths, and connections of these organizations.

Administration of Grants and Contributions at ECCC

At Environment and Climate Change Canada (ECCC), there are 14 G&C programs linked to the four core areas of responsibility as per the Departmental Results Framework. There are more than 68 G&C initiatives administered by approximately 200 employees across eight program branches.

From fiscal year 2016-17 to 2022-23, the Department's G&C budget increased by $652M, which represents a significant shift in resource allocation across the Department.

Graphic 1 – Growth of G&C funding over the years
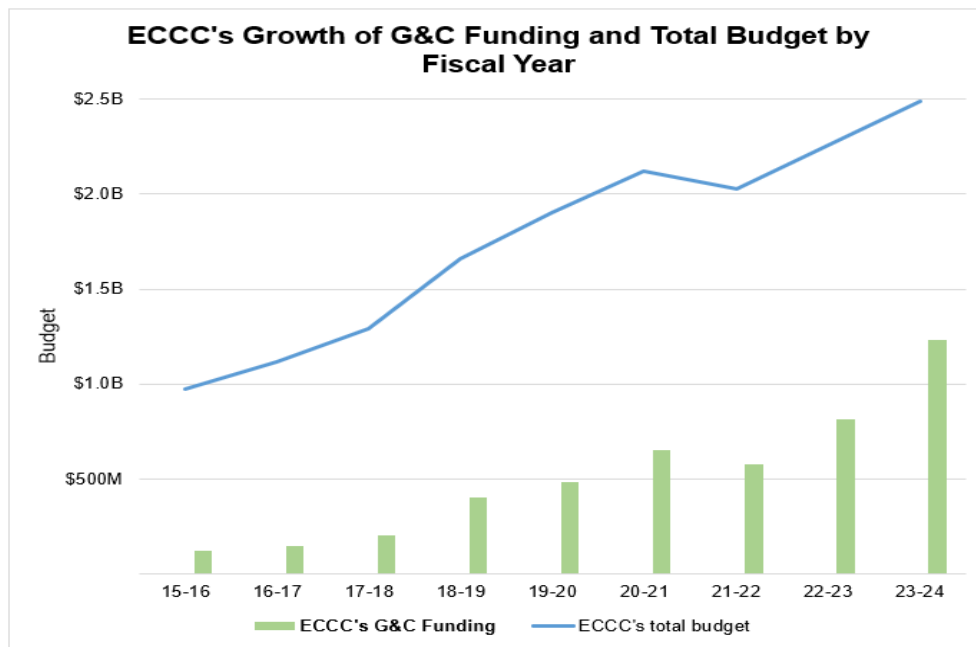
As such, the department has had to adapt and add program delivery capacity. In this regard, the Pan-Canadian Framework Implementation Office was created following Budget 2017. This office has since become the Climate Change Branch. In 2022-23, program officials administered more than 1,700 active individual G&C agreements.

ECCC has authority for the following types of transfer payment mechanisms:

- **Core-design funding programs** – Several funding programs (e.g., EcoAction, Habitat Stewardship Program, Canada Nature Fund, Low Carbon Economy Fund (LCEF)), were established for the purpose of providing G&C funding, which allows the Department to achieve specific objectives and priorities. These programs have a "core-design" which specifies the types of recipients and projects that are eligible for funding, and specific conditions or requirements recipients must meet when they receive project funding.

- **Directed contributions** – Several directed contributions are funded each year. These projects do not necessarily fall under one funding program and are often identified because of interactions with potential partners. These projects have the potential to support the achievement of the Department's mandate and priorities and the greater community.

- **Assessed contributions –** These transfer payments fund Canada's share of the costs of operations of international organizations as mandated by an Act of Parliament, Cabinet decision, Order in Council, or International Treaty. This includes, for example, elements of Canada's participation in the World Meteorological Organization, the Convention on International Trade in Endangered Species of Wild Fauna and Flora, and the Convention on Wetlands of International Importance.

- **Grants** – The Department administers a small number of grants. These include, but are not limited to: Montreal Protocol, LCEF, and Innovative Solutions Canada. Recipients are not subject to reporting on the use of the funds. However, they may be required to report on results achieved.

- **Proceeds and statutory funds** – The Department has special separate authorities and separate programs to enter into funding agreements using proceeds received from Court Awards, or other statutory funds, to fund priority projects that will benefit Canada's natural environment. The Environmental Damages Fund is one example of this type of program – using Court Awards, it funds contributions that achieve restoration of damage to the natural environment and wildlife conservation. Carbon Pollution Pricing Proceeds programming is another – these programs return funds resulting from regulatory requirements of the [Greenhouse Gas Pricing Pollution Act](#) by province to consumers to reduce energy use, cost, and greenhouse gas emissions, and to industrial emitters to support greenhouse gas emissions reductions through long-term decarbonization and clean growth.

The administration of G&C at large is a shared responsibility between program branches and multiple teams within the CSFB which carry out various support functions that enable the delivery of G&C. The Chief Financial Officer is the main official responsible for the system of internal control over financial management and financial reporting, which includes G&C.

This work is supported by two committees, the Assistant Deputy Minister Resources and Corporate Operations Committee (ADM-Ops) and the Director General level Grants and Contributions Management Committee (GCMC).

In the summer of 2020, officials launched a review of G&C administration to better understand how

the Department responded to the significant increase in funds and where improvements were still needed. The review was completed in November 2021, and led to recommendations to be implemented in three phases. The GCMC is the governance body that is monitoring implementation progress. The three phases are:

> 1: Survey the number of programs to establish the baseline
> 2: Review management models and good practices in other departments
> 3: Develop options and recommendations for management and administration

As part of this audit, we asked departmental officials about the progress that has been made in implementing the recommendations. We expected to see evidence that the recommendations had been implemented in support of a broader transformation effort to position the Department for success in managing the largest growth in program funding in the Department's history.

We found that progress has been made, and there is still work to do to accomplish the intent and intended outcomes associated with most of the recommendations. While still relevant and important, their implementation should be reassessed, along with the findings and recommendations from this audit, in the context of a broader departmental strategic approach to G&C.

Objective, scope, and methodology

Objective

The overall audit objective was to assess the operational effectiveness of the governance, risk management, and internal controls in place to administer departmental G&C programs, and to assess progress made in implementing the GCMC review recommendations.

Scope

The scope included elements of the administration of the Department's G&C portfolio, including award-based funding programs administered by regional and National Capital Region staff.

The lines of enquiry and criteria are provided in [Appendix A](). The criteria were developed based on the results of a risk assessment conducted during the planning phase of the audit.

In addition to the audit report, we also produced another audit observation report that focused specifically on the implementation of the GCMC recommendations, and which provides additional insights and observations related to opportunities for improvement in the overall departmental results framework with respect to G&C.

Methodology

The audit methodology included:

- Reviewing over three hundred (300) relevant documents, including policies, guidelines, and

procedures.

- Conduct eighty-one interviews with key CSFB and branch officials who administer G&C funding. This included a mix of program and administrative staff, responsible managers (section 34 delegated authority), and executives from the Director to Assistant Deputy Minister (ADM) level.

- Mapping the G&C information technology and information management systems across the Department.

- Reviewing a sample of one hundred (100) G&C agreements.[1] This included analyzing and testing over 1,000 documents related to expenditures that occurred in these agreements in fiscal-year 2022-23. See Appendix B for the sampling methodology employed.

- Participating in the administration of a questionnaire to over 200 departmental employees who are on the G&C Community of Practice mailing list. The questionnaire was conducted by CSFB G&C Centre of Expertise and had a 28 percent response rate (56 respondents).

Statement of Conformance

The audit conforms to the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.

Findings, recommendations, and management responses

1 G&C Vision and Strategy

Findings: While changes have been occurring in departmental governance, program delivery, and internal control processes, there are areas for improvement across each of these elements, impacted by a defragmented and uncoordinated approach to program delivery across branches and programs, decentralized information management tools and systems to administer and manage G&Cs, and processes that are not standardized or that have not been updated in a risk-based manner to fully enable a recipient focused G&C delivery in line with the complexity and different types of recipients that the department is now managing.

There are also opportunities to review broader elements such as program authorities, terms and conditions, the program architecture, and the departmental results framework, in the context of G&C delivery and alignment with the Department's mandate and priorities.

The overall G&C delivery processes have not been fully adapted to meet the challenges of the evolving G&C portfolio. There is an opportunity for the Department to develop a unified approach

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[1]A funding or contribution agreement is the legally binding document that establishes the conditions under which ECCC will provide the recipient funding. A project is the initiative being undertaken by a recipient that will be supported by ECCC's funding. ECCC must first approve a project before an agreement can be negotiated and approved.

The testing of 100 agreements also included a review of project related documentation that accompanied the agreement. Therefore, the terms 'agreement' and 'project' are used interchangeably in the report when we refer to the sample of 100, depending on which phase of the G&C life cycle we refer to.

based documented and communicated accountabilities, roles and responsibilities that will strengthen the program administration framework applied across the department.

What we examined

The success of a G&C delivery model relies on a system of foundational and structural elements, such as an effective governance and leadership structure that provides a decision-making framework and documented and clearly understood responsibilities, integrated information management systems, standardized processes and procedures, capacity development and training, comprehensive compliance and risk management mechanisms, and a sound system of internal controls.

We assessed the extent to which ECCC has the processes in place to adapt to meet the challenges of ECCC's evolving G&C portfolio and to deliver on departmental results to address climate change and key environmental priorities.

What we found

G&C administration at ECCC - A timeline perspective

The evolution and modernization of G&C administration at ECCC and the associated governance structures over the past decade were shaped by several improvement initiatives. These were driven by various fiscal and policy contexts, such as the 2007 Independent Blue Ribbon Panel on G&Cs; departmental reviews and internal audits of G&C processes, the introduction of the Treasury Board Policy on Results and associated requirements, and the significant increase in G&C funding since Budget 2016. The following represents some of the key actions in the timeline:

- In 2012, an ADM G&C committee was established to provide the Deputy Minister and Executive Management Committee with advice, recommendations, and decision support (on horizontal issues) to strengthen G&C management. Specific responsibilities included making decisions and / or providing recommendations over G&C allocation processes and the annual Departmental G&C Strategy, continuous improvement in G&C management processes, and G&C modernization.

- The ADM G&C Committee was absorbed in 2017 into the newly created ADM Corporate Operations Committee (ADM Ops), whose mandate was to provide the DM and EMC with recommendations and decision support to strengthen overall corporate operations in the Department in several areas, including G&C. Specific ADM Ops responsibilities with respect to G&C included continuous improvement in G&C, and G&C allocation process and the annual Departmental G&C Strategy (priorities, strategy for departmental pressures, improvements to approval processes).

- The next major exercise was conducted during 2017-18, when the department launched, under the lead of ADM Ops committee, the ECCC G&C Strategy to enhance the alignment of departmental G&C activities with the Departmental Results Framework (DRF) and departmental priorities in accordance with TB Policy on Results requirements. The strategy

aimed to streamline application-based programs and enhance reporting on G&C results, introducing single ADM leads for G&C Core Responsibilities.

- The most recent efforts to review and improve G&C processes were driven by the significant increase in G&C funds over the past few years. In the summer of 2020, an ad-hoc G&C DG level committee was struck to launch a review of G&C administration to better understand how the Department responded to the significant increase and where improvements were still needed. The review was completed in November 2021, and led to recommendations to be implemented in three phases.

- The ADM Ops Terms of Reference were updated in May 2022. While the mandate of the committee with respect to G&C remained the same, specific responsibilities related to G&C are no longer clearly outlined in the Terms of Reference. The ADM Ops committee is supported by a DG level G&C Management Committee (GCMC), mandated to provide advice to program delivery DGs, the CFO and the ADM Ops on the effective and efficient delivery of G&C programming within ECCC, including endorsement of the allocation and use of G&C resources. The GCMC report's directly to ADM Ops, and at the time of the audit, was responsible for monitoring implementation progress of the recommendations issued from the 2020-21 G&C review.

We note that throughout the past decade, notwithstanding the evolution of the G&C processes and changes in the Department's context, the delivery model remained largely based on the same model. A decentralized delivery model with shared responsibility between program branches and multiple teams within the CSFB that carry out various support functions that enable G&C delivery.

Current G&C landscape

While continuous improvement efforts have taken place over the past decade, there are areas for improvement across each of the G&C administration ecosystem elements. They are interconnected, and improvements in one area affect the whole program delivery ecosystem. These are outlined in more detail in the subsequent sections of this report and while separate recommendations are issued for each, addressing them cannot occur in isolation.

The increase in G&C funding since 2016 and moving from a small-scale to a large-scale G&C program delivery department has strained existing resources, infrastructure, and operational processes. The current landscape reveals a defragmented and uncoordinated approach to program delivery across branches and programs, diverse processes, tools and ways of managing G&Cs that vary among branches, decentralized information management tools and systems to administer and manage G&Cs that are not integrated, and processes that are not standardized or that have not been updated in a risk-based manner to fully enable a recipient focused G&C delivery in line with the complexity and different types of recipients that the department is now managing, and aligned with our Department commitment's towards reconciliation with Indigenous peoples.

Forward considerations – G&C vision and strategy

Notwithstanding the above-mentioned initiatives to improve G&C, we note that limited efforts have been undertaken from a departmental strategic perspective to formally integrate practices typically associated with significant organizational changes, that could be related to some extent to the transition that the Department went through over the past few years with its increased focus on providing funding through G&C to support results achievement.

Examples of good practices conducive to the success of large organizational changes include assessing the current organizational state (in this context, of the G&C delivery model), and based on this assessment: defining clear objectives and strategy for G&C delivery aligned with the Department's mandate and priorities, reviewing the governance and oversight structure, establishing a change management framework and strategy, technology and process alignment, and capacity building, among other considerations.

We also noted during the audit there are large, structural elements in the Department's approach to G&C administration that must evolve for program officials to fully embrace a recipient-focused delivery model, particularly with respect to relationships with Indigenous recipients. These relate to program authorities, terms and conditions, the program architecture, and the departmental results framework among others (which are outlined in more detail in the complementary report that accompanies this audit report). These elements need to be revisited to ensure alignment with the Department's mandate and priorities in the context of program delivery and G&C administration.

Together, these observations suggest that overall program delivery processes need to evolve to meet the opportunities of a growing and diverse portfolio in line with the department's mandate. A unified vision along with clearly documented and understood accountabilities, roles and responsibilities are necessary to drive the improvements needed to strengthen the administration of G&C across the department.

Recommendation 1
The Department should define, communicate, and implement a common enterprise vision and strategy to managing G&Cs and review its current G&C delivery model to improve the overall effectiveness of its G&C programs.
Management response
Management agrees that there is a need to define, communicate and implement a common corporate vision and strategy for G&C management, and that there is a need to review the current G&C delivery model to improve the overall effectiveness of G&C programs. The
The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with program ADMs and Regional Directors General, will undertake a review of ECCC G&C program objectives for the purpose of defining an enterprise-wide vision and strategy for G&C programming informed by an understanding of how ECCC engages through G&C and informed by its mandate and Government of Canada priorities, such as reconciliation.

2 Governance and roles and responsibilities

Findings: A departmental governance framework is in place to oversee and manage G&C that is based on a shared administration approach. There are opportunities to strengthen program administration, oversight, and challenge functions by reviewing, documenting, and effectively communicating roles, responsibilities, and authorities.

What we examined

We assessed whether ECCC has a system of governance and oversight, and clear roles and responsibilities in place to enable the effective administration of G&C as the portfolio continues to evolve to address climate change and key environmental priorities.

What we found

Governance bodies

As mentioned in the previous section, oversight over G&C is provided by the ADM-Ops committee, which is chaired by the Assistant Deputy Minister and Chief Financial Officer, CSFB, and co-chaired by the ADM, Canadian Wildlife Service. Its mandate with respect to G&C is to provide the Deputy Ministers and the Executive Management Committee (EMC) with advice, support, and recommendations.

The ADM Ops Committee is supported by a series of sub-committees, including the DG G&C Management Committee (GCMC). GCMC reports directly to ADM-Ops and is jointly chaired by the Deputy Chief Financial Officer and a program Director General. Its mandate includes:

- providing advice to the program delivery DGs, the Chief Financial Officer and ADM-Ops Committee on the efficient and effective delivery of G&C, including allocation and use of G&C resources

- making decisions on delegated technical, administrative, and procedural aspects of G&C programming that, in consultation with the CFO, would not benefit from ADM Ops review

- undertake a challenge function to support the decision-making process on higher-risk project proposals

- helping ensure departmental G&C resources are well managed, programming is harmonized, processes are streamlined, and risk-based decisions are informed in a manner that takes into consideration efficient implementation, the achievement of results, as well as applicant and recipient perspectives in accordance with both the [Policy on Transfer Payments](#) and the [Directive on Transfer Payments](#)

- The GCMC expanded its role in 2023 to add an investment oversight function for project proposals deemed to be higher risk. As such, the committee evaluates proposals deemed to be medium to high-risk that exceed $100K as part of the project selection process

We note that within current G&C delivery structure, ADM Ops and GCMC's mandates and responsibilities have been defined in a way that collectively should enable departmental wide coordination of G&C, and there are opportunities for improvement that may affect the ability of these committees to carry out their mandates effectively:

ADM Ops

- While the previous 2017 version of the Adm Ops TOR and the TOR of the 2012 rescinded ADM committee on G&C clearly outlined the responsibilities of the committee in support of achieving its mandate with respect to G&Cs, the most recent version of the ADM Ops TOR no longer explicitly outlines the committee's responsibilities. It is implicit that for achieving its mandate with respect to providing advice and support for decision making on G&C to the DM and EMC, the ADM Ops relies on its supporting sub-committees, particularly GCMC.

- A review of ADM Ops meetings minutes showed that presentations to ADM Ops, outside of the quarterly budget exercise, were limited during the scope of the audit. The most recent, in April 2023, focused on a proposed investment strategy for a G&C information management solution, and the project application approval process.

- While there are no expectations in terms of the frequency and level of activity required related to GCMC updates, given the unique positioning of this oversight body as the main mechanism for senior management and the horizontal challenges faced by the Department in all aspects of G&C administration, there is an opportunity to explore whether this main oversight body is used effectively and at its full potential, or whether it is the most appropriate in line with the Department's vision and strategy for G&C. This is important given the action plan that was developed in response to the ad-hoc committee's recommendations and having an overall departmental approach to implementing and monitoring actions in response to the recommendations.

GCMC

- We reviewed the GCMC Terms of Reference and minutes from all twenty (20) meetings held between February 2022 and November 2023. We found the committee operated within its defined scope, discussed various topics such as changes to Terms and Conditions, G&C process changes, managing financial pressures at key points in the fiscal year, and implementing GCMC review recommendations. We noted, however, that implementation of committee advice and decisions are not collated and as a result there is no central documentation of program improvements and how these could be leveraged across relevant programs.

- We also noted that not all branches have representation on this committee. These branches administered $62.8M or 13.6% of departmental G&C expenditures in 2022-23. And one of these branches identified potential benefits of being on the committee beyond program administration from their perspective as a key departmental enabler.

- Given the interdependency between ADM Ops and GCMC in terms of providing oversight and advice on the efficient and effective G&C administration across the Department, it is important for the department to review membership on this DG level committee to support a consistent awareness of decisions and developments made around G&C. Several interviewees identified opportunities for improvement over G&C governance.

Roles and responsibilities

Program branches and several teams within CSFB share responsibility for administering G&C. The Legal Services Unit provides advice to officials throughout the project lifecycle. A brief description of roles and responsibilities is provided below.

Assistant Deputy Ministers

Responsible for approving and managing G&C agreements within their branch and liaising with the appropriate directorates within CSFB for day-to-day operations.

One ADM is assigned to each core responsibility. The four ADM core responsibility leads make recommendations to the Deputy Ministers and Minister on the overall G&C strategy for their respective core responsibility. The ADM, in collaboration with other branch heads, is responsible to assess the fairness and completeness of G&C and ensure coherence to priority setting and performance measurement for programs under their core responsibility.

Program Branches

Branch program managers have an important role in G&C administration and are responsible for day-to-day administration, given each program branch administers its own programs. Also responsible for program development and design, including the identification of intended program outcomes.

Corporate Services and Finance Branch

G&C Centre of Expertise

The CoE coordinates annual departmental G&C planning processes. The CoE also carries out in-year monitoring and resource reallocations, manages G&C systems, reviews project proposals and funding agreements, provides oversight, guidance, and direction, develops training, tools, and templates, liaises with the Legal Services Unit, other Departments, and central agencies. CoE staff also coordinates the dissemination of information to senior management and are responsible for recipient audits.

Financial management advisors

The FMAs liaise with program managers on all financial matters, including for G&C. FMAs provide advice to departmental senior management as they carry out their delegated authorities – including for G&C spending.

Corporate and Operational Accounting Division

As part of the G&C claims process, division staff perform payment authorization duties (Section 33 of the Financial Administration Act) and validate payment processing requests made by recipients after program managers perform their initial claims review and approval.

Financial Policy and Systems Controls Division

Responsible for performing reviews of the financial controls over G&C programs, which supports the published financial statements on an annual basis.

We observed that overall, though the Department has defined roles and responsibilities with respect to G&C, there are opportunities to strengthen accountabilities, to better clarify and communicate roles and responsibilities and expectations among key stakeholders and ensure consistent applications of approaches and decisions across the department.

G&C Centre of Expertise. The G&C CoE responsibilities include process and guidance development, day-to-day G&C financial management, reviews of project proposals over $100K, recipient audit oversight, and maintenance of the G&C project database of approved projects and the Grants and Contributions Enterprise Management System (GCEMS).

The G&C CoE has 15 employees and experienced staff turnover and several reorganizations during the audit. As such, they have had corporate knowledge retention and capacity challenges. Interviewees noted that the G&C CoE has not grown at the same pace as program funding and there does not appear to be a strategy in place to review whether the unit has adequate resources to support program delivery.

Two program branches established a specific capacity (i.e. branch specific centres of excellence) to enable the management of G&C. The resources allocated to these functions are greater than the Departmental G&C CoE resource profile. Branches have created shadow systems, tools, and processes to mirror some existing tools and templates created by the CSFB CoE. We were informed that these have been developed and implemented to fill the gaps and needs of the specific branch and their priorities in the absence of desired support mechanisms from CSFB, and they offer an additional layer of assurance to ADMs. For example, we found duplicate activities related to the expenditure initiation process for G&Cs agreements through the use of separate Ecollab sites, branch specific G&C trackers, G&C training (organized by branches and delivered by individual FMAs), and guidance on a range of G&Cs topics from Appendix K flexibilities to financial management.

These supporting units often report directly to the ADM or ADMO and even have a role to play in prioritizing G&Cs proposals before ADM approval (i.e. which projects the branch will fund that year). Later in the fiscal year, these groups also play an important role in the reallocation of funding within a branch – if there are forecasted lapses or if new funding becomes available, they lead the process to decide which projects to fund. Whether at the beginning or end of a fiscal year, the selection of projects is occurring entirely within a branch, and there is limited visibility across branches into how or why certain projects are selected, and even why they might be funded at a certain level. This is an obstacle to the consistent management of G&C across the Department – there is no validation on duplicating recipients or funding one priority for a branch, which may in fact, from the overall G&C portfolio perspective, be less important than an activity elsewhere in the Department.

Several interviewees mentioned a need to clarify the G&C CoE's role. They noted that program officials expect the CoE to have a leadership, oversight, and challenge function role. This differs from how G&C CoE staff perceive their role, which they see as providing guidance and supporting program manager decision-making. Program officials noted that the G&C CoE's focus on preparing project proposal dockets for senior management review was redundant and did not provide meaningful input in the process.

The GCMC review identified the need to review the role of the G&C CoE and issued a recommendation to address it. The Department reported that it plans to conduct a benchmarking exercise, followed by internal consultations and implementation. This work should inform the appropriate roles, responsibilities, and resource levels. Thought should also be given to whether the Department should have one centre of expertise or continue operating with several centres of expertise or excellence.

Program Managers and Branches. Branch program managers have an important role in G&C administration and are responsible for day-to-day administration. Program Branches are also responsible for program development and design, including the identification of intended program outcomes.

Each program resources this activity differently – in some established application-based programs, teams work full-time managing G&C, from the intake of applications through the management of

agreements. In other types of programs, program managers might manage only one or two individual agreements, as supplementary to their core work in another area of the Department's mandate (i.e. to support scientific research). As a result, the expertise and experience of project managers can vary, as can their need for support from the various enabling functions in CSFB.

Financial Management Advisors. FMAs liaise with program managers on financial matters, including for G&C. They provide advice to program officials in carrying out their delegated authorities. Their responsibilities include:

- Advising on financial management, budget reconciliations and reallocations, strategic and operational planning.

- Monitoring G&C free balances, including quarterly and year-end forecasts to help identify potential lapses.

- Exercising a challenge function on project proposals.

- Providing basic policy interpretations and referring complex issues to the G&C CoE.

The dual role that FMAs have – being the CFOs representative that works with branch officials and having the challenge role when reviewing projects - was unclear to several interviewees. There were also different views on the role FMAs have in providing policy interpretations. Some program managers did not think they could contact the G&C CoE directly and met with their assigned FMAs only, while others mentioned they worked closely with G&C CoE staff. In general, there was a lack of clarity with respect to how the FMA role differed from that of the G&C CoE.

Documenting other key stakeholder roles and responsibilities. G&C roles and responsibilities are captured in a departmental 'Roles and Responsibilities' document, which is maintained by the CoE in a central location and available to anyone working on G&C. There is an opportunity to review and update this document to identify the role of other key stakeholders in the process – including the Corporate and Operational Accounting Division, the Financial Policy, Systems and Controls Division, and the Legal Services Unit.

The Legal Services Unit supports agreement negotiations, particularly with provincial, territorial, and international organization recipients. This unit supports program officials in using the appropriate templates and modifying clauses and requirements. Defining the Legal Services Unit role was a GCMC review recommendation and work is still being done to implement this action item.

Subject matter expert proposal review roles. Typically, the Department receives more proposals than available funding. As such, program officials review proposals based on established criteria. Once project proposals have been assessed and ranked, the next phase includes a technical review normally conducted by a panel of subject-matter experts. These individuals can be experts working within ECCC or from other departments and agencies depending on the area of expertise required.

Opportunity for consideration. The process in place to identify the appropriate subject matter experts is neither formalized nor documented. There is an opportunity to establish a documented process that includes the development and dissemination of a list of potential subject matter experts. This could support a more efficient identification of potential individuals to sit on these panels, which could lead to a decrease in the time required to review proposals.

Recommendation 2
The Assistant Deputy Minister, Corporate Services and Finance Branch and Chief Financial Officer, in collaboration with program branches, should review, update as required, and communicate the departmental governance and oversight functions accountabilities, roles, and responsibilities that enable an effective enterprise approach to G&C program delivery.
Management response
Management agrees that the departmental governance and oversight functions, accountabilities, roles, and responsibilities should be reviewed, updated, and communicated. The ADM for Corporate Services and Finance Branch and Chief Financial Officer in collaboration with Program ADMs and Regional Directors General, upon completion of Recommendation #1, develop a departmental G&C management framework to formalize the departmental governance, processes, and tools for the sound management of G&C.

This work should address the findings related to the ADM Ops and the Director General G&C Management Committee, and the roles and responsibilities of enabling functions such as the G&C Centre of Expertise and the Financial Management Advisors.

3 G&C Information systems

Findings: The information management and information technology systems in place to administer and manage G&C are not centrally managed and do not allow for accurate, accessible, and timely information to support decision-making, monitoring, and reporting on financial expenditures and results for all agreement lifecycle phases. Opportunities for improvement were identified related to overall information technology and information management systems capacity to meet the needs of a large, modern, program delivery department.

What we examined

The audit assessed the extent to which the information technology systems and information management practices in place to administer and manage G&C allow for accurate, accessible, and timely information to support reporting and decision-making across the lifecycle of G&C projects, programs, and across the Department's program portfolio.

What we found

At the time of the audit, the Department had two different G&C administration system solutions in place to process the intake phase of application-based initiatives. Program officials relied on

many information management repositories to manually store and consolidate G&C information throughout an agreement lifecycle, as follows:

Grants and Contributions Enterprise Management System (GCEMS)

The departmental in-house solution funded and managed by the G&C Centre of Expertise. It is used by about a dozen application-based initiatives to administer the intake phase of project proposals.

The rest of the G&C lifecycle processes (excluding intake) are managed through other information management systems, none of which connect to GCEMS. Also, GCEMS is not integrated into the Department's financial system.

Program Information Management System (PIMS)

The PIMS is exclusively funded and used by the Programs Directorate, Climate Change Branch for intake of application- based proposals.

The Climate Change Branch developed this system before GCEMS was operational. The system has additional functionalities beyond those of the GCEMS, such as managing part of the processes related to payment requests and reporting requirements, approvals from relevant authorities within the program branch. PIMS is not integrated into the Department's financial system, but this type of capacity is being considered.

Departmental G&C ECollab (intranet site)

Program officials use this tool to move projects through the approval phases up to the expenditure initiation approval prior to the signing of an agreement with a recipient.

Departmental Share drive

Program officials use this drive to retain G&C related project documentation.

Branch specific trackers and ECollab sites.
Program officials use several other tracking tools and branch specific ECollab sites to manage their G&C programs.

G&C Database (an Excel file). The Database contains a combination of information from the ECollab intranet site and the financial system. Data are downloaded from the financial system and reconciled at least monthly by a team within the G&C CoE. The information from ECollab is not updated beyond the project approval stage.

We observed significant issues and opportunities for improvement with respect to the systems in place that support G&C administration. The systems and practices in place do not allow for accurate, accessible, and timely information to support decision-making, monitoring, and reporting on results across the lifecycle of G&C projects and programs. This may result in a multitude of impacts, including inefficient operations and reduced coordination, increased administrative burden, reduced transparency, and challenges in demonstrating program effectiveness, misinformed decision-making, potential legal and reputational damage, inability to provide a

recipient-focused user experience, and ultimately the ability of the Department to effectively fulfill its mandate.

GCEMS and PIMS. There is no central system in place to support the administration of the full lifecycle of all G&C funding. The two main systems - GCEMS and PIMS – function independently. Each system has different processes, collects different data, and associated standards. We were told that neither system is fully meeting program official needs, and the systems do not support the administration of directed and assessed contributions. All interviewees also recognized there are potential challenges in moving to a single solution – including the resources required to undertake such a move, and the time it would take to implement.

During the audit, departmental officials recognized a need to establish a roadmap to improve G&C administration. It was recognized that this will require a rescoping of business requirements, harmonizing data collection and business processes, and having a process in place to identify potential solutions. It was noted that this work will take time.

In the spring 2023, the ADM-Ops committee approved a path forward to addressing some of these challenges. This included a short-term need to re-platform GCEMS to a cloud version, adding a new capacity to manage collaboration with applicants, and a capacity to generate agreements. Furthermore, it included a medium-term plan to add capacity to receive progress reports and claims – though not to process the latter through any sort of integration with the financial system. The project has now been funded and work on Phase 2 is underway.

However, work on GCEMS may be insufficient to meet the challenges the Department is facing – the GCEMS solution remains limited only to a small number of application-based programs and will continue to lack integration with SAP or a Client Relationship Management solution. An enterprise G&C management solution that includes the capacity to manage the full program lifecycle, which includes integration with the financial system and customer relationship management functionalities is critically important to enhancing G&C administration across the Department. It will require a roadmap with dedicated funding and a detailed project plan to support the achievement of key milestones and objectives.

Shared drive and the G&C Database. We found that the shared drive and G&C Database were unreliable sources of information. As part of our review of 100 agreement files, we noted several data errors and inconsistencies. These included outdated or incorrect information on current projects, responsible managers, fund codes, program codes, and transfer payment categories. We also noted erroneous information on the level of expenditure initiation approval authority, incorrect Terms of Conditions, inconsistencies in use of Appendix K, recipient names, recipient types, project duplication, and actual cashflow amounts for a given fiscal year. There was also missing information on some agreements that used Appendix K.

Similarly, we observed issues with the storage of information on the central share drive for G&C. This information includes documentation such as signed contribution agreements, risk assessments, amendments, and monitoring and results reports. We found that 14 agreement files we reviewed did not have all the required documentation stored in the shared drive, and more than a dozen project files were missing entirely. We were informed that some project files had been

accidentally removed from the shared drive and other files had been nested inside other project files. Finally, we observed there are no shared drive content controls. Essentially, anyone staff member that is granted access - including hundreds of programs and responsible managers – can make changes in the drive. This includes the ability to alter data and delete project files.

These issues related to the 100 agreement files we reviewed. It is reasonable to expect that these issues may also be relevant to the files that were not reviewed. This presents a significant risk to the Department's ability to meet its information retention obligations and for officials to be able to have a complete picture of G&C spending and results achieved across the Department that is supported by accurate, timely, relevant, and reliable data and information.

Recommendation 3

The Department should review and address its Information Management and Information Technology (IM/IT) requirements in line with a common vision to support an enterprise approach to the effective delivery of G&C focused on recipients. This includes:

- In the short term, develop and implement an enterprise G&C management solution that includes the capacity to manage the full program lifecycle, and includes integration with the financial system, as well as with customer relationship management functionalities. Consideration should be given to a resourcing strategy that supports the management of the enterprise solution throughout its life cycle.
- Develop and implement a plan to mitigate information management risks associated with the Shared Drive and G&C Database, including developing guidance on document retention, and a strategy to monitor implementation.

Management response

Management agrees that a review of the departmental IM/IT requirements should be performed, and enhancements implemented, consistent with the departmental G&C vision and strategy. The ADM for Corporate Services and Finance Branch and Chief Financial Officer, in collaboration with the ADM Digital Services Branch and Chief Service and Digital Officer, Program ADMs, and Regional Directors General, will develop a G&C IT modernization roadmap and related deliverables.

4 Recipient focused G&C delivery

Findings: Efforts are being made across the Department to improve coordination, collaboration and sharing of G&C best practices through the G&C Community of Practice.

Opportunities for improvement exist to take a more recipient focused approach in G&C delivery by standardizing processes, enhancing service standards, reviewing certain processes to find timeliness efficiencies, and improving approaches for administering G&C with Indigenous recipients. There is also a need to have a mechanism in place that supports a strategic assessment of the overall departmental G&C portfolio to ensure that programs and expenditures are aligned to priorities.

What we examined

The audit assessed whether ECCC has effective tools and practices in place in supporting a recipient-focused delivery of G&C. We looked at the timeliness of G&C processes, including reporting against service standards, and whether mechanisms are in place to foster collaboration among branches in managing the G&C portfolio.

What we found

As ECCC expands its G&C portfolio to achieve results, the Department's success increasingly relies on establishing successful relationships with recipients. These partnerships, inherent in nature, must be mutually beneficial. Furthermore, G&C serve as one of the most important mechanisms which enable both the Department and the broader Government of Canada to advance reconciliation efforts with Indigenous peoples.

The processes and tools supporting G&C delivery under a recipient-focused model should generally be tailored to accommodate the volume, types, and the specific needs of recipients, should aim to reduce administrative and reporting burden on recipients, while they should also foster a streamlined process to allow for consistent application across branches, which may manage the same recipients for different activities. These should also prioritize equitable treatment of recipients through service standards and should be thought through wholistically from a departmental perspective, from program design and delivery and beyond, in consideration for the long-term relationships that are developed with recipients, partners and stakeholders beyond the lifespan of individual programs or initiatives.

We found that in general, processes related to G&C reflect the highly decentralized governance structure and delivery model. There are critical processes along the G&C lifecycle which are decentralized or vary in practice, which limits the Department's ability to offer a consistent experience to recipients.

The Department has made progress as part of widespread efforts to simplify, innovate, and collaborate, by improving collaboration and engagement across programs and branches through a G&C Community of Practice. There have also been significant efforts to improve the timeliness of the process, by making changes to the application and approval processes. However, much of the effort to simplify and innovate remains siloed in programs and branches, and the success of individual initiatives – whether to improve timeliness for recipients, or to more effectively tailor programming to meet their need, are not leveraged towards a more strategic, departmental approach in managing the entire G&C portfolio.

Collaboration and Engagement

Efforts to enhance collaboration for the administration of G&C led to the creation of a departmental G&C Community of Practice in September 2022. The G&C CoE established the community. The purpose is to provide a forum for information sharing to support the development of guidance, advice, and tools. The G&C Community of Practice meets monthly and all staff that administer G&C can participate. On average, between 70 and 80 individuals attend these meetings.

The G&C Community of Practice has helped support collaboration and information sharing across branches. Several interviewees mentioned there may be opportunities to increase awareness of this group and review whether it is achieving its intended purpose.

An opportunity was also identified to have a mechanism or forum for senior level program officials to have more strategic discussions on setting G&C program objectives and how funding could have a greater impact across all program areas. While GCMC endorses budget allocations and reallocations in response to potential lapses and pressures, there are opportunities for a broader, more strategic discussion forum that could better align program funding to departmental priorities.

Beyond our department, we also note that there is no Government of Canada-wide investment oversight function to align G&C spending that might target the same recipients, or to share information about those recipients across departments. Collaboration across departments, if any does occur, is done on an ad hoc basis by program managers. One example of this type of collaboration the audit team found was in relation to climate change adaptation and Greenhouse Gas emission reductions, where a working group had been developed which included discussion of G&C and included several departments and agencies.

Service Standards

ECCC has three public-facing G&C service standards that inform potential applicants of the level of performance they can reasonably expect. These standards do not apply to all types of departmental transfer payments. We observed that these service standards did not apply to 14 of the 100 agreements we reviewed – specifically, selected grants, assessed contributions, agreements using statutory funds, and interdepartmental transfers.

The Department reports publicly, on performance against these standards. The last report was published for fiscal year 2022-23. Program managers are responsible for collecting and recording data used to report on performance.

Based on our document review and interviews with program officials, we observed service standards are not always met, and that performance is impacted by the complexity of processes throughout an agreement lifecycle (see Table 1 below).

Table 1 – Performance against service standards (sample review results)

Service Standard	Performance
#1. For ECCC's application-based funding programs, ECCC will acknowledge the receipt of a completed and signed application package within five (5) working days of the application deadline.	This standard was consistently met for those applications that are processed via the two IT systems in place to manage intake. This was due to the automated process for acknowledging application receipt. We were unable to validate the service standard for the paper-based process and noted that this

Service Standard	Performance
	process operates differently. Program officials may work with applicants during the process to support them in developing an application that meets the program requirements.
#2. ECCC will send a letter to successful funding recipients within ten (10) working days of ECCC's making the final funding decision.	Based on our review of 86 projects, we found that 28 agreements had met this service standard and 41 had not. Moreover, there was no information available for the remaining 17 projects.
#3. ECCC will provide the funding recipients with the final contribution agreement for the recipient's signature within fifteen working days of successful negotiation of the contribution agreement.	Based on our review of 86 projects, 43 agreements met this service standard, 30 did not, and information was not available for the remaining 13.

Opportunities to enhance timeliness

As per the Department's Guide to Grants and Contributions, the G&C lifecycle includes five phases with associated milestone deliverables. Please see Appendix C for details.

1. Receive expenditures initiation / approval of project

2. Negotiate and draft agreement

3. Approve and sign agreement

4. Manage the agreement

5. Finalize agreement

The overall timing of decisions in the G&C lifecycle is an important success factor. Many projects involve fieldwork that must be completed in warmer weather, usually during the summer. When proposal reviews are done during the summer months after the start of the fiscal year, and the process to select and approve projects and negotiate the agreement document takes additional time, recipients may face very limited time to meet their objectives.

The GCMC review recommended that the Department explores opportunities for delivery approaches to address capacity issues, such as the possibility of creating surge teams and inventory of groups and classification of positions involved in the delivery of G&C to develop options for standardization. Progress reported to date included collecting data from four participating branches and analysis, concluding that no surge periods were identified, and workloads were reported as consistently high over the course of the year. GCMC Committee

members concluded there is a need for more training on grant and contribution administration and better systems and tools, which may help address capacity issues.

Based on our review of 100 agreements and interviews, we observed there are several administrative opportunities for improvement at different phases of the project lifecycle. These are described below.

Delegated authorities and expenditure initiation. A delegation of authority instrument is in place that outlines G&C decision-making levels. Once a proposal has been received and selected, program officials must exercise appropriate approval through delegated authorities. This must be done within certain timelines to ensure recipients are notified and the agreement negotiation process can start.

Over 40 interviewees mentioned that the expenditure initiation process is complex and time consuming. ; This results in an uncoordinated approach to exercising delegated authorities and the use of additional sub-processes to support the expenditure initiation decision. This impacts timelines and program official ability to provide accurate information to applicants on the status of their applications, which may affect relationships with potential recipients.

In our review of 100 proposed projects, we found that the expenditure initiation process took an average of 36.4 working days from first signature on a Consultation Form to a signed letter of notification, which starts the agreement negotiation process with recipients. The expenditure initiation process was the lengthiest for approvals delegated at the Deputy Minister and Minister levels – with an average of 44.3 and 48.6 days respectively (see Table 2 below)

Table 2 – Average length of expenditure initiation process (sample review results)

Level of Delegated Authority	Average length of expenditure initiation process by Delegated Authority Level in working days	Total number of Agreements*
Director General	16.9	8
Assistant Deputy Minister	24.7	33
Deputy Minister	44.3	4
Minister	48.6	42
	36.4	**87**

Fifty-two of the agreements we reviewed were approved in 2022-23 and we found that delegated authorities were not exercised at the lowest possible levels in some cases:

- Ten (10) of 18 project proposals that could have been approved by a Director General were approved by an Assistant Deputy Minister.

- Three (3) of 11 project proposals that could have been approved by an Assistant Deputy Minister were approved by the Minister.

Based on the average length of expenditure initiation decisions, which appears to increase at the most senior levels, there may be opportunities to fully apply the delegated authority instrument and seek time-saving opportunities in the process.

Core Responsibility (CR) ADM signature. Based on our file review of 100 agreements, we observed that CR ADM approval took on average 7 working days. CR ADMs informed us that this time was required for them to undertake due diligence reviews prior to exercising their delegated authorities. We were informed of instances where program officials or FMAs sought quick sign offs (sometimes within a single business day) so that funds could be allocated prior to fiscal year end. We were also informed that the CR ADM signature process was being reviewed as part of continuous improvement efforts.

Project approvals. For project proposals that require Deputy Minister or Minister approval, the G&C CoE prepares a memorandum and docket that is sent up for decision. Individual proposals are batched and as a result there may be a time lag from when a specific proposal is recommended for approval and when it is approved. This is one factor that affects the time it takes to obtain Deputy Minister and Minister approvals.

Negotiation processes. The agreement negotiation process starts after recipients are notified that their project was selected for funding. Negotiations can be complex and sometimes require advice from Legal Services Unit officials. We observed that while templates and guidance documents are available for standard agreements, they may not be applicable to all programs. Specifically, the lack of tools and guidance for certain agreement types such as grants and assessed contributions agreements can cause delays in the negotiation process. Moreover, the development of one-off agreements requires additional resources and support from multiple areas including the G&C CoE and Legal Services Unit.

Amendments. Signed agreements may be amended at any point prior to termination. Amendments occur for several reasons and are often performed to address unforeseen changes during an agreement lifecycle. The two types are technical amendments and expenditure initiation amendments. All amendments must be approved by the appropriate delegated authority. The G&C CoE developed several tools and supplementary guidance on amendments.

We observed that information management practices related to existing agreement and amendments are not integrated. This means that program officials and those working on agreements must often search multiple locations for current agreement clauses, stipulations, and amendments throughout an agreement's lifecycle – particularly when multiple amendments have been approved.

Indigenous Recipients

The Department's relationship with Indigenous recipients is unique, particularly as it relates to engagement with Indigenous partners and communities as part of the program or regulatory

development process. G&C funding is often provided to Indigenous partners and communities to build capacity and enable participation in the process. These funding engagement activities are a departmental priority and a key component of making progress on truth and reconciliation commitments. In 2022-23, Indigenous recipients represented approximately $96.7M or 20.9% of departmental G&C expenditures.[2]

We were informed that using G&C funding to support engagement activities with Indigenous partners and communities may not be the most efficient mechanism for either party. Based on discussions with program officials, it was highlighted that G&C funding requirements may be restrictive, burdensome, not timely, and costly for Indigenous recipients. This is even more so for those Indigenous recipients that may have limited capacity or who have multiple agreements in place to fund their activities.

We observed that practices varied across the Department and in other government departments. We were informed that flexibilities offered to the same recipient differed across departments and that several other science-based government departments had defined a risk-based approach to administering program funding with Indigenous recipients. This has supported relationship and capacity building with Indigenous partners and communities. Examples provided include flexible approaches to timelines, reporting requirements, or the use of advances as per Appendix K.

The GCMC review also highlighted the need for examining flexibilities for Indigenous recipients and issued two recommendations. We were informed work is in progress to pilot the use of a single consolidated agreement with an Indigenous recipient who would otherwise negotiate and sign multiple unique agreements; and use it to inform future agreements with Indigenous and non-Indigenous recipients. The Department also plans to establish a pathfinder service focused on assisting Indigenous partners to increase and enhance their engagement in our G&C programs, but at the time of the audit this work had not started.

The audit also noted positive steps the Department had taken in recent months, including the amendment of several Terms and Conditions to add additional flexibilities for Indigenous recipients, as well as the development of a $1M pressure fund to support Indigenous recipients across the Department's programs where needed. These efforts are commendable and need to continue in alignment with the broader context of the United Nations Declaration on the Rights of Indigenous Peoples Act implementation at ECCC.

Risk assessments of proposals from Indigenous applicants. The project level risk assessment template is a key element in the risk-based approach to G&C administration and is used to determine agreement financial and reporting requirements. A standard risk assessment template was designed for all G&C agreement types and is used to assess proposed projects against 10 risk elements such as management capacity, financial capacity, project management capacity, project timeframe, ability to measure results, and recipient's prior history of implementing projects.

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[2] Where this language is used, it explicitly excludes statutory funding, like the Environmental Damages Fund.

Having one template for all assessments may not be appropriate for all agreement types and may be having an impact on Indigenous applicants.

Our review of agreements funded in 2022-23 found a disproportionate determination of higher risk for projects associated with Indigenous applicants. Almost half (48%) of proposals from Indigenous applicants that related to Appendix K were rated as medium risk. The relatively higher risk rating automatically translates into increased reporting and oversight requirements in final agreements and leads to additional administrative costs for recipients that may not have the capacity to support these requirements. There is an opportunity to review the application of the risk template as it relates to agreements with Indigenous partners and communities.

Use of Appendix K. The Policy on Transfer Payments Appendix K provides financial flexibilities for Indigenous recipients. As such, program managers have the discretion to consider three additional contribution funding approaches for transfers to Indigenous recipients. These include fixed contributions, flexible contributions, and block transfer funding. Currently, the Department uses the fixed and flexible contribution approaches.

We observed that the use of Appendix K flexibilities has increased over time. It is used by many branches as the default when preparing agreements with Indigenous recipients. The G&C CoE drafted supporting guidance on the use of Appendix K, however, the document was repealed. As such, there is currently no central guidance on this subject in place. As a result, some branches are in the process of developing their own reference document. Therefore, at the time of the audit, the use of Appendix K varied across ECCC, which may lead to different clauses applications of the flexibilities provided. It also presents an uneven environment for Indigenous recipients who are seeking funds from ECCC and other government departments to progress their climate change and environmental initiatives. The consistent application of Appendix K across the Department is an important key success factor in engaging with Indigenous partners and communities.

Recommendation 4

In the context of a broader strategic approach based on a common vision and strategy, the Department should review and standardize processes, tools, guidance, and training required to support the delivery of G&Cs across their entire lifecycle, by adopting enterprise principles to support efficiency and consistency, and enable a more recipient focused delivery. This includes:

- Strengthen processes surrounding the development and administration of G&Cs, using a risk-based approach, with emphasis on the core values of accountability, transparency, sound financial management and stewardship of public funds (including value for money), and incorporating the department's commitment to reconciliation with our Indigenous partners.

- Strengthening the current departmental training approach to support the various stakeholders in the delivery of the G&Cs. Determine whether a strategic departmental approach should be taken that includes mandatory training elements.

Management response

Management agrees that a review and standardization of processes, tools, guidance, and training is required to enable an effective and coherent risk-based enterprise approach for the delivery of a recipient focused G&C approach, based on enterprise principles and core values. The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with program ADMs and Regional Directors General, will develop standardized processes, tools, and guidance to support an enterprise approach to managing G&C.

Actions should reflect the Department's commitment to truth and reconciliation with Indigenous peoples throughout the review and development of processes, tools, and guidance to support alignment with implementation of the United National Declaration Act.

5 Financial Management and Internal Controls

Findings: Program branches have been adapting financial management tools and processes to their operational requirements and seeking to make their processes simpler to use for recipients. As a result, there were inconsistencies in stewardship and financial management practices across the Department. There is an opportunity to undertake a departmental level assessment of G&C financial management practices to ensure these are risk-based and adapted to the scale and complexity of the current G&C portfolio.

The Department established a system of internal controls over financial reporting that include controls over G&C administration. The audit found occurrences where the G&C related controls did not operate as intended. Opportunities for improvement exist to test the current G&C controls in place and revisit the control narrative to ensure that it reflects current processes and controls. There is also an opportunity to strengthen key controls that help mitigate potential fraud risks such as the recipient audit framework and implementing a conflict-of-interest assessment process specifically for G&C administrators.

What we examined

The audit assessed whether a comprehensive system of financial management for G&C is in place, which includes a risk-based approach to financial management at the outset of agreements, and controls across the lifecycle of the agreement that are operating effectively to ensure the stewardship of G&C funds.

What we found

The financial management of G&C is a shared responsibility between program branches and several teams within the Corporate Services and Finance Branch. The Chief Financial Officer is responsible for ensuring that a risk-based departmental system of internal control over financial management is established, monitored, and maintained, which includes G&C. The significant growth in departmental G&C funding has put pressure on the Department's financial management approach to program funding, which may have been well-suited to smaller scale program delivery. The volume of new program funding that has occurred and the speed at which the funds needed to be allocated increased the challenges in managing the scale and complexity of new funding received.

Agreements are signed with Indigenous or non-Indigenous recipients, with an individual, with a small entity, with a province or territory, or even with a large international organization. These types of recipients all have different needs, resources, administrative and project management capacity, etc. We found that the tuning of processes and tools to manage agreements has not followed the pace of the expansion of the G&C portfolio, the diversity of types of recipients, and the scale and complexity of the different types of agreements. While tools and guidance exist, they are not built in a way that supports a risk-based approach to financial management over the G&C agreement lifecycle.

In this context, program branches have been adapting financial management tools and processes to their operational requirements and seeking to make their processes simpler to use for recipients. As a result, there are inconsistencies in financial management practices across the Department.

We also note instances where existing financial controls were not operating as intended, and a comprehensive review of the system of internal controls over G&C has not been completed since 2016. As such, more work needs to be done in this area to strengthen stewardship and financial management practices and controls.

This section provides observations on the inconsistencies in stewardship and financial management practices and the underlying risks to the Department if these are not properly mitigated. Given the level of risk, it is important that measures be taken to have a departmental, strategic assessment on risk tolerance levels and based on the results, update financial management tools and internal controls that support program delivery.

Financial management tools and processes

Project risk assessment. Conducting risks assessments for proposed projects is a key component of the G&C lifecycle, which determines the level of financial controls to be applied in an agreement, such as financial requirements and reporting requirements. The risk assessment is a mandatory step to be completed by project managers when assessing project proposals.

The G&C CoE developed a risk assessment template, which is the single standard departmental template to be completed by all program managers for all types of projects, recipients, and funding authorities. It includes ten (10) risk areas and pre-determined risk weightings that project proposals are assessed against and rated. The information required to complete the template relates to an understanding of the prospective recipient's financial and management capacity, as well as reliable information from within the Department. Agreement reporting and financial requirements (i.e., payment request advance limits) are based on the overall project proposal risk rating.

We were informed that the information required to complete the risk template is often demanding to obtain, and several project managers noted that they had not received sufficient guidance and training on how to complete the template. Moreover, some interviewees noted that they did not know whether risk assessments are mandatory for certain international recipients, grants, and assessed contributions. As such, the overall risk rating that is considered in the development of an agreement is influenced by a project manager's knowledge on how to use the template and the

information available to support them in their work. This may lead to inconsistencies, inaccuracies, and inequities in determining the level of controls required in an agreement.

Program managers expressed concerns about the impact that higher risk ratings could have on recipients – particularly Indigenous recipients. They noted that for proposals deemed higher risk, the reporting requirements may impact recipients' ability to deliver on their commitments due to capacity constraints.

As such, there is a risk that program managers may not be applying the correct risk level in their assessments. Therefore, if risk results are too low, when they should not be, may increase the risk of inappropriate stewardship of funds.

This is particularly important for proposals that are considered low risk and under $100,000 because there is no process in place to review or challenge the risk assessment results. Given the findings related to risk levels associated with proposals from Indigenous recipients and the potentially inconsistent approach across the Department, there is a need to review whether all program manager completed risk assessment templates should undergo a second level of review.

Ninety-four (94) of the 100 agreement files we reviewed had completed risk assessment templates. None of the proposals were deemed high risk and most of the completed templates did not have any documentation to support the risk rating.

The GCMC expanded its role in the summer 2023 to include an investment oversight function for higher-risk projects. In this regard, the committee reviews proposals greater than $100K that were deemed medium to high risk as part of the project selection decision-making process. This is a good internal control practice that has been put in place. However, for this committee to fully exercise its role, the processes that go into the completion of the template need to be improved so that the risks are appropriately assessed in a consistent manner across the Department.

Cashflows. Program managers are expected to work with recipients during the agreement negotiation phase to prepare a project cashflow that includes funding from all sources and how these funds will be allocated – including a detailed breakdown on the use of ECCC program funding. Program managers must monitor a recipient's cashflow throughout the agreement lifecycle.

We found that cashflows had been prepared and monitored for all 100 agreement files we reviewed. We observed that there is no standard approach that is used across the Department and no challenge or oversight function in place to oversee this part of the process. Program managers informed us that they rely on experience and advice FMAs provide with respect to how certain types of costs should be categorized. One risk associated with this situation is that overhead costs may be inconsistently allocated in cashflow documents and financial reporting documents across programs.

We observed an opportunity to develop and implement guidance and criteria related to benchmark amounts and types of expenses for each cost category by types of projects and recipients, and thresholds beyond which additional approvals should be required.

Claim review process. Recipients submit claims to program managers by using request for payment forms to request reimbursement of eligible expenditures or to request an advance.

Responsible managers, with the appropriate delegated authority (section 34), review recipient claims to ensure payment conditions are met prior to authorizing payment. This review may be supported by an initial review by a project manager who has knowledge of the agreement terms and conditions, but this is not a requirement of the process. Once payment is authorized, the Accounts Payable team in CSFB follow a documented process to make the payment in accordance with section 33 of the [Financial Administration Act](#). Recently, amendments were made to the system to allow responsible managers to approve the claims (section 34) directly in the financial system.

Our review of 100 agreement files led to the following observations as it relates to the claim review process:

- All claims had been verified by a responsible manager (section 34). However, the claim verification process differed significantly across the Department. In some cases, program managers asked for extensive documentation to support claim reviews (i.e., receipts or evidence of produced materials). In other cases, costs were only assessed against expected cashflows – in terms of expenditure categories and amounts. The methods used were inconsistent and not risk-based, and there is an opportunity to assess whether a consistent approach could be taken across the Department – to potentially lower the administrative burden for both program managers and recipients.

- All payments for claims reviewed by the audit team were authorized by Accounts Payable financial officers (section 33), based on the documented procedure for verifying payment requests provided by Accounts Payable. The audit team found two (2) instances of claims where required supporting documentation was not available. We also observed several other minor administrative errors in claims that were paid, including things like the numbering of claims, and identifying financial details.

- Some program managers informed us that to provide better service to recipients (i.e., for those with less administrative and reporting capacity) they assist them by pre-populating claim forms prior to obtaining their signatures. This is normally done by reflecting data as per cashflow statements and not by verifying expenditure documentation. While this may be helpful for the recipients, it presents a risk for the Department in terms of supporting payment for claims that are not verified.

Based on these observations, there is an opportunity to strengthen the claims review and payment process and update the associated internal controls to support the effective operation of the system of financial controls over program funding.

Ongoing Monitoring and Reporting of Agreements. Once an agreement is in place, project managers and responsible managers must monitor the agreement on an ongoing basis throughout the life of the agreement. This is a key internal control in support of stewardship and financial management.

Program managers determine recipient reporting requirements based on risk assessment results. The risk assessments determine the number of and timing of reports the recipient will be required to submit, and the number of times during the year the project manager will need to initiate contact with the recipient to determine the progress of the project. The timing of reporting varies from quarterly check-ins to annual or Final Project Reports. Recipients must provide the Final Project Report within 30 days of the end of the agreement. Final payments to recipients can only be released after a Final Project Report is received.

The expectations for how ongoing monitoring should happen, outside of the final report, are not well-defined or documented, each program branch is handling the process differently, and expectations may vary depending on the type of agreement. Based on interviews with program managers and review of sample documentation, quarterly reports and check-ins are inconsistently conducted during the first year of an agreement, especially when an agreement is signed around or after the deadline for a quarterly report. Program branches are exercising discretion at the responsible or project manager level in determining when to apply these ongoing monitoring and reporting controls.

Our file review of 100 agreements uncovered several inconsistencies in the internal controls related to ongoing monitoring:

- Ongoing monitoring requirements were being met in seventy-two (72) agreements we reviewed.

- For 10 agreements – mostly related to grants and some international agreements – there was no evidence available related to ongoing monitoring.

- For 3 agreements, the final payment date was before the date on the Final Project Report in the file.

- For 27 agreements, no evidence was available to demonstrate that a review was done on annual and Final Project Reports.

- Not all agreements included legal provisions that stipulate final payment will only be made after the Final Project Report is received.

- None of the files had evidence that a Final Project Report was reviewed by the responsible manager (Section 34). However, there was evidence that project managers had reviewed the reports. This points to a need to either better communicate and train responsible managers on their responsibilities or amend the internal control to delegate the review of the final report to program managers.

The inconsistencies observed point to a need to review the implementation of ongoing monitoring expectations and related internal controls to enable the system of financial controls to operate as intended.

Internal Controls

Internal Controls over Financial Reporting and Management (ICFR/ICFM). In compliance with Treasury Board [Policy on Financial Management](#) requirements, the Department has a system of internal controls over financial reporting (ICFR). The ICFR is comprised of a set of measures and activities that allow senior managers and financial statement users to have reasonable assurance on their accuracy and completeness. The Financial Policy, Systems and Controls Division within CSFB is responsible for maintaining and monitoring the ICFR system.

The ICFR includes more than a dozen business processes – one of the largest is for G&C administration. In 2016, departmental officials mapped G&C business processes and designed, implemented, and tested the operating effectiveness of thirty-two (32) major general G&C controls. The G&C controls range from granular, transaction level controls such as compliance with Financial Administration Act Sections 32, 33, 34 to broad controls related to the establishment of training, policies, and a recipient audit program.

The ICFR has an ongoing monitoring program that includes detailed risk assessments of internal controls that must be conducted every three to five years, as well as annual environmental scans. The assessments are designed to gauge the likelihood of risks materializing and how they may affect financial management and reporting. Ongoing monitoring is essential to continually assess the effectiveness of the controls in place across key business lines. The last full departmental internal control risk assessment was performed in 2019-20. We observed that the G&C process narrative and internal controls have not underwent a full review and assessment by the ICFR function since 2016 and the next planned assessment is in 2025-26. We noted, however, that the ICFR function was informed of updates to process workflows related to G&C, and they plan to review them as part of the next assessment exercise. This work is important to ensuring that the controls continue to reflect the range of G&C programs operated by the Department and will be essential moving forward as the variety of program types continues to grow.

As part of the audit, we reperformed testing of select G&C process narrative controls, based on the most recent version (May 2016) of the process map and control matrix. We identified several instances where controls did not operate as intended. This included areas such as the use of PAYEs, claim processing, and ongoing monitoring. It should be noted that the controls tested included some based-on Treasury Board directives that are no longer in effect, a recipient audit program that has not been fully implemented, and planning processes and delegated authorities that have changed substantially since 2016.

Based on these findings, there are opportunities to review and update the G&C process control narrative to ensure it reflects current processes and controls. There are also opportunities to review the frequency of ongoing monitoring protocols for G&C internal controls.

Funding advances. Recipients may request one or several advances up to a prescribed limit during a fiscal year. Funding agreements make provision for advances as a percentage (usually 80 to 90 percent) of the total amount intended for that fiscal year. Treasury Board guidance stipulates that advances should be offered on an exceptional basis and that the rationale should

be well documented. Departmental guidance states that the advances must be based on need and be supported by a cashflow statement. ECCC G&C related guidance does not provide clear expectations for the need to document the rationale.

Forty-four (44) of the files we reviewed had advance claims approved in 2022-23. None of the files had a documented rationale. We were informed that some branches have been using this financial mechanism to alleviate funding lapses at the end of a fiscal year. This increases the risk that advances are inappropriately presented as an expenditure. There is an opportunity to review and clarify expectations when using this financial mechanism to ensure departmental practices and financial controls are in line with Treasury Board policy and guidance.

Year-End Financial Management (PAYEs). A PAYE is a financial instrument used to ensure that liabilities existing at fiscal year-end for work performed, goods received, and services rendered, transfer payment and other items are recorded in the accounts and financial statements of the Government of Canada in the correct fiscal year. To recognize a PAYE, departments are required to follow the [Treasury Board Directive on Accounting Standards – GC 5100 Payables at Year-End](#).

Many contributions agreements are scheduled to end by March 31 of a given fiscal year. There may be instances where project activities have ended on schedule, but the required financial reporting and related final invoice will not be received before the end of the fiscal year. PAYEs are then set up to set aside the funds from the appropriate fiscal year to make the payment once the invoices are submitted. A PAYE value must be equal to the outstanding eligible costs incurred in the appropriate fiscal year. PAYEs can be carried forward from fiscal year to fiscal year until they cease to exist. If funds are not spent in PAYEs, they are released to the Consolidated Revenue Fund and lapsed.

The audit found that PAYEs are one of the main mechanisms to manage G&C funding at fiscal year end, which had not been spent in accordance with anticipated cashflows. GC 5100 requires that when this is the case, the decision to use a PAYE is determined by reference to a payment claim or based on an estimate with supporting documentation submitted by the recipient. At the time of the audit, no formal departmental guidance was in place to define parameters around supporting documentation in the context of G&C. Interviewees told us that program branches use PAYEs based on their interpretations of when this mechanism is most appropriate to manage funds. They also noted that no specific guidance is in place for program managers on what course of action to take at year end to address unspent funding.

Fifty-four (54) PAYEs were created in 100 agreement files we reviewed. We observed the following:

- The rationale for PAYE use was limited, in most cases, to a responsible manager's attestation without supporting documentation.

- Some agreements are signed close to the year end, which leaves little time for recipients to deliver expected results, submit claims, and expect payment of these claims. We found five (5) agreements that were signed in March at the end of the fiscal year, and which had

PAYEs accounting for the entire years' worth of funding. One of the five was a single-year project, and the PAYE represented the entire value of the funding agreement.

- Once funds are in a PAYE, they generally cannot be reprofiled to another fiscal year. However, if a recipient spends less than the amount committed in the PAYE, the excess funds may be repurposed to address budgetary pressures and prevent lapses within the same program and fiscal year. We observed four (4) instances in the sample where this occurred.

- Eleven (11) PAYEs were still outstanding at the time of the audit, part of the $22M in G&C funding the Department had in PAYEs, excluding LCEF, as of September 2023. LCEF, counted separately, had over $190 million in PAYE or 10% of the total program value.

The use of PAYEs is an important financial instrument that supports effective G&C financial management. However, their use can also lead to lapses well after the end of a fiscal year that are released to the Consolidated Revenue Fund. Thus, presenting lost opportunities to flow funding to a recipient. In addition, if the amount identified on the PAYE is greater than or less than the actual amount spent, it may potentially misrepresent the Department's liabilities for that fiscal year.

Controls related to mitigating potential fraud risks

A robust fraud risk management framework is important to support sound G&C financial management. Program branches and several teams within the Corporate Services and Finance Branch have important roles to play with respect to fraud risk mitigation.

Conflict of Interest. Disclosure of potential conflicts of interest – real or perceived - is a key control related to mitigating potential fraud risks. While the Department has a requirement for employees to document potential conflicts of interest through the values and ethics program, there is no standard process in place with respect to G&C administration to ensure that potential conflicts of interest are reviewed prior to assigning projects to a project manager or a responsible manager. Given, some project managers administer greater than 50 individual agreements, this is an important control that helps minimize the potential for fraud risks. This risk is heightened in directed contributions, where there is no formal technical or administrative review process of proposals by a committee. As a result, there is an opportunity to formalize the conflict-of-interest processes at the onset of agreements and when project or responsible managers are assigned to projects.

The GCMC review also identified the need to explore the implementation of a conflict-of-interest attestation process for all staff involved in the review of G&C. The Department plans to undertake a benchmarking exercise to inform its integration as part of the G&C process. This was reported as in progress at the time of the audit. Consideration should be given to implement the attestation process both at the onset of an agreement, and when a project manager is reassigned to an ongoing agreement.

Recipient audit framework. Recipient audits are an important control in the management of agreements and are a tool to assess and reconcile expenditure and claim information that may lead to the identification of fraud red flags. The conduct of recipient audits is identified as a major

general control in the Department's internal controls over financial reporting as it relates to G&C administration.

To date, one program branch has conducted recipient audits based on its own framework that included thresholds and processes. This was done prior to the development of the departmental Recipient Audit Framework.

The Department has implemented a Recipient Audit Framework. The G&C CoE is responsible for the framework and overseeing recipient audits. Recipient audits in accordance with the framework have only recently been undertaken. As part of the framework, samples of a small selection of projects are identified annually. As discussed previously, reliance on risk template results may not be a proper foundation to select these samples from.

Furthermore, the Recipient Audit Framework does not include guidance on risk tolerance and the Department's approach if errors occur or wrongdoing is founded. It also imposes significant responsibility on branches to recover funds if errors occur or wrongdoing is founded. The Framework does not include any provisions to support branches to perform this work, which adds pressure on program officials that are often administering multiple agreements.

Recommendation 5

The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with program branches, should review and update the internal controls that support the mitigation of program delivery risks and reflect the scope and scale of the current G&C environment by:

- Strengthening financial practices and processes around cashflow processes, the claim review process, and the use of advances and PAYEs

- Strengthening departmental conflict-of-interest controls that support G&C program delivery, to mitigate the risk of fraud

- Reviewing and updating the recipient audit framework to outline roles and responsibilities related to dispute mechanisms and recovery processes.

Management response

Management agrees that the strengthening of internal controls as well as financial practices and processes relating to G&C is required to support an effective risk-based approach in the delivery of G&C programs. The Assistant Deputy Minister and Chief Financial Officer, CSFB, in collaboration with Program ADMs and Regional Directors General, will perform a review of G&C financial business practices and related internal controls to assess their adequacy and rigor in ensuring the sound financial management and stewardship of public funds.

6 Training

Findings: Various channels exist in the Department to train staff involved in the administration of G&Cs, but training is not mandatory, nor following a centralized, coordinated approach. There is an opportunity to review the overall approach to training delivery from a broader, departmental

perspective, including the need for broader training strategy that reflects the needs and inputs of all stakeholders.

What we examined

The audit assessed whether training on G&C is available to support ECCC staff in carrying out their roles and responsibilities.

What we found

The administration of G&C funding is complex, and training is essential to support program officials in carrying out their roles and responsibilities across the entire lifecycle of G&C. The G&C CoE is responsible for developing and delivering G&C training for all staff. At the time of the audit, G&C training was not mandatory and not managed in a centralized, coordinated manner. Various methods were used to support staff training on G&C administration.

- In 2022, the G&C CoE introduced an introductory training program that provides a high-level overview of information management systems, tools and templates, and the agreement lifecycle. This training is voluntary and not mandatory.

- The Canada School of Public Service's (CSPS) offers an online course on Transfer Payment Basics (COR217), which is a higher-level overview of the Government of Canada's use of G&C.

- FMAs offer some training sessions to branch officials on their roles and responsibilities.

- Program branches have put in place many formal and informal mentorship programs and on-the-job training packages to support new staff training.

We found gaps in the training available on specific topics such as Terms and Conditions, authorities, expenditure initiation, service standards, and agreement specifications and requirements.

Generally, from interviews across the spectrum of G&C administrators, the need for more comprehensive training and guidance to effectively carry out their roles and responsibilities came out as an emerging theme.

The decentralized and uncoordinated approach to the development and dissemination of G&C training is partially reflected by the lack of standardized processes and tools, as detailed in the previous sections. Furthermore, the departmental approach to training on G&C administration is not supported by an overall strategy that reflects all stakeholder needs and inputs, and there are no mandatory training requirements for individuals that administer transfer payments.

There are opportunities to review current training available for staff that administer G&C to determine whether a strategic departmental approach should be taken that includes mandatory training elements, to mitigate the risks of inconsistent G&C administration processes and approaches that could affect all aspects of the agreement lifecycle.

Conclusion

The increase in G&C funding since 2016 and moving from a small to a large-scale program delivery department has strained existing resources, infrastructure, and operational processes.

The structural and strategic foundations needed to support the program delivery model—such as governance, processes, systems, compliance framework, training, and capacity-building —have been developed and evolved organically and did not adapt in a manner that can effectively support the scale and complexity of the current number of programs being delivered and variety of recipients that use the funding.

The current landscape reveals a decentralized approach to governance and program delivery across branches and programs, decentralized information technology and information systems to administer G&C funding, various training methods, and inconsistent financial management approaches that do not fully support diverse recipient needs and efficient program delivery.

Opportunities for improvement for each of these areas have been identified and are presented throughout this report. The interconnectivity of each element impacts the way the entire program delivery ecosystem is shaped, and improvements in one area affect all others. A unified vision, concerted efforts, and a strategic departmental approach to G&C administration and program delivery that includes the implementation of an enterprise G&C management solution that links to the financial system are necessary to drive improvements and enable the Department to make necessary progress in this regard.

Appendix A: Lines of enquiry and criteria

The following criteria were developed to address the objective of the audit.

To ensure an appropriate level of assurance in meeting the audit objective a risk assessment was carried out and the following criteria were developed.

Audit Criteria
ECCC has a system of governance and oversight in place to enable the effective administration of G&C as the G&C portfolio continues to evolve to meet the challenges of a changing climate.
1.1 The Department has defined, documented, and clearly communicated roles, responsibilities, and authorities of departmental stakeholders in the administration of G&C, including the G&C CoE, ICFR, and Accounts Payable within CFSB, program branches, and the GCMC.
1.2 The Department has the processes in place to adapt to meet the challenges of ECCC's evolving G&C portfolio and deliver on departmental results.
ECCC has effective tools and practices in place to support the delivery of G&C.
2.1 ECCC identifies, assesses, responds to, and communicates key risks for G&C projects and programs to support decision-making and the stewardship of public funds.
2.2 Engagement mechanisms are in place to enable collaboration among branches and programs within ECCC in support of G&C administration.
2.3 IT systems and information management practices in place allow for accurate, accessible, and timely information to support reporting and decision-making across the lifecycle of G&C projects, programs, and across the ECCC G&C portfolio.
A system of internal controls is in place, including financial and fraud controls, that are operating effectively to ensure the stewardship of G&C funds.
3.1 The system of financial controls within the Department is operating effectively, and with appropriate review and oversight, to ensure the stewardship of G&C funds in compliance with the Financial Administration Act and related Treasury Board policies.

Appendix B: Audit sampling methodology

As part of the audit, the audit team selected and examined a sample of 100 G&C agreements that had spent money in fiscal year 2022-23. The sample was chosen based on the Centre of Expertise's G&C Database for fiscal year 2022-23 and represented a point in time scenario of the Department's G&C agreements.

At the time of the sample selection, the audit team removed G&C agreements from the total population that were spent under the Canadian Water Agency fund code due to uncertainties surrounding the program funding. As a result, the population of G&C agreements for which the sample the audit team chose was 1708.

The sample was selected using a combination of judgmental and random sampling. To review multiple projects for each of the eight program branches that had G&C agreements during fiscal year 2022-23, the population data was stratified across all the program branches.

The random sampling technique involved assigning every G&C agreement in the population a random number and selecting projects with the lowest numerical value. The audit team supplemented the random selection by including judgmental sampling techniques to capture a sample that was representative of the Department's entire G&C portfolio.

This included G&C agreements selected for testing based on the Department's regions, transfer payment types, funding programs, small-medium-large dollar value amounts, recipient types and use of Appendix K flexibilities. The table below includes the numbers of agreements selected by branch, and materiality against branch G&C funding in FY 2022-23.

Branch	Number of agreements by branch	Number of agreements tested	Branch G&C funding in FY 2022-23*	Materiality of agreements tested (against branch G&C funding in FY 2022-23*)
Climate Change Branch	56	15	$ 23.8 million	47.9%
Canadian Wildlife Service	1037	30	$318.3 million	14.2%
Environmental Protection Branch	67	10	$10.0 million	20.0%
International Affairs Branch	28	5	$51.6 million	14.9%
Meteorological Service of Canada	47	5	$4.4 million	27.3%
Public Affairs and Communications Branch	7	2	$1.3 million	76.9%
Strategic Policy Branch**	408	18	$60.9 million	5.9%
Science and Technology Branch**	158	15	$28.3 million	26.1%
Total	**1808**	**100**	**498.6**	**15.9%**

*Excludes agreements that did not expend G&C funding during FY 2022-23 and G&C funding under the Canadian Water Agency / **includes the Environmental Damages Fund agreements

Appendix C: Overview of the G&C Lifecycle

Guide to Grants and Contributions at ECCC

Section 6: Overview of the G&C Lifecycle

Receive Expenditure Initiation Approval of Project

- 1. Receive application / proposal; identify funding opportunity
- 2. Confirm funding needed is G&C & have authority (T&Cs)
- 3. Include project in Ecollab G&C site
- 4. Delegated Authority approves projects *(Expenditure Initiation Approval)*

Negotiate & Draft Agreement

- 1. Send Notification Letter to Recipient
- 2. Negotiate project activities and cashflow
- 3. Complete the agreement template
- 4. Review draft agreement with Recipient

Approve & Sign Agreement *

* This process is described in more detail on page 4-26

- 1. Responsible manager and project manager complete GCAF (G&C Approval Form) attestation
- 2. Responsible manager certifies *s.32 of the FAA* on GCAF
- 3. Finance reviews & signs GCAF (when required)
- 4. Recipient signs approved agreement
- 5. ECCC signs agreement
- 6. Commitment created in financial system

Manage Agreement

- Payment *(s.34 & s.33)*   • Reporting
- Forecasting   • Recipient contact
- Agreement amendment (when required)

(these activities do not occur in a specific order; the timing and requirements are specified in the agreement based on the individual project attributes)

Finalize Agreement

- 1. Receive and validate final report; issue final payment
- 2. Ensure project file is complete & contains all required documentation