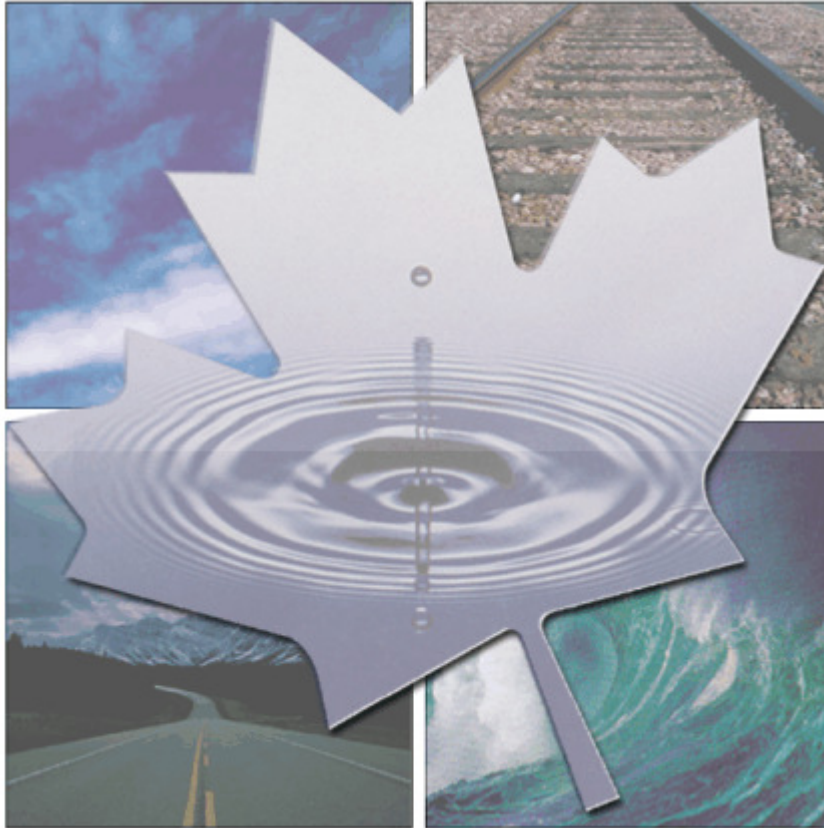


Audit and Advisory Services
Integrity, Innovation and Quality



Audit of Governance

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EXECUTIVE SUMMARY

INTRODUCTION

Transport Canada (TC) put in place its Integrated Decision Making Framework (IDMF)¹ to promote horizontality, collaboration, and information sharing throughout the department. The IDMF identifies the roles and responsibilities of various senior executives and committees for achieving results and incorporates both individual and collective accountabilities. It also ensures that regional perspectives are taken into account at headquarters in the design and delivery of national programs.

Within the IDMF, there are two governance structures: the organizational governance structure and the Program Alignment Architecture (PAA) governance structure. The organizational governance structure is concerned with the day-to-day delivery of programs, including the management of people and financial resources. The PAA governance structure is responsible for determining the programs, activities, and resources necessary for the achievement of TC's three strategic outcomes (SO).

AUDIT OBJECTIVES & SCOPE

The Audit of Governance was included in TC's 2013/14-2015/16 Risk-Based Audit Plan (RBAP). Its inclusion stemmed from a risk assessment process that identifies higher risk areas where internal audit attention and limited resources should be focussed. As stated in the RBAP, the audit is intended to assess the effectiveness of TC's governance bodies and committees, including the clarity of mandates and effectiveness of decision-making processes.

The following governance elements were not included within the scope of the audit due to past audit coverage or future plans to audit similar areas:

- Strategic direction and priority setting;
- Integrated business planning;
- Values and ethics; and
- Information Management and Information Technology governance.

CONCLUSIONS

With respect to TC's Executive Management Committee (TMX), the Department would benefit from a formal discussion to identify and define specific agenda topics to explicitly link TMX's forward agenda to departmental priorities, major change initiatives and key SO activities and to also clarify what items are for approval or information. To further clarify these expectations, the Deputy Minister and the Associate Deputy Ministers should define, in conjunction with TMX members at the beginning of the planning cycle, their expectations for items that should be brought to their attention via bi-laterals and those which would benefit from input and discussion at TMX.

¹ Transport Canada Governance under the Program Alignment Architecture: An Integrated Decision Making Framework, RDIMS 7852872, approved by TMX October 2012

To reaffirm the concepts of collaboration and horizontality contained in the IDMF, the Deputy Minister and the Associate Deputy Ministers need to review and adjust as required the IDMF to ensure the PAA governance structure meets their needs and the needs of the Department. This will help ensure effective and efficient governance.

Although the IDMF is the key governance document defining roles, responsibilities, and accountabilities, it needs to be revised, maintained, and communicated to promote a common understanding of how governance works at TC. There also needs to be a clearly defined internal process in place to recommend, approve, and communicate changes to the PAA structure and the IDMF.

STATEMENT OF CONFORMANCE

This audit conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of an external assessment of Internal Audit's quality assurance and improvement program.

Signatures

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1. INTRODUCTION

1.1. PURPOSE

The Audit of Governance was included as part of Transport Canada's 2013/14-2015/16 Risk-Based Audit Plan (RBAP) with the intent of assessing the effectiveness of TC's governance bodies and committees, including the clarity of their mandates and the effectiveness of decision-making processes. This report presents the results.

1.2. BACKGROUND

There is no universally accepted definition of governance that is used by either the Government of Canada or TC. For the purposes of this audit, we have used the Institute of Internal Auditors' (IIA) definition as those "policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner²." Fundamentally, governance is intended to encourage behavior and activities that are aligned with an organization's mandate and priorities.

To achieve effective governance, a sound structure, associated policies and processes, and people must be working together and complementing one another.

The Deputy Minister (DM) governs TC's activities through two distinct governance structures: an organizational structure and the Program Alignment Architecture (PAA) structure.

Organizational Governance Structure

The organizational governance structure details the operational reporting relationships within the Department. The DM manages TC through a management team that consists of two Associate Deputy Ministers (Associate DMs), four Assistant Deputy Ministers (ADMs), one Associate Assistant Deputy Minister (Associate ADM) and five Regional Directors General (RDGs).

The Associate DMs assist the DM on a number of files and priorities, each with their own TC and Infrastructure Canada (INFC) related responsibilities. Each ADM has a management committee composed of their direct reports. Similarly, each RDG has a regional management committee composed of their direct reports.

² Institute of Internal Auditors. *The Role of Auditing in Public Sector Governance*, 2006, p. 3.

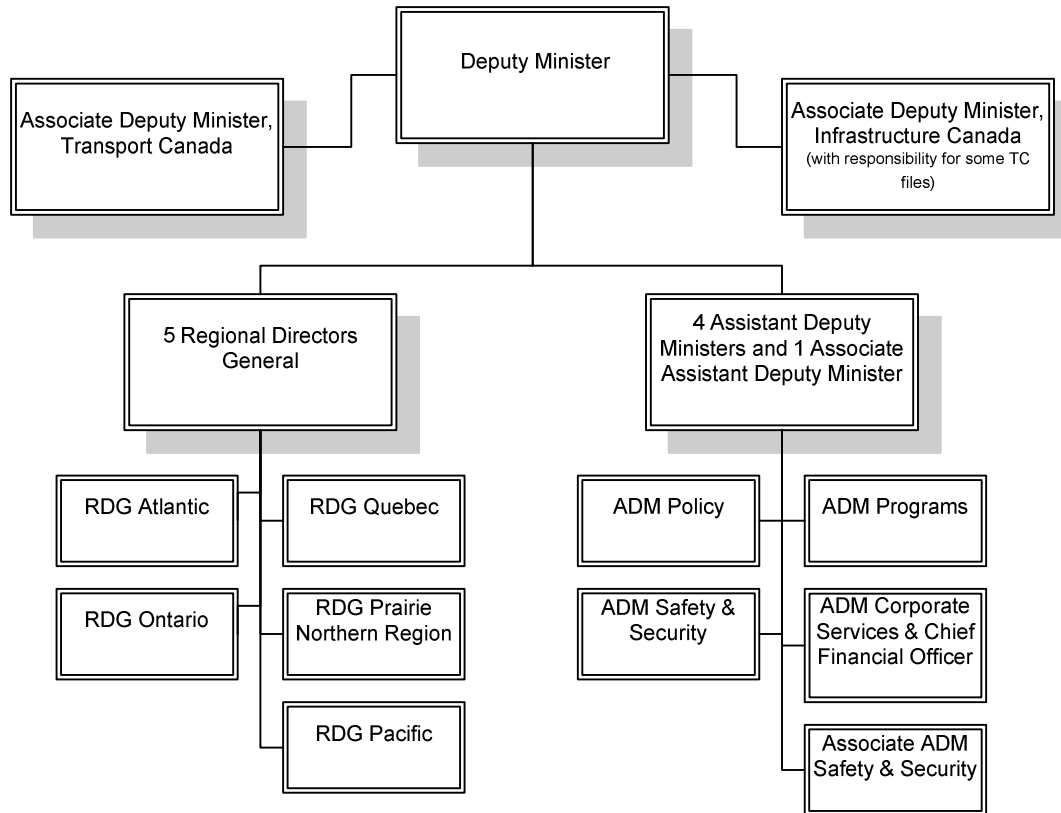


Table #1 – Organizational Governance Structure

Program Alignment Architecture (PAA) Structure

The second governance structure is the PAA. The PAA presents an inventory of all Transport Canada programs depicted in their logical relationship to each other and to each of the three strategic outcomes or internal services to which they contribute (SO1 Efficient Transportation System, SO2 Clean Transportation System, and SO3 Safe and Secure Transportation System). The DM manages the strategic outcomes through a series of committees and boards as follows:

Transport Canada Executive Management Committee

The Transport Canada Executive Management Committee (TMX) is TC's most senior decision-making body. It determines strategic direction, sets priorities for the Department, and leads the departmental integrated planning and reporting process. TMX meets as two distinct committees of the whole: TMX Policy, Programs and Regulations Committee provides oversight for strategic policy, program and regulatory initiatives, while TMX Integrated Management Committee considers items related to all facets of departmental management.³

³. *Transport Canada Executive Management Committee (TMX) Terms of Reference, Updated February 5, 2013, p.2.*

Management Boards

Management Boards, including Strategic Outcome Management Boards (SOMBs) and the Internal Services Management Board (ISMB), represent the second level of decision making after TMX. They are responsible to TMX and are comprised of TMX members at the ADM and RDG levels. Their purpose is to determine strategic outcome directions and priorities that align with TC priorities; identify and manage risks, guide the development and implementation of policies, programs and legislative and regulatory initiatives that contribute to achieving expected results, and manage budget reallocations and adjustments.

Program Business Committees

The Program Business Committees (PBCs) are the next level of decision integration after SOMBs and the ISMB. The PBCs are Director General (DG) led committees mandated by and responsible to their governing SOMBs to establish priorities and set operational directions for the program, which are aligned with TC and strategic outcome priorities and objectives.

Each program is led by a Program Accountable Executive (PAE) at the DG level who is ultimately responsible for providing functional direction for the implementation of their respective programs.

Horizontal Supporting Committees

The horizontal supporting committees such as the Senior Procurement Review Committee, the Legal Issues Committee, and the DG Policy Committee support TMX and the SOMBs on issues relating to policies, programs, regulatory initiatives, or resources. Members are TC executives and senior managers (e.g. ADMs, RDGs, and DGs).

Purpose Specific Steering Committees

Purpose specific steering committees are struck as additional oversight or decision-making bodies as required, including for large change initiatives that span multiple Program Activities (PAs) or strategic areas within the PAA.

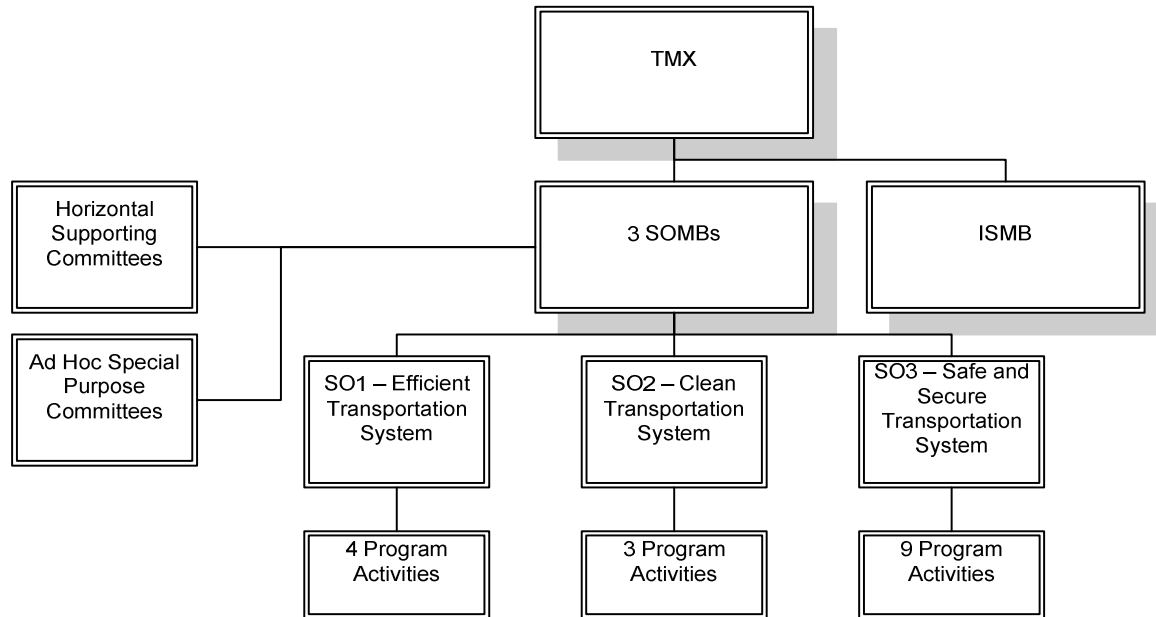


Table #2 - Program Alignment Architecture Governance Structure

Integrated Decision Making Framework (IDMF)

TC's IDMF document is the core document that describes the roles and responsibilities of various senior executives, the management boards, committees envisioned in the PAA, and organizational structures. According to the IDMF, the dual governance structures are intended to

- promote an integrated model of management that incorporates both individual and collective accountabilities; and
- set out the roles and responsibilities for achieving results while maintaining the Department's current organizational structure and the accountabilities attached to it.

According to the IDMF, an annual review is required to assess its effectiveness in achieving transparent, evidence-based decisions, results-based decision making and planning resource allocation while taking into consideration the impact and risks within the context of the Department's PAA. Corporate Planning and Reporting reviewed the IDMF in 2012 and identified a number of opportunities for improvement including reviewing existing committee membership and mandates, incorporating recently created committees into the formal governance structure, and reporting regularly to TMX on strategic outcome issues.,

We understand that a follow-up review of the IDMF is pending the results of this audit.

1.3. AUDIT OBJECTIVE, SCOPE, APPROACH AND CRITERIA

1.3.1. Audit Objective

The objective of the audit was to provide assurance that TC has an effective governance framework and processes that guide activities toward the achievement of departmental objectives. More specifically, the audit assessed if the Department has in place effective governance structures, clear accountabilities, and effective internal oversight and reporting mechanisms.

1.3.2. Audit Scope and Scope Exclusions

This audit focused on the key corporate decision-making and oversight bodies including TMX, the SOMBs, and the ISMB. We also reviewed PBCs, select horizontal supporting committees, and purpose specific steering committees to gain a further understanding of the Department's governance framework and its effectiveness. We looked at governance related documentation such as committee meeting minutes, records of decision, agendas and membership composition for committee activities undertaken in fiscal years 2012-2013 and 2013-2014.

The following governance elements were not included within the scope of the audit due to past audit coverage or future plans to audit similar areas:

- Strategic direction and priority setting;
- Integrated business planning;
- Values and ethics; and
- Information Management and Information Technology governance.

In addition, the audit did not conduct any testing on cost effectiveness and time spent by senior management in committees. This was largely due to the difficulty in obtaining the data required and the need to focus on higher priority items, given the timeframe and budget allocated for the audit.

The audit also did not conduct a review of mid-year and year-end results of senior management Performance Management Agreements (PMAs).

Finally, we determined early in the audit planning phase through consultation with TMX members that we would not look at recommending specific changes to the current PAA or organizational structures.

1.3.3. Audit Approach

As part of this audit, we interviewed senior management including the Associate DMs, ADMs, RDGs and select DGs, reviewed documents related to departmental governance, and gathered and analyzed data on the effectiveness of the governance structures, processes, and mechanisms in place.

1.3.4. Audit Criteria

Our audit criteria followed three lines of inquiry.

An Effective Governance Structure

- Effective oversight and decision-making bodies (i.e. senior management committees) are in place and support collaboration, information sharing, transparency, and the promotion of standardized practices across the Department.
- The mandate, roles, responsibilities, and accountabilities of senior management committees are clearly defined, documented, communicated, and understood.
- Decisions are made at the right level within the organization in a timely manner with minimal duplication and overlap.
- The governance structure enables the Department to effectively respond to emerging priorities.

Clear Accountabilities

- Roles for the committee chair, co-chair, and members are clearly defined, documented, communicated, and understood.
- Individual authorities, roles, responsibilities, and accountabilities are clearly defined, documented, communicated, and understood.
- SO and PA performance results are defined and discussed between the PAEs, Directors, RDGs and RDs, and incorporated into their respective performance management agreements.

Effective Oversight and Reporting

- Committee oversight roles and reporting relationships are clearly defined, documented, communicated, and understood.
- Senior management committees oversee departmental performance and the reporting of results to Canadians and Parliament.
- Senior management committees are satisfied they receive sufficient and timely financial and non-financial performance information to fulfill their oversight duties and to facilitate informed decisions.

The above criteria align with Treasury Board's Management Accountability Framework requirements and expectations for the practice of good governance.

1.4. REPORT STRUCTURE

Findings are outlined with respect to the appropriateness of the governance design and its implementation (Governance Design and How it is Working), and the effectiveness of drivers to support governance (Drivers for Effectiveness). These are followed by our audit recommendations and suggested best practices to the Deputy Minister and Associate Deputy Ministers, and their management action plan to address them.

2. FINDINGS

2.1. GOVERNANCE DESIGN AND HOW IT IS WORKING

In determining whether boards and committees, as described within the IDMF, are designed appropriately and have been implemented as intended, we expected to find that oversight and decision-making bodies (i.e. senior management committees) are in place, operate as described within the IDMF, and support collaboration, information sharing, transparency, and the promotion of standardized practices across the Department.

Through interviews and a review of previous agendas and records of decision, we confirmed that the TMX and senior management committees, including Strategic Outcome Management Boards (SOMBs) and the Internal Services Management Board (ISMB), are in place and meet on a consistent basis. In addition, TMX, the SO3MB (including its associated PBCs), and the ISMB all appeared to be operating as described within the IDMF.

Although senior management recognizes there is some duplication of effort with the dual governance structures of the PAA and the organizational structure, they generally believe these governance structures are necessary to ensure and promote collaboration, information sharing, horizontality, and transparency.

The current governance framework has a number of strengths but there are opportunities for improvement.

2.1.1. TMX Governance and Oversight

As the most senior integrated decision-making body, TMX determines strategic direction, sets priorities for the Department, and leads the annual departmental integrated planning process. Given this, we expected to find a robust planning process to define departmental priorities with regular progress reporting to and monitoring by TMX.

Although departmental priorities are defined, they do not appear to be described at a level of granularity to facilitate systematic reporting or monitoring of progress. Specifically TMX could maximize the use of its forward agenda to actively manage the achievement of departmental priorities, major transformation initiatives, and monitor progress of key SO activities. In reviewing previous TMX agenda items we concluded that the majority of items brought to TMX are operational in nature as opposed to strategic. The majority of Policy, Programs, and Regulation items deal with issues for which TMX had requested quarterly updates but there was no formal linkage of those items to departmental priorities. In addition, the TMX template summarizing items for presentation does not require them to be linked to departmental priorities.

As well, TMX and SOMB members indicated that there is a general lack of clarity around which issues need to be presented to TMX for approval or information. This, coupled with a risk-averse culture, results in items being brought to TMX that could be dealt with at lower level committees.

The Department would benefit from a formal discussion to identify and define specific forward agenda topics that explicitly links TMX's forward agenda to departmental priorities, major

change initiatives and key SO activities and clarifies which items are for approval or information.

To further clarify these expectations, the Deputy Minister and the Associate Deputy Ministers should define, in conjunction with TMX members at the beginning of the planning cycle, their expectations for items to be brought to their attention via bi-laterals and those which would benefit from input and discussion at TMX. In addition, the nature of the discussion and the frequency of reporting to TMX should be based on the risk to the achievement of the priorities.

2.1.2. Alignment of the Organizational Structure and PAA Structure

The three strategic outcomes and their related Program Business Committees cut across the Department and do not universally align with the organizational structure. The SO1 and SO2 PAA structures do not align with the organizational structures of the ADM Policy and ADM Programs groups. There are a number of program activities within each of these strategic outcomes that are either led by a DG from Policy, Programs, or Safety and Security. In addition, the PAEs who are accountable for program activity results have functional reporting relationships with other DGs who may not be within the same ADM group. This creates an unclear hierarchy and results in a number of challenges including the development of integrated plans for SO1 and SO2 and the reporting on integrated planning activities and budget variances (see Appendix A). On the other hand, the SO3 PAA structure, and its related Program Business Committees, is aligned to the Safety and Security organizational structure with the ADM, Safety and Security chairing the SO3 management board and the respective Directors General being the PAEs responsible for the program activities. The sub-programs for the ISMB also align to specific internal service functions.

Where the PAA structure is aligned with the organizational structure (SO3 and ISMB), the respective boards and committees meet and function largely as described within the IDMF. For the SO3MB and its PBCs, the audit found that most committees have evolved and are functioning as intended by the IDMF and are working towards achieving a more integrated national program.

Where the PAA structure is not aligned with the organizational structure (SO1 and SO2), the SOMBs and PBCs do not function as described within the IDMF. We were not concerned that the SO1 and SO2 boards are operating as a single board but rather that the joint board deals primarily with transactional issues such as the initial allocation of budgets and integrated plans as well as quarterly updates and year-end results. There does not appear to be substantive discussions regarding program risks or the alignment or integration of policies, programs, and legislative and regulatory initiatives with the departmental priorities. Instead, these items are discussed at the separate management committees in place to support the ADM Policy and ADM Programs and informally between the managers of both groups. While groups consult under this format, the required collaboration of all parties as envisaged in the IDMF does not occur. In addition, while there are terms of references for the required Program Business Committees, they exist in name only as they do not meet and they do not provide direct support to their respective SOMBs. Support provided to the SO1MB and SO2MB is based on informal discussions between the PAE and other functional DGs as required. Interviews with a number of SO1 and SO2 DGs who are PAEs have stated that they do not necessarily feel they have the functional

authority over other DGs as they consider these individuals as colleagues as opposed to PAA functional reports. While there are not as many national programs within SO1MB and SO2MB as compared to SO3MB, there are national programs that require regional input. As well, both SO's require cross-group (e.g., Programs, Policy and S&S) collaboration and integration to achieve shared outcomes. Currently, regional and cross-group input is being solicited and considered through organizational structures or through informal interactions and not through the formal Program Business Committees. This approach is solely dependent on individuals and their personal competencies and preferences to engage and collaborate with managers in other groups. With SO1MB and SO2MB not operating as intended by the IDMF and their related PBCs existing in name only, there is no formal structure that compels and supports integration and collaboration between headquarters and the regions and between the Policy, Programs, and Safety and Security groups.

Interviews with a number of long standing DGs from all ADM groups stated that there may come a time when less formal mechanisms would suffice but there currently continues to be a risk that groups and modes would revert to silo-based operations if integration and collaboration were not forced through the PAA governance structure.

Although the intent of this audit is not to recommend changes to the governance structures, SO1 and SO2 strategic outcome management boards and their related Program Business Committees should be operating, at a minimum, within the spirit of the IDMF. The Deputy Minister and the Associate Deputy Ministers need to review and adjust as required the IDMF to ensure the PAA governance structure meets their needs and the needs of the Department. This will help ensure effective and efficient governance.

Managing the challenges caused by the non-alignment between PAA and organizational structures requires strong direction and leadership from senior management together with the right tools, policies, and procedures.

2.1.3. Process to Review and Update PAA Structure

Although our audit did not look at recommending changes to the current PAA or organizational structures, it is important to address whether processes are in place for the Department to review and update its PAA.

While there is a process in place for departments to request and make changes to their PAA, TC has not formally documented and communicated its internal processes for requesting changes to the PAA. These internal processes include the approval and review cycle times for PAA updates, the internal approval requirements for the program, and sub program activity updates by PBCs, SOMBs and TMX, or the criteria against which recommended updates and changes are assessed.

2.1.4. Horizontal Support Committees and Purpose-Specific Steering Committees

In addition to the organizational structure and the PAA structure boards and committees, there are various horizontal supporting committees identified in the IDMF such as, the Program

Excellence Committee, the Legal Issues Committee, the Senior Procurement Review Board, and the Directors General Policy Committee (DGPC).

A number of purpose specific steering committees have also been created to address significant change initiatives that require additional senior management attention at the RDG and ADM levels. Through interviews and review of a number of Terms of References (TORs), we determined that these committees effectively complement the governance structures, particularly under SO3MB. Interviewees stated that, for example, these purpose-specific committees enable SO3MB to focus on broader strategic issues while allowing senior management to provide sufficient direction and oversight on major change initiatives. SOMB and TMX members all recognized the importance of these committees and their value to the governance structure.

The Directors General Policy Committee (DGPC), a senior cross-departmental body that reports to TMX through the ADM Policy, is responsible for providing advice to advance horizontal research, policy and program development and integration, regulatory and legislative priorities, and strategic planning. This committee provides a venue for identifying and collaborating on proposed changes to policy, programs, Treasury Board submissions and major initiatives, etc. and allows for the identification of risks that cut across various programs and groups. New or substantially changed policies, legislation and regulations that are brought to TMX for approval are not required to be first discussed at DGPC. In addition, items brought to TMX are not flagged as having been reviewed by the DGPC. Therefore, if the DGPC discussion does not occur there is a risk that the Department may not fully consider all the relevant implications, risks, and options of these items.

2.2. DRIVERS FOR EFFECTIVENESS

This section summarizes our findings that the policies, procedures, and tools related to governance (or drivers for effectiveness) are in place but could be improved to better support effective governance within the Department.

2.2.1. Clear Accountabilities

Shared Accountabilities

The IDMF defines the authorities, roles and responsibilities, and accountabilities of the various positions of senior management. The IDMF also introduces the concept of “shared accountability” in that “each member of the SOMB/ISMB is accountable to the DM for achieving results as agreed to by TMX” and that “TMX members are accountable to the DM”. However, the IDMF does not clearly define the concept of “shared accountability” and, therefore, the term is open to interpretation. We found that there is widespread confusion among senior managers about “shared accountability”. Some managers have articulated their reluctance or even refusal to accept accountability over that which they cannot control. Others suggested that a committee chair should be ultimately accountable for the results of the committee and that members should be responsible for providing fulsome discussions and a challenge function. This view recognizes the benefit of a challenge function to bring a complete corporate perspective to issues being discussed.

SOMB versus ADM Roles

Before the introduction of the PAA, ADMs were accountable for the development of national programs in their respective groups and RDGs were accountable for the delivery of those programs in their respective regions. With the introduction of the PAA and the resulting SOMBs, these management boards are now accountable, in part, to "... establish business priorities and directions aligned with the departmental mandate and/or priorities; identify and manage risks; guide the development and implementation of policies, programs and legislative and regulatory initiatives..."⁴. Interviewees indicated that some senior managers are unclear of how the accountabilities of an ADM or RDG compare with their SOMB responsibilities.

Program Accountable Executive (PAE) Role

When TC first introduced the PAA, there was confusion regarding the PAE role. Interviewees indicated that the PAE's role is becoming better understood, particularly within SO3MB, but there is still a need for greater clarity. For example within SO1MB and SO2MB, PAEs, who are also DGs, are responsible for program activities. However, some of these PAEs are reluctant to exercise that responsibility over other DGs who are responsible for sub-activities under their program. The PAEs view other DGs as colleagues and, therefore, believe they should not be responsible for providing them direction and overseeing their contributions. This situation creates a conflict in the PAEs' understanding of their responsibilities within the organizational structure against that of the PAA structure.

RDG – RD – DG Functional Relationships

Because Regional Directors (RDs) report organizationally to a Regional Director General (RDG) and functionally to a Director General (DG) in the PAA structure, the dual governance structures create some challenges.

The DG is accountable to the ADM as the functional authority for organizational program activities across the country. The DG is responsible for ensuring the overall effectiveness of resource allocations and identifying needed adjustments to achieve national goals.

The RD is accountable by line authority to the RDG to deliver and manage the programs and services according to national standards, policies, guidelines, and allocated resources and by functional authority to the DG. The headquarters DG seeks input from the accountable RD when developing a national work plan. Both the RDG and the functional DG are expected to approve the regional plans.

The RDG is responsible for the administration, oversight, and performance of a wide portfolio of programs and services within the region. The functional DG and the RDG are to work together to ensure that RDs meet national program commitments in accordance with functional direction. The successful delivery of national programs depends upon the coordinated effort of the DGs, RDGs and RDs. We expected to find that these three positions work collaboratively together to ensure effective national program delivery. Although in general there is a view that there is a greater level of collaboration, there are still issues. Interviewees often cited the example of when

⁴ IDMF, p. 11

the DGs of national programs instructed the RDs to commence staffing vacant positions in their organizations. Those DGs reassured the RDs that sufficient funds would be allocated to cover the extra costs. Notwithstanding these reassurances, some RDs refused to commence any staffing actions until they received instructions from their RDGs.

We considered the formalized tri-lateral discussions that occur three times a year for each program in the Ontario and the Prairie and Northern regions as a best practice. While the other regions did not have formalized meetings, they all indicated that discussions did occur as required. Even though informal tri-lateral discussions occur, there is no standard process in place to support and require the level of collaboration necessary to optimize national program delivery.

We also expected RDGs would seek input from DGs on the performance of their RDs when completing the RDs' performance management agreements but the existing template and process does not formally require that input be provided by the DG at either at the beginning or end of the performance management cycle.

2.2.2. Accountability Mechanisms

We expected to find that functional and organizational roles, responsibilities, and accountabilities are defined, documented, and easily understood and that mechanisms are in place to ensure individuals can be held accountable for their contributions and performance.

Job Descriptions

A job description is a formal account of an employee's responsibilities. It generally addresses the requirements of the position and outlines the roles, responsibilities, and/or accountabilities expected from the organization.

The audit team reviewed a number of DG, RDG, RD, and ADM job descriptions and found the following:

- DGs' functional authority was clearly defined.
- Individual roles and responsibilities were not identified.
- Reporting relationships for DGs and RDs were not always clearly identified.
- Accountabilities associated with PAEs were not identified.
- The generic RDG job description describes their support of all three strategic outcomes and that they have shared accountability with the DGs in Ottawa. The RDs and DGs job descriptions do not describe any shared accountability.
- Committee membership is not always included and, when it is, the individual's roles, responsibilities, and accountabilities as a committee member were not adequately explained.

Performance Management Agreements

Effective governance requires that governing bodies hold senior management accountable for achieving the results and broad outcomes necessary to fulfill an organization's mandate. According to the Treasury Board of Canada Secretariat's *Directive on the Performance*

Management Program for Executives, performance agreements should link individual executive accountability to strategic and business priorities.

We expected to find that individual performance management agreements define strategic outcomes and program activity results.

Although we found that performance agreements included commitments that are aligned with the PAA and the strategic outcomes, they did not identify commitments linked to functional roles and responsibilities and did not include expected committee outcomes for which the individual was a member, despite their having shared accountability for those committee outcomes.

2.2.3. Tools and Processes

Integrated Decision Making Framework (IDMF)

The IDMF document describes the governance structure employed at TC. It articulates the roles and responsibilities of senior management from the DM down to the RD level as well as the various boards and committees within both the organizational structure and the PAA. It also provides guidance describing each committee's responsibilities and the types of issues that should be elevated to higher committees. We found, however, that the guidance provided is often vague, open to interpretation, and there are insufficient examples to help interpret it.

For example, at the SOMB level, roles and responsibilities are not clear. On one hand, all interviewees indicated that they understood the mandate, roles, and responsibilities of the SOMB committees but there was confusion and lack of direction as to what the SOMB committee could decide versus what items should be elevated to TMX for decision. In addition, the SOMB discusses policy, program, and regulatory issues and makes recommendations to TMX for approval. There is no direction or guidance describing what constitutes an "issue" that needs to go to TMX for approval versus those that can be decided by the SOMB. The IDMF needs to clarify, with specific concrete examples, the type of issues to be brought to TMX.

The IDMF focuses primarily on the PAA with only a few references to the responsibilities associated with the organizational line-reporting structure. There is no discussion or articulation of relationships between SOMBs and PBCs and organizational committees, namely the ADM and DG management committees. It is also unclear if there is a hierarchy or processes/protocols that dictate the relationship between these two types of committees. The lack of clarity creates confusion amongst committee members as to where issues should be addressed and resolved, and creates the impression that the same items are regularly being brought to the various committees for approval and discussion.

We also noted that new executives are not provided with a copy of the IDMF as part of their orientation package and consequently, are not aware of their PAE responsibilities as outlined in the document.

Although the IDMF document is the core document identifying the governance structures within TC, responsibility for maintaining it has not been formally assigned. Such responsibility could include ensuring that the governance structures and processes documented in the IDMF are implemented within the Department as described.

Governance Committees' Terms of References

At a more granular level, individual terms of reference for the committees exist and include details of the committees' purpose, membership, roles and responsibilities, and authority. The terms of reference for TMX, SOMBs and the ISMB, however, do not specify the type of decisions the committees can make nor the type of advisory and oversight responsibilities that they can carry out. As conveyed in their interviews with us, executives had varying opinions and interpretations of the responsibilities of the different committees. The terms of references for the SOMBs, the ISMB and TMX committees had a common look and feel but those for PBCs did not, nor did they use common terminology. Inconsistencies between the terms of references lead to confusion regarding the various roles and responsibilities and decision-making abilities of these committees. This increases the potential for items going to multiple committees for discussion/decision and uncertainty as to what type of items can be approved at what level or committee.

In addition, some terms of reference for PBCs have not been updated to reflect the existence of the SOMBs nor their reporting relationship to these SOMBs as established within the IDMF document. For example, some older terms of reference for SO3 PBCs did not have the SOMB as a board to which they report. Although the terms of reference do contain elements of oversight for the PBCs, specific roles and responsibilities with respect to oversight are not consistently described.

While the SOMBs have published their terms of reference, agendas and records of decision on TC's intranet site, few PBCs have done so. While this is not a requirement, we believe it is a best practice.

Communication of Decisions

The audit team found there was no consistent approach to communicating TMX decisions throughout the organization. Interviewees stated that key decisions are communicated via both the organizational and PAA structures but the messaging becomes inconsistent and incomplete as it is disseminated through the organization, thereby creating confusion amongst the managers who are responsible for implementing expected actions. This confusion and uncertainty may result in delays in the implementation of activities or their misalignment with the original intent of the TMX decision. This is further complicated by the fact that TMX records of decision are not made readily available to all staff and management and, as a result, there is no source for reference.

2.2.4. Information for Informed Decision-Making

Accurate, complete and timely information is a critical component in enabling senior management committees to effectively carry out their oversight and decision-making responsibilities.

We expected to see that senior management committees were receiving sufficient information in a timely manner to fulfill their oversight and decision making responsibilities.

Based on interviews and a review of records of committee decisions, we found that financial and non-financial information is provided to TMX, SOMBs and the ISMB.

At the DG level, there is general frustration, however, regarding the availability and accuracy of financial information. PAEs repeatedly commented on the inability to obtain accurate information on their budgets or their spending on programs against those budgets. Interviewees were also concerned because regular forecast updates from PAEs may show programs as being on track with no issues but the Department ends up lapsing significant funds each year.

Given that new budgeting processes are being put in place to address the issues surrounding financial budgeting and forecasting as well as Internal Audit's plan to conduct audit work on budgeting and forecasting in the near future, we have not examined these issues further in this audit.

TMX members stated that information presented to TMX was usually provided within a timely manner, largely due to the formal support structure of the Corporate Secretariat which establishes and enforces processes for the submission of items, receipt of presentations, and the management of the TMX forward agenda.

At the SOMB and ISMB level, there is not a consistent view on the timeliness of the information provided. There were no specific issues identified for the ISMB but a number of SOMB members stated information is frequently table-dropped at their committees which means board members are spending time at the committee itself reviewing the information for the first time rather than being in a position to discuss it strategically. There is no dedicated secretariat function for the SOMBs or the ISMB. Rather, these responsibilities are often given to Directors or Directors General in addition to their other organizational responsibilities.

3. CONCLUSIONS

The Integrated Decision Making Framework (IDMF) was implemented in part to promote horizontality, collaboration, and information sharing throughout the department through two governance structures: an organizational structure and a PAA structure. Although senior management recognizes there is some duplication of effort within the dual governance structures, they are generally of the opinion that these governance structures are necessary to ensure and to promote collaboration, information sharing, horizontality, and transparency. While there may come a time when less formal mechanisms will suffice, there continues to be a risk that groups and modes would revert to silo-based operations if integration and collaboration is not forced through the PAA governance structure.

With respect to TC's Executive Management Committee (TMX), the Department would benefit from a formal discussion to identify and define specific agenda topics to explicitly link TMX's forward agenda to departmental priorities, major change initiatives and key SO activities and to also clarify what items are for approval or information. To further clarify these expectations, the Deputy Minister and the Associate Deputy Ministers should define, in conjunction with TMX members at the beginning of the planning cycle, their expectations for items that should be brought to their attention via bi-laterals and those which would benefit from input and discussion at TMX.

To reaffirm the concepts of collaboration and horizontality contained in the IDMF, the Deputy Minister and the Associate Deputy Ministers need to review and adjust as required the IDMF to ensure the PAA governance structure meets their needs and the needs of the Department. This will help ensure effective and efficient governance.

Although the IDMF is the key governance document defining roles, responsibilities, and accountabilities, it needs to be revised, maintained, and communicated to promote a common understanding of how governance works at TC. And there needs to be a clearly defined internal process in place to recommend, approve, and communicate changes to the PAA structure and the IDMF.

In the section that follows, we have made a number of recommendations and, for the consideration of the Deputy Minister and Associate Deputy Ministers, we have also suggested some process improvements.

4. RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

It is recommended that the Deputy Minister and Associate Deputy Ministers:

| # | Recommendation | Detailed Management Action Plan | Completion Date (for each action) | OPI direct report for each specific action |
|---|--|---|-----------------------------------|--|
| 1 | Establish a formal process to explicitly link TMX forward agenda to the departmental priorities and to clarify what items are for approval or information. This process should include defining expectations, at the beginning of the planning cycle, to identify items to be managed via bi-laterals and those which should be brought to TMX for collective discussion/approval. | <p>Annual TMX planning retreat to identify priority items for inclusion in the TMX forward agenda.</p> <p>TMX submission form adjusted to clarify purpose of item and link the item to the applicable departmental priorities.</p> <p>The Chair of the Committee will retain discretion to bring forward items that require TMX's attention.</p> <p>Issues/initiatives/proposals that impact more than one group will be brought to TMX for collective discussion/approval.</p> | October 2014 | Corporate Secretariat |
| 2 | Require items presented to TMX include a statement confirming whether the Directors General Policy Committee has reviewed them. Also, require regular reporting of the Policy Committee activities to TMX. | <p>TMX submission form now requires OPIs to indicate which supporting committee has considered the proposed item prior to TMX.</p> <p>Quarterly reports will be submitted to TMX for information on the activities of the DG Policy Committee and</p> | October 2014 | <p>Corporate Secretariat</p> <p>Policy Group</p> |

| # | Recommendation | Detailed Management Action Plan | Completion Date (for each action) | OPI direct report for each specific action |
|---|---|---|-----------------------------------|--|
| | | specific items that will be considered by TMX. | | |
| 3 | a) Reaffirm support for the PAA governance structure and assign responsibility to revise the Integrated Decision Making Framework (IDMF) to clarify both individual and committee roles and responsibilities, define accountabilities, and provide concrete examples to ensure a common understanding of these and maintain and communicate the IDMF. | The IDMF document is being reviewed to reaffirm the PAA governance structure and clarify individual and committee roles and responsibilities. | November 2014 | Corporate Secretariat |
| 3 | b) Those assigned responsibility for maintaining the IDMF should also monitor adherence to IDMF principles. | An annual assessment will be conducted during one of the TMX planning meetings to ensure content remains accurate, and that the governance structure and committee roles are functioning as described in the IDMF. A full review will be conducted every 3 years. | February 2015 | Corporate Secretariat |
| 3 | c) Ensure the IDMF is a key component of new executives' on-boarding and orientation. | A link to the IDMF document will be included in all letters of offer to new executive appointments. | November 2014 | Corporate Services |
| 4 | Document the process for proposing changes to the PAA structure, and approving and communicating revisions. | Information on the PAA amendment process will be included in the IDMF. Information about any change to the PAA will also be available on the departmental intranet. | November 2014 | Corporate Secretariat / Corporate Services |

| # | Recommendation | Detailed Management Action Plan | Completion Date (for each action) | OPI direct report for each specific action |
|---|--|---|--|--|
| 5 | Ensure that roles, responsibilities, and accountabilities of individuals under the PAA are included in their individual job descriptions and performance management agreements. | <p>Individual performance management agreements will contain specific commitments for executives with responsibilities related to the PAA.</p> <p>Executive job descriptions will be amended as they are reviewed to include wording related to the accountabilities under the PAA.</p> | <p>March 2016</p> <p>Ongoing - as job descriptions are reviewed.</p> | Corporate Services |
| 6 | Standardize the content and terminology of the Terms of References for all PAA committees including the Program Business Committees and make them available on the Department's intranet. | <p>Each committee will be asked to review their Terms of References for updates and consistency.</p> <p>Many Terms of References are already available on the departmental intranet, but it will be expanded to cover all committees referenced in the IDMF.</p> | March 2015 | <p>All Committee chairs</p> <p>Corporate Services</p> <p>Corporate Secretariat</p> |
| 7 | For critical or significant TMX messages and decisions, develop communication products to help convey consistent messaging. Make TMX decision records generally available, when appropriate. | <p>The IDMF will emphasize the need to communicate decisions down into the organization.</p> <p>Outreach activities, such as National TMX townhalls, ongoing internal communications of important initiatives -- in particular messages</p> | <p>November 2014</p> <p>Ongoing</p> | Corporate Secretariat |

| # | Recommendation | Detailed Management Action Plan | Completion Date (for each action) | OPI direct report for each specific action |
|---|----------------|---|-----------------------------------|--|
| | | <p>from the Deputy Minister and Associate Deputy Ministers to managers and employees -- will continue.</p> <p>TMX Records of Decision will be posted on the departmental intranet (myTC).</p> | <p>Completed – September 2014</p> | |

In addition, we ask that the Deputy Minister and Associate Deputy Ministers consider implementing the following process improvements:

1. To ensure appropriate oversight, Regional Directors General, Directors General and Regional Directors should be required to meet regularly to discuss national program delivery.
2. Require Strategic Outcome Management Boards to establish and enforce protocols for their meetings similar to those used by Corporate Secretariat for TMX meetings.

Appendix A: Alignment PAA SO1 and SO2 to the Organizational Structure

| SO 1 An Efficient Transportation System <i>Management Board</i> SZZ | | | | SO 2 A Clean Transportation System <i>Management Board</i> CZZ | | |
|--|---|---|--|--|--|--|
| P 1.1 SAX Transportation Marketplace Frameworks <i>DG, Surface Transportation Policy</i> | P 1.2 SBX Gateways and Corridors <i>DG, International Relations and Gateway Initiatives</i> | * P 1.3 SCX Transportation Infrastructure <i>DG, Transportation Infrastructure Programs</i> | P 1.4 SDX Transportation Analysis and Innovation <i>DG, Economic Analysis</i> | * P 2.1 CAX Clean Air from Trans <i>DG, Environmental Policy, Transportation</i> | P 2.2 CBX Clean Water from Transportation <i>DG, Marine Safety and Security</i> | * P 2.3 CCX M30 Environmental Stewardship of Transportation <i>DG, Environmental Programs and Aboriginal Consultations</i> |
| 1.1.1 / T11 Air Marketplace Framework <i>DG, Air Policy</i> | 1.2.1 / T21 Asia-Pacific Gateway and Corridor Initiative <i>DG, International Relations and Gateways Initiatives</i> | 1.3.1 / SCA Airport Infrastructure <i>DG, Airport and Port Programs</i> | 1.4.1 / T41 Socio-Economic Research and Analysis <i>DG, Economic Analysis</i> | 2.1.1 / M11 Clean Air Regulatory Framework and Oversight <i>DG, Environmental Policy</i> | 2.2.1 / M21 Clean Water Regulatory Framework <i>*DG, Marine Safety and Security</i> | |
| 1.1.2 / T12 Marine Marketplace Framework <i>DG, Marine Policy</i> | 1.2.2 / T22 Gateways and Border Crossings Fund <i>DG, International Relations and Gateway Initiatives</i> | 1.3.1.1 / T3A Airport Authority Stewardship <i>Senior Director, Authority Management and Real Property</i> | 1.4.2 / T42 Transportation Innovation, Research, Development & Technology <i>DG, Strategic Policy and Innovation</i> | 2.1.2 / M15 Clean Air Programs <i>DG, Environmental Programs and Aboriginal Consultations</i> | 2.2.2 / M22 Clean Water Regulatory Oversight <i>DG, Marine Safety and Security</i> | |
| 1.1.3 / T13 Surface Marketplace Framework <i>DG, Surface Transportation Policy</i> | | 1.3.1.2 / T3B Airport Operations Director, Programs Management | 1.4.3 / T43 Transportation Data Framework and Stewardship <i>DG, Economic Analysis</i> | | | |
| 1.1.4 / T14 International Frameworks and Trade <i>DG, International Relations and Gateway Initiatives</i> | | 1.3.1.3 / T3C Small Aerodrome Support Director, Program Management | | | | |
| | | 1.3.2 / SCB Marine Infrastructure <i>*DG, Marine Policy</i> | | | | |
| | | 1.3.2.1 / T3D Canada Port Authority Stewardship <i>*Director, Ports Policy</i> | 1.3.2.2 / T3F Seaway Stewardship and Support <i>Senior Director, Authorities Management and Real Property, Programs</i> | 1.3.2.3 / T3G Ferry Services Stewardship and Support <i>Director, Program Management</i> | 1.3.2.4 / T3H Port Operations <i>Director, Program Management</i> | |
| | | 1.3.3 / SCC Surface and Multimodal Infrastructure <i>DG, Transportation Infrastructure Programs</i> | | | | |
| | | 1.3.3.1 / T3J Rail Passenger Stewardship and Support <i>Director, Rail Policy</i> | 1.3.3.2 / T3K Federal Bridge Stewardship <i>DG, Air and Marine Programs, DG, Transportation Infrastructure Programs</i> | 1.3.3.3 / T3L Highway and Other Transportation Infrastructure Support <i>DG, Transportation Infrastructure Programs</i> | | |

Legend:

* National Program

ADM Policy Group

ADM Program Group

ADM Safety and Security

Note: The following Sub-programs are included under SO3 but are operated by ADM Programs Group

3.1.3 Airport Capital Assistance, Director Program Management, Airport and Port Programs

3.3.3 Rail Safety Awareness and Grade Crossing Improvement, Director Operations Management and Director, Program Management

Appendix B– Acronyms

| | |
|--------------|---|
| ADM | Assistant Deputy Minister |
| Associate DM | Associate Deputy Minister |
| CPR | Corporate Planning and Reporting |
| DG | Director General |
| DGPC | Directors General Policy Committee |
| DM | Deputy Minister |
| IDMF | Integrated Decision Making Framework |
| ISMB | Internal Services Management Board |
| MRAP | Management Response and Action Plan |
| PA | Program Activity |
| PAA | Program Alignment Architecture |
| PAE | Program Accountable Executive |
| PBC | Program Business Committee |
| PMA | Performance Management Agreement |
| RBAP | Risk-Based Audit Plan |
| RD | Regional Director |
| RDG | Regional Director General |
| RPP | Report on Plans and Priorities |
| SO | Strategic Outcome |
| SO1 | Strategic Outcome 1 - An Efficient Transportation System |
| SO1MB | Strategic Outcome 1 Management Board |
| SO2 | Strategic Outcome 2 - A Clean Transportation System |
| SO2MB | Strategic Outcome 2 Management Board |
| SO3 | Strategic Outcome 3 – A Safe and Secure Transportation System |
| SO3MB | Strategic Outcome 3 Management Board |
| SOMB | Strategic Outcome Management Board |
| TC | Transport Canada |
| TMX | Transport Canada Executive Management Committee |
| TOR | Terms of Reference |