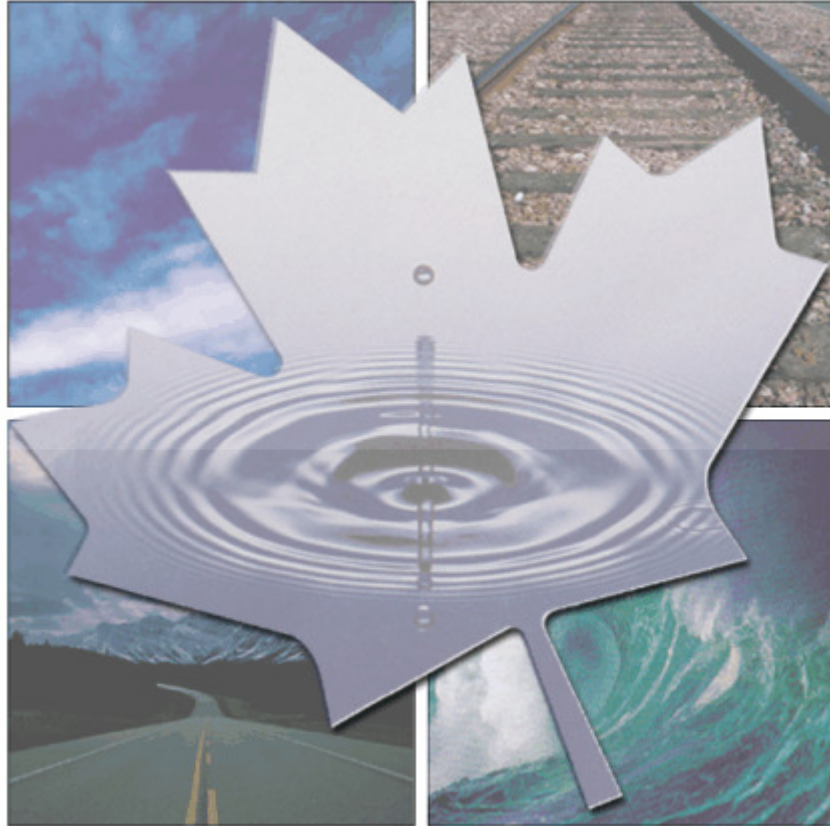


Audit and Advisory Services
Integrity, Innovation and Quality



**Audit of the
Gateways and Border Crossings Fund**

File Number: 1577-12/13-103

- EXECUTIVE SUMMARY II**
- Introduction ii
- Audit Objectives & Scope ii
- Conclusions.....iii
- Statement of Conformance.....iii

- 1. INTRODUCTION 1**
- 1.1. Purpose 1
- 1.2. Background..... 1
- 1.2.1. Overview 1
- 1.2.2. Eligible Projects/Recipients..... 2
- 1.2.3. Program Responsibility – Overall Program 3
- 1.2.4. Program Responsibility – Individual Project Delivery 3
- 1.3. Audit Objective, Scope & Methodology/Approach 4
- 1.3.1. Audit Objective 4
- 1.3.2. Audit Scope 4
- 1.3.3. Audit Approach 4
- 1.3.4. Audit Criteria..... 5
- 1.4. Structure of Report..... 7

- 2. FINDINGS 8**
- 2.1. High Risk Audit Criteria..... 8
- 2.1.1. Project/Recipient Eligibility 8
- 2.1.2. Funding Recommendations and Decisions 10
- 2.1.3. Recipient Monitoring Practices..... 10
- 2.1.4. Recipient Auditing..... 12
- 2.2. Medium Risk Audit Criteria..... 14
- 2.2.1. Contribution Agreements 14
- 2.2.2. Work Instruments..... 15
- 2.2.3. Performance Measurement Strategy 16

- 3. CONCLUSIONS 19**

- 4. RECOMMENDATIONS AND MRAP 20**

EXECUTIVE SUMMARY

INTRODUCTION

The Gateways and Border Crossings Fund (GBCF) was launched in 2007, shortly before the 2008 Treasury Board Policy and Directive on Transfer Payment Programs requiring a risk-based approach to the management of transfer payments, as a component of the \$33B Building Canada Plan designed to build a stronger, safer and better Canada through modern world-class public infrastructure. Launched in 2007, this seven-year plan supports projects that contribute to cleaner air and water, safer roads, shorter commutes, and better communities. The Building Canada Plan is administered by Infrastructure Canada.

Guided by the National Policy Framework for Strategic Gateways and Trade Corridors, GBCF will improve the flow of goods between Canada and the rest of the world. This merit-based fund will enhance infrastructure at key locations, such as major border crossings between Canada and the United States.

GBCF had an initial budget of \$2.1B covering the period from fiscal year (FY) 2007-2008 to FY 2013-2014. In February 2012, the program's expiry date was extended from March 31, 2014 to March 31, 2018.

As the result of a number of approved fiscal transfers over the years, the total GBCF expenditure is projected, at this point in time, to be \$1.8B, comprised of \$64M Vote 1 Operations and Maintenance (O&M) funding for administration costs and projects and \$1.8B Vote 10 transfer payment (G&C) funding for contribution agreements.

The GBCF is well underway with 54 gateway related O&M funded studies completed, 36 GBCF contribution funded infrastructure projects announced or started (of which ten have been completed), and 22 contribution funded non-infrastructure projects started (of which ten have been completed).

AUDIT OBJECTIVES & SCOPE

In accordance with Transport Canada's Internal Audit Plan for 2012-13, an audit of the GBCF was conducted. The objective in place was to assess the effectiveness and efficiency of the management control framework for GBCF.

While the scope of the audit was the entire GBCF, Audit and Advisory Services focused its efforts on those activities in a grant and contribution program life cycle which were assessed during the audit planning phase as representing a higher degree of risk.

CONCLUSIONS

The audit found that overall, the Management Control Framework for the GBCF is both effective and efficient. The audit did identify, however, some practices which are of limited effectiveness and several opportunities to improve efficiency.

The Policy and Programs Groups responsible for GBCF delivery are aware of the requirement for a more risk-based approach to recipient reporting, project monitoring and auditing that stems from the 2008 Policy and Directive on Transfer Payments. They have indicated their desire and commitment to move from a prescriptive one-size fits all approach to the monitoring of infrastructure projects to a more risk-based approach.

While the Policy and Programs Groups have limited capacity in many instances to modify existing contribution agreements, they should be able to reflect a more risk-based approach in some circumstances by choosing to not enforce existing requirements (e.g. mandatory annual financial audits) and looking for opportunities to incorporate new practices in either GBCF or future contribution programs.

Overall, the audit results afford an opportunity for the Groups to re-evaluate the risks that Transport Canada can be reasonably expected to mitigate and to assess the effectiveness of the current components of the Management Control Framework in being able to mitigate those risks. A refocused Management Control Framework should be able to demonstrate that components are applied differently depending on the assessed risk level of a project

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

Signed	2013-06-07
_____ Dave Leach (CIA) Director, Audit and Advisory Services	_____ Date
Signed	2013-06-07
_____ Laura Ruzzier, Chief Audit Executive	_____ Date

1. INTRODUCTION

1.1. PURPOSE

In accordance with the 2012-2013 Transport Canada Internal Audit Plan, an audit of the Gateways and Border Crossings Fund (GBCF) was completed between October 2012 and May 2013. This report presents the results.

1.2. BACKGROUND

1.2.1. OVERVIEW

The Gateways and Border Crossings Fund was launched in 2007 as a component of the \$33B Building Canada Plan designed to build a stronger, safer and better Canada through modern world-class public infrastructure. This seven-year Plan administered by Infrastructure Canada supports projects that contribute to cleaner air and water, safer roads, shorter commutes, and better communities. The launch of GBCF occurred before the 2008 Treasury Board Policy and Directive on Transfer Payment Programs became effective requiring a risk-based approach to the management of transfer payments,

Guided by the *National Policy Framework for Strategic Gateways and Trade Corridors*, GBCF will improve the flow of goods between Canada and the rest of the world. This merit-based fund is meant to enhance infrastructure at key locations, such as major border crossings between Canada and the United States.

GBCF had an initial budget of \$2.1B covering fiscal years 2007-2008 to 2013-2014. In February 2012, the program's expiry date was extended from March 31, 2014 to March 31, 2018.

As the result of a number of approved fiscal transfers over the years, the total GBCF expenditure is projected to be \$1.8B, comprised of \$64M Vote 1 Operations and Maintenance (O&M) funding for administration costs and projects and \$1.8B Vote 10 transfer payment funding for contribution agreements.

While most of the Vote 10 funding associated with the Fund will be disbursed through contributions to provincial, territorial, and municipal governments and public and private sector recipients, some funding is allocated to other federal departments and agencies for improvements to federal assets such as key border crossings and highways through National Parks.

The largest GBCF contribution targets the Herb Gray Parkway leading to a planned new Detroit River International Crossing (DRIC). Budget 2007 committed up to \$400M from the GBCF for this project. Budget 2011 augmented Canada's contribution by announcing a commitment of up to \$1B to fund up to 50% of the Parkway's eligible capital costs.

The Vote 1 funding is reserved for Transport Canada for program delivery, e.g. administration, and for the cost of studies (approximately \$7 million) to identify and address some of the interconnectedness issues that impact the efficiency of the transportation system and its exploitation, e.g. marketing Canada's strategic gateways, trade corridors and border crossings.

The GBCF is a merit-based fund designed to improve the flow of goods and people between Canada and the rest of the world. Most GBCF infrastructure projects involve investments in strategic transportation and trade assets including major Canada-United States border crossings, the core National Highway System, marine ports, airports, and intermodal facilities. In June 2008, however, approval was obtained for the allocation of up to \$300M for a new component of the Fund titled Smaller Land Border Crossings and Freight Inter-Modal Connectors.

1.2.2. ELIGIBLE PROJECTS/RECIPIENTS

Foundation documents identify the types of projects and recipients eligible for funding under GBCF.

The following table identifies the total number of GBCF projects identified, and their projected costs, as of April 2013.

	Total TC Contribution	Number of Projects
Vote 1	\$ 64,257,213	54
Operating and Maintenance	\$ 62,103,120	54
Admin Costs - Accomodation	\$ 960,119	
Admin Costs - Employee Benefit Plan	\$ 1,477,106	
Admin Costs - Salary	\$ 7,385,530	
Program Management - Accomodation	\$ 3,486,103	
Program Management - EBP	\$ 5,363,235	
Program Management - Salary	\$ 26,816,176	
Program Management - Other Operating Costs	\$ 9,412,921	
Multi-Modal Reasearch/Study	\$ 4,754,429	20
Single Mode-Air Reasearch/Study	\$ 167,898	5
Single Mode-Marine Reasearch/Study	\$ 1,371,952	14
Single Mode-Rail Reasearch/Study	\$ 56,315	1
Single Mode-Road Reasearch/Study	\$ 851,335	14
Lapse (including TC Internal reallocation & expenditures not coded to the project during the FY2008-2009)	\$ 2,154,092	
Vote 10	\$ 1,758,237,092	58
Infrastructure	\$ 1,745,426,804	36
Airport	\$ 52,900,000	7
Border	\$ 391,938,290	6
Bridge	\$ 17,500,000	1
Information Technology	\$ 2,500,000	1
Intelligent Transportation Systems	\$ 11,340,000	1
Port	\$ 145,020,000	8
Rail	\$ 20,000,000	1
Road	\$ 1,104,228,514	11
Non-Infrastructure	\$ 3,488,433	22
Marketing	\$ 2,500,000	10
Research Study	\$ 988,433	12
Residual	\$ 9,321,855	
Residual - Unassigned Vote 10	\$ 9,321,855	
Grand Total	\$ 1,822,494,305	112

The GBCF is well underway as follows:

- 54 gateway related O&M funded studies have been completed,
- 36 GBCF contribution funded infrastructure projects have been identified for funding, formally announced or started (of which ten have been completed), and
- 22 contribution funded non-infrastructure projects have started (of which ten have been completed).

1.2.3. PROGRAM RESPONSIBILITY – OVERALL PROGRAM

Within Transport Canada, overall responsibility for the GBCF rests with the Assistant Deputy Minister (ADM) Policy in consultation with the ADM Programs. The Surface Transportation Policy Directorate within the Policy Group, in consultation with Programs, is responsible for the day-to-day administration of the GBCF, including obtaining approval in principle for all projects and reporting on GBCF in Transport Canada's Departmental Performance Report (DPR) and other reports as required. Policy and Program groups are jointly responsible, with the assistance of staff expertise from other areas within Transport Canada, for recommending projects for approval.

1.2.4. PROGRAM RESPONSIBILITY – INDIVIDUAL PROJECT DELIVERY

Responsibility for establishing project contribution agreements/contracts and project implementation, monitoring and reporting for the various types of projects rests with two Transport Canada organizations as follows:

- Infrastructure projects and Intelligent Transportation Systems (ITS) projects – responsibility rests with the Transportation Infrastructure Programs Directorate under the ADM Programs
- Non-infrastructure projects (excluding ITS projects) – responsibility rests with the ADM Policy.

Except for ITS projects which are led by the ITS group in Programs, Policy is responsible for establishing non-infrastructure project contribution agreements and monitoring project implementation, including obtaining and approving performance reports.

1.3. AUDIT OBJECTIVE, SCOPE & METHODOLOGY/APPROACH

1.3.1. AUDIT OBJECTIVE

The objective of the audit was to assess the effectiveness and efficiency of the Management Control Framework for the GBCF.

1.3.2. AUDIT SCOPE

Although the scope of the audit was the entire GBCF, Audit and Advisory Services focused its efforts on those activities in a contribution program's life cycle assessed during the planning phase as representing a higher degree of risk.

1.3.3. AUDIT APPROACH

The audit planning phase risk assessment was conducted through documentation review, interviews, and the examination of one Vote 10 contribution funded infrastructure project and one Vote 1 contract funded study. The planning phase culminated in a Terms of Reference being developed and provided to the ADM, Policy and the ADM, Programs in March 2013 for their approval.

The audit conduct phase was completed at the end of April. File documentation for 13 additional project files was requested for detailed review against the criteria identified in the planning phase. Selected project managers and staff were also interviewed. In total, 15 project files were selected on a judgemental basis for review, five Vote 1 contracted studies and ten Vote 10 contribution funded projects (8 infrastructure projects and 2 non-infrastructure projects). The sample ensured there were both completed and ongoing projects, various recipient types, and projects completed through both conventional and P3 (Public-Private Partnership) contracting methods.

The sample represented approximately 63% of committed funds. The following tables highlight the degree of coverage that the sample of files chosen provided over the total GBCF population of projects and funding:

Audit Sample Coverage by Vote			
Vote	All Projects	Audit Sample	% Coverage
Vote 1 (O&M)	\$ 7,201,930	\$ 2,007,203	28%
Vote 10 (G&C)	\$ 1,748,915,237	\$ 1,100,729,893	63%
Grand Total	\$ 1,756,117,167	\$ 1,102,737,096	63%
Audit Sample Coverage by Project Type			
Project Type	All Projects	Audit Sample	% Coverage
Infrastructure	\$ 1,745,426,804	\$ 1,100,464,893	63%
Non-Infrastructure	\$ 3,488,433	\$ 265,000	8%
O&M	\$ 7,201,930	\$ 2,007,203	28%
Grand Total	\$ 1,756,117,167	\$ 1,102,737,096	63%
Audit Sample Coverage by Project Category			
Project Category	All Projects	Audit Sample	% Coverage
Airport	\$ 52,900,000	\$ 9,000,000	17%
Border	\$ 391,938,290		
Bridge	\$ 17,500,000	\$ 9,186,379	52%
Information Technology	\$ 2,500,000		
Intelligent Transportation Systems	\$ 11,340,000		
Marketing	\$ 2,500,000		
Multi-Modal Reasearch/Study	\$ 4,754,429	\$ 1,994,703	42%
Port	\$ 145,020,000	\$ 109,000,000	75%
Rail	\$ 20,000,000	\$ 20,000,000	100%
Research Study	\$ 988,433	\$ 265,000	27%
Road	\$ 1,104,228,514	\$ 953,278,514	86%
Single Mode-Air Reasearch/Study	\$ 167,898		
Single Mode-Marine Reasearch/Study	\$ 1,371,952		
Single Mode-Rail Reasearch/Study	\$ 56,315		
Single Mode-Road Reasearch/Study	\$ 851,335	\$ 12,500	1%
Grand Total	\$ 1,756,117,167	\$ 1,102,737,096	63%

(Tables as of April 2013)

1.3.4. AUDIT CRITERIA

In conducting the audit, Audit and Advisory Services applied a set of audit criteria that it developed in 2010 and presented to the Audit Committee in the report titled “Generic Audit Criteria for Grant and Contribution Programs”. This document contains a comprehensive set of standard control objectives and audit criteria to be employed on a selective basis for internal audit activity related to Transport Canada’s transfer payment programs. The criteria had been shared with Policy and Program areas and with the Centre of Expertise for Grants and Contributions in Transport Canada to provide them with a means for ongoing self-assessment from a sense of what auditors would look for if and when an audit was planned.

The control objectives and criteria are structured around a Policy/Program Continuum that consists of five phases representing all the activities from the establishment of Policy Direction through Program Design, Program Implementation and Program Monitoring to Performance Reporting and Policy Analysis.

The criteria are based on conditions that can reasonably be expected to be in place in a federal government department such as Transport Canada. The criteria take into account the 2008 Treasury Board Policy and Directive on Transfer Payments and the Office of the Auditor General's Attributes of a Well-Managed Grant and Contribution Program. The Treasury Board Policy and Directive were issued in order to align policy with recommendations made in 2006 by the Independent Blue Ribbon Panel on Grant and Contribution Programs which in part stated that "fundamental change is required in the way the federal government understands, designs, manages and accounts for its grant and contribution programs." As such, the updated Policy and Directive called for more flexible administration of transfer payments by departments, minimized administrative requirements on transfer payment recipients, and a level of monitoring, recipient auditing, and recipient reporting that is proportionate to the level of risk associated with the recipient.

While GBCF was approved prior to the 2008 Transfer Payment Policy, the contribution agreements for 7 out of 8 infrastructure projects sampled in the audit were dated after the effective date of the Policy, i.e. October 1, 2008, and were thus subject to the Policy provisions. During the planning phase, Audit and Advisory Services gathered information to complete an initial assessment of whether each high-level criterion represented, under the current circumstances, either a high, low, or moderate risk. As a result of the risk assessment, the audit team decided to conduct sufficient audit examination to provide a low level of assurance conclusion whether the low risk criteria were met and a moderate level of assurance conclusion whether the moderate risk criteria were met.

Audit and Advisory Services focused the major portion of its audit activity on providing a high level of assurance conclusion with respect to the following four criteria addressing activities that were assessed as high risk:

- Projects and recipients are assessed for eligibility using established criteria based on the program's Terms and Conditions
- Funding recommendations and decisions are made in accordance with program terms and conditions (or with proper authorities where deviations may exist) and an assessment of the recipient's capacity to carry out the initiative, and are fair, transparent and free of bias
- Recipient and program activities result in appropriate expenditures in accordance with the program's objectives, terms and conditions and budget
- Recipient audits are conducted based on an established recipient/project risk framework in order to ensure recipient activities are in compliance with agreement terms and conditions.

Where the generic G&C audit criteria were not directly applicable, e.g. in reviewing studies funded through Vote 1 contract resources, relevant criteria from other generally accepted control frameworks were referenced, e.g. contracting policy

1.4. STRUCTURE OF REPORT

Detailed audit findings are presented in Section 2 in terms of the four audit criteria addressing activities assessed as a high risk and medium risk audit criteria where issues were identified.

The Conclusions section provides an overall audit opinion and the Recommendations and Management Response and Action Plan section provides recommendations to address the audit findings and the Management Response and Action Plan (MRAP) from the ADM of Policy and the ADM of Programs.

2. FINDINGS

The findings that follow provide details on those areas where the audit has identified opportunities for improvement. Opportunities for improvement are identified in two of the areas that were considered to be high risk and in three areas considered to be medium risk. These areas represent, however, a small part of the overall management of the program which is otherwise considered as performing well.

2.1. HIGH RISK AUDIT CRITERIA

2.1.1. PROJECT/RECIPIENT ELIGIBILITY

Projects and recipients were assessed for eligibility using established criteria based on the terms and conditions of the GBCF.

We expected to find that the GBCF had assessed contribution funded projects and recipients for eligibility against the approved program terms and conditions.

Vote 10 Projects:

We found in the sample of files audited that all of the Vote 10 contribution funded projects had been assessed as meeting eligibility requirements or had been approved by the appropriate authority. The following procedures were in place for Vote 10 contribution funded projects (infrastructure and non-infrastructure).

For Vote 10 gateway projects, the Policy Group identified projects based on research identifying gateway transportation pressures as well as discussions with potential recipients and stakeholders. Based on initial discussions with potential recipients and detailed analysis, project proposals were brought forward for consideration. For example, the Analytical Working Group led by the Executive Director, Continental Gateway & System Analysis and composed of staff from Transport Canada, the Atlantic Canada Opportunities Agency and the provinces evaluated the proposals and, based on a consensus evaluation, the most promising projects were recommended to the Federal-Provincial Officials Committee¹. The committee then recommended these projects to Transport Canada for further consideration. The Policy group invited recipients for the recommended projects to submit draft business cases for further discussion/consideration and to ultimately support Policy's recommendation to approve the project.

For Vote 10 border crossing projects, Transport Canada's Policy group was already aware of where the transportation pressures/needs were located. These pressures were identified based on the following sources:

- the Canada-US Security and Prosperity Partnership in mid-2000
- the Western Hemisphere Travel Initiative implementation

¹ The Federal-Provincial Officials Committee is currently chaired by an ADM from Atlantic Canada Opportunities Agency (ACOA) and an Executive Director from Nova Scotia

- the Transportation-Border Working Group established in 2002, co-chaired by Transport Canada and the US Department of Transportation, identified several pressure points that needed to be addressed
- projects that were considered, but ultimately not funded, by the Border Infrastructure Fund (the predecessor to the GBCF)
- The Windsor-Essex Parkway and the Cornwall Plaza were two significant projects specifically targeted for funding under GBCF in the Budgets of 2007 and 2010 respectively.

Border Crossing projects involved federal assets such as bridges and border crossing plazas owned and/or operated by proponents who were other federal departments or agencies. Once the GBCF was announced, the Policy group entered into negotiations with these proponents to determine which projects both Transport Canada and the proponents were prepared to fund. Where there was mutual agreement to fund a project, detailed analysis was completed to determine the cost of the project and Transport Canada's recommended contribution to the project. This information was then used by Policy to recommend the project for approval in principle.

Once a Vote 10 project was approved in principle, which was usually accompanied by a public announcement, the proponent submitted a formal business case. The project was then assessed and a recommendation was made for final approval of the project. The Policy group negotiated and put in place the required contribution agreement for non-infrastructure projects while the Programs group negotiated and put in place the required contribution agreement for infrastructure projects. The Programs group also prepared any necessary Project Assessment Reports or foundation documents for individual infrastructure project approvals.

In a few cases where infrastructure projects were deemed to have merit and fit within GBCF's objectives but faced eligibility limitations (project or recipient), approval was obtained from the appropriate authorities for one-time exemptions.

Vote 1 Studies:

While not directly subject to the audit criterion since they were funded (approximately \$7 million) through Vote 1 contract funding, we found that there was an appropriate process to ensure that funded studies fell within the criteria of the GBCF.

The Director, Highway, Border and Motor Carrier Policy annually sent an internal request to other policy groups within Transport Canada inviting them to submit project proposals for GBCF funding for the upcoming year. Each proponent was asked to provide a brief description of the proposed project, the anticipated outcomes related to GBCF and an estimated budget breakdown. The proposed projects were ranked and then submitted to the ADM Policy for final budget allocation. Once approved, the proponents within the Policy group that were allocated funding would enter into the necessary contractual arrangements to have the work completed.

2.1.2. FUNDING RECOMMENDATIONS AND DECISIONS

Funding decisions were made in accordance with program terms and conditions and delegation of authorities and were made in a fair and timely manner.

We expected to find, for those projects reviewed, that funding decisions were made based on GBCF's terms and conditions and the recipient's capacity to deliver. We also expected to find that the funding decisions were fair, transparent and free of bias.

As described in section 2.1 Project/Recipient Eligibility, we found that processes were in place to identify and assess potential projects. Transport Canada challenged proponent's proposed work plans and cost estimates to the extent practical and where appropriate. Once a recommended project was approved and a funding level set, Transport Canada negotiated the required contribution agreement with the recipient.

2.1.3. RECIPIENT MONITORING PRACTICES

Recipient reporting requirements and GBCF monitoring and recipient auditing practices are not based on a meaningful assessment of project and recipient risks and contain some areas of overlap.

We expected to find that contribution funded recipients and program activities were monitored and assessed to ensure compliance with funding agreements, to determine program results against established objectives, and to ensure that recipient and program activities result in appropriate expenditures.

We found that risk assessments of all projects in the sample were documented in a Project Assessment Report or other foundation documents. Most of these project risk assessments identified a very limited range of risks such as project delays, cost overruns and financial capacity. These are risks common to infrastructure projects but effectively constitute only one higher level risk, i.e. that the project will not be finished on time to the standard expected. We also found that the departmental "Program Operations Risk Tool" (PORT) or its predecessor, the "Project and Recipient Risk Assessment Tool" (PARRAT), had been completed, at one or more points in time, for all projects. In addition, all current projects were subject to a PORT assessment in August-September 2012.

Overall, however, we found little evidence that either form of risk assessment led to meaningful differences in reporting requirements and monitoring activities for individual contribution agreements. There was little noticeable difference in the application of reporting and monitoring practices in spite of some differences among recipient and project risk assessments (only one project in the sample had a risk assessment, at any point, above medium, two were medium, and all others were low or medium-low). Where some differences were noted, they were inexplicably between projects at the same level of risk, e.g. a \$9M project was subject to more requirements than a \$55M project with the same risk level.

We also noted that while significant effort was expended on the claims review process and recipient audits to identify or prevent the funding of ineligible expenditures, none of the risk

assessments examined specifically identified ineligible expenditures as a significant risk, which is somewhat surprising given the range of recipients.

The audit team is of the opinion that the common risks identified are actually beyond the scope of what Transport Canada can reasonably mitigate or control. For example, once a project has been approved, Transport Canada could not reasonably be held accountable for cost overruns, delays or financial capacity of the recipient to complete the project, unless it were due to some action or inaction on Transport Canada's part. Transport Canada could, however, reasonably be held accountable for funding a project which should never have been funded, or for issuing a payment which was not justified, if proper due diligence were applied. As such, a strong monitoring focus on the common risks that Transport Canada cannot mitigate or control may be contradictory to the frequently noted mitigating factor that Transport Canada's obligation is limited to the contribution of funds to eligible costs.

In that context, we noted that the PORT was focused on likelihood factors rather than the common infrastructure risks. Some of the factors (e.g. recipient management capacity and project plan) can be linked to these infrastructure risks while others can only be linked more indirectly (e.g. materiality, public sensitivity, project financial viability, environmental concerns and aboriginal issues). It would be desirable to make clear linkages between project risks and the factors employed to determine the likelihood of their occurrence once a decision has been made to fund a project.

In the files where we noted that a PORT had been completed, explanation fields were not generally being completed. As such, it was difficult to understand the logic behind the risk ranking given.

PORT may not be sufficiently focused on those risks that Transport Canada can reasonably control such as deciding not to fund a project if the recipient's financial or management capacity to successfully complete a project is too great a risk or deciding to not process payment if contribution agreement terms and conditions have not been met. PORT may also not be suitable for multi-year projects as different factors come into play once a project is underway (e.g. a recipient failing to demonstrate the pre-assessed project management capacity or aboriginal issues arising causing delays). In addition, the effort required to complete the PORT on a regular basis may not be worthwhile where monitoring practices such as reviewing current cash flow estimates ensure that project progress is known in a timely manner.

We found little difference in reporting requirements and monitoring practices between projects where payments were made on a milestones basis versus where payments were based on the reimbursement of eligible expenditures. It would seem possible to reduce controls in a milestone based payment arrangement, since Transport Canada's risk of inappropriately expending funds would be significantly mitigated by not issuing payment until a specific, well-defined, deliverable is accepted.

In addition to the opportunity to apply a more discriminating risk-based approach to recipient monitoring, we also noted that there is a degree of overlap among elements of the monitoring control toolkit.

For example:

- annual reports which contain information already available through Agreement Management Committees or quarterly project status reports or updated project schedules;
- site visits that obtained photos that may be available from the recipient;
- reliance on an Independent Engineer seemingly able to replace other monitoring requirements in place;
- individual invoices being reviewed by GBCF project managers which were subsequently specifically audited.

One GBCF project manager commented that “Reports are also useful; however, they are just a document describing what is already known through phone calls and/or meetings” and “More than reading the (annual) reports, there is a lot of value in meeting face-to-face”.

2.1.4. RECIPIENT AUDITING

The GBCF approach to recipient auditing is not risk-based, (thus non-compliant with the TB 2008 Directive on Transfer Payments) and provides little assurance.

We expected to find that recipient audits were being conducted based on an established recipient/project risk framework in order to ensure recipient activities are in compliance with agreement terms and conditions.

The Treasury Board Directive on Transfer Payments states “Departmental managers who have been assigned responsibilities for the management of transfer payment programs and transfer payments are responsible for:

6.5.3 Determining when recipient audits are necessary to complement other departmental monitoring activities, and developing and executing a risk-based plan for these recipient audits, including determining the scope of recipient audits to be undertaken and the standards to be applied.

6.5.4 Selecting an independent auditor to undertake a recipient audit for the department, and communicating to the auditor the scope of the recipient audit to be undertaken, the standards to be followed and the nature of the report to be provided to the department. ”

We found that, rather than applying a formal risk-based approach to determining when and where recipient audits should be employed, the Programs group has largely continued to apply a prescriptive set of controls for infrastructure projects that was developed prior to the 2008 Policy on Transfer Payments and includes the routine or standard application of financial and compliance audits. The GBCF program design was predicated on the basis that the conduct of such audits would be the responsibility of the recipient and that costs would be eligible under the contribution agreement.

Contrary to the Treasury Board Directive issued subsequent to GBCF creation which requires that a recipient audit be conducted either by independent auditors contracted by the department or by departmental officials, GBCF practice continues to assign the responsibility to the recipient to select the auditor and ensure that the audits are conducted. While the GBCF program states that it has final say on audit timing, objectives and scope, language in contribution agreements

suggests that the interpretation as to what is to be audited, and how often, is left up to the recipient, or the auditor, or even the Agreement Management Committee.

As a result, there is no clear and common understanding of what these two types of audits represent and what degree of assurance they provide. There are a number of different, overlapping definitions and descriptions, including those provided by Transport Canada's Centre of Expertise for Grants and Contributions. In addition, there is no consistent application of these audits in terms of their objectives and scope, as evidenced by the variety of planning and reporting documents found on file and by the use of several other terms including Financial Compliance Audit, General Compliance Audit, Audit for In-kind and Financial Contributions, Financial Audit of Claims, and Annual Audited Financial Statements.

There is also no consistent understanding of what is required in an "audit plan". In some instances, this term suggests a plan to accommodate a number of audits over the life of an agreement while, in others, the term seems to refer to the objectives and scope document (terms of reference) for a specific audit.

In light of the 2008 Policy on Transfer Payments, this standard approach is non-compliant and likely not effective for a number of reasons. For example,

1. The auditor engaged by the recipient may lack sufficient independence from the recipient and may not appreciate the nature of contribution agreements.
2. The requirement for annual financial audits as a means to assess expenditure eligibility would appear to be redundant where Transport Canada is receiving and reviewing numerous claims, e.g. Hudson Bay Railway, Blue Water Bridge, particularly if accompanied by detailed supporting documentation. If Transport Canada is conducting a detailed review of claims, this would appear to provide a higher degree of assurance than might a financial audit with a limited sampling based on materiality and with limited information provided in the audit report on the number and value of transactions sampled. If financial audits have a role in the management control framework, it may be more productive to have them targeted at specific claims or projects where the project manager may have concerns.
3. Annual financial audits as a means to assess expenditure eligibility would also appear to be unnecessary for multi-year projects where one audit at the end of the project could suffice if Transport Canada has a reasonable expectation of recovering any overpayment from the recipient. They would also seem to be unnecessary where the audit effort may be duplicating coverage of other auditors, e.g. provincial Auditors General who may be expected to audit a provincial department of transport's financial schedule for a large project undertaken with a federal contribution.
4. The audit reports examined contained no audit findings of any significance. Generally, a risk-based approach to auditing would not result in continuing to audit the same thing (or recipient) year after year when nothing is being identified as an issue.

5. There is a specific field of audit practice referred to as construction audits² which neither the Program Group nor the Department appear to have considered as a suitable recipient audit variation under certain circumstances such as where there are serious concerns as to the quality, cost or timeliness of work being completed.

Although plans have recently been prepared to transition to risk-based management, the Program Group's Transition Plan appears to reflect an intention to continue to require the "annual financial audit of the contribution agreement". It is the audit team's opinion that recipients under existing agreements would likely accept Transport Canada waiving the audit requirement contained in the contribution agreement when GBCF program management determines that such an audit would be of limited use.

2.2. MEDIUM RISK AUDIT CRITERIA

2.2.1. CONTRIBUTION AGREEMENTS

Notwithstanding corporate and interdepartmental initiatives to standardize contribution agreements, there are opportunities for GBCF to introduce greater clarity and simplicity in their contribution agreements.

We expected to find that contribution agreements were meaningful, complete, succinct and consistent with program terms and conditions.

We found that contribution agreements frequently contained redundant, non-applicable, confusing and contradictory clauses.

We believe that some of these may be attributable to the complex nature of current templates but that, nevertheless, in the spirit of the Blue Ribbon panel on grants and contribution, efforts should continue to be made to simplify and clarify where possible.

While recognizing the pressures for consistency and protection of the Crown, inter-departmentally and departmentally, and the effort that has been invested in that direction over recent years, we believe that there are areas that GBCF could address with a view to simplification, for example:

- To avoid a risk that Transport Canada appears to be directing a project, the Agreement Management (or Monitoring) Committee clause could be clarified to indicate that the recipient will be required to participate in an agreement committee to share information on

². A construction audit might focus on issues such as: Did the project proceed according to plan? Have original and change order costs, reported by vendors been properly classified, accurately summarized, consistently treated, and directly attributable to a specific asset? Are cost overages reasonable, allowable, and allocatable under contract guidelines? Are all expenditures accounted for, and are all assets identifiable? Has financial mismanagement led to significant depletion of assets or other negative issues during the project? Did the project adhere to original design plans and contract requirements? Is the value of finished projects consistent with the overall costs incurred?

project progress, communications or whatever else is appropriate (work instruments referencing or supporting Agreement Management Committees should be correspondingly clarified and simplified)

- The contracting clauses could be simplified by determining, prior to preparing the contribution agreement, whether the recipient has acceptable policies. If the recipient does, the clause would require compliance with them. If the recipient does not, the clause would document Canada's specific expectations
- Certification or attestation templates could be simplified by partially completing them in the schedules so that they are as specific as possible to the project
- The Reporting, Audit and Evaluation schedule could be eliminated by defining briefly the terms in the definitions section, identifying beforehand (based on risk) mandatory reporting and audit requirements (with a right to adjust, if necessary) and placing them in the body, or alternatively establishing a simple, generic "right to audit" clause which would give Canada the right to access and audit anything to do with the project, e.g. activities, books, accounts, records
- For smaller, non-infrastructure projects, it should be possible to create a simpler contribution agreement.

The audit team recognizes that there are efforts currently underway to revise agreement templates and suggests that this affords a good opportunity to apply a clarity and simplicity lens.

2.2.2. WORK INSTRUMENTS

GBCF work instruments should be reviewed and revised to ensure that there is a common and commonly understood terminology for consistent and appropriate application of project management requirements and practices.

We expected to find that there would be in place a communicated set of policies, procedures, and defined roles and responsibilities to ensure the GBCF is applied consistently within approved terms and conditions and other relevant policy requirements.

We found that there are various work instruments such as:

- a set of GBCF Standard Operating Procedures covering the concept of contributions, roles and responsibilities, governance structures, calls for proposals, guides for applicants, receipt and review of proposals, and recommendations for funding, i.e. potential activities prior to entering into a contribution agreement;
- a Transportation Infrastructure Programs Project Management Guide (which is generic to a number of programs) for Project Managers and Officers covering the contribution programs context, the role of the project manager, project management principles, project assessment, project implementation and project close-out activities;
- a number of examples or templates, in use or recommended for use, which may be linked to the Standard Operating Procedures or the Project Management Guide; and
- generic corporate guidance and templates, e.g. Guide to Recipient Auditing, contribution agreement templates.

We found, however, that a number of the work instruments are outdated, unclear or incomplete. There are also inconsistencies between and within corporate guidance, transportation

infrastructure programs guidance, GBCF guidance, and actual practice, particularly as reflected in the contribution agreements examined.

We noted, for example, a lack of consistent application of terminology related to risk assessments, applicant guides and the funding application form, annual progress or final reports, management committee mandates and guidelines, evaluations or retrospective analyses, audits (as noted in the Recipient Auditing section) and in-kind contributions.

Potentially because of the inconsistent, dated and unclear guidance, we found a number of issues in contribution agreements such as:

- references to in-kind contributions where there are none,
- references to audit of in-kind contributions but the schedule in the contribution agreement upon which the audit would be conducted was blank,
- misrepresentation of the 15% limit on soft costs,
- specific audit clauses contradicting generic ones,
- references to a retrospective evaluation required if the contribution exceeds \$5 million (amount of funding should be known at the time of the contribution agreement),
- references to standard provisions being required in Design-Build Agreements which were then subject to a compliance audit and found not be in place but then deemed to be not applicable.

2.2.3. PERFORMANCE MEASUREMENT STRATEGY

The GBCF Program has not implemented the necessary linkages among project proposals, project assessments, contribution agreements and retrospective analyses (or final reports) to ensure that it is gathering information needed to support its Performance Measurement Strategy.

We expected to find that program activities and desired outcomes are clearly defined, measurable and attainable and that recipient activities are assessed to determine program results against objectives.

We found that the Performance Measurement Strategy contained unrealistic expectations in terms of what data could reasonably be collected through contribution agreements in terms of medium and long term outcomes. For example, anticipated benefits of an infrastructure project, such as increased usage or revenue generation, may not be able to be measured until several years after the completion of the project. The Performance Measurement Strategy had been updated in 2009 from one contained in the 2007 Results-Based Management and Accountability Framework following an evaluation implementation review. The review was conducted by Evaluation and Advisory Services as the result of a commitment made in the program's approval.

We also found that the linkages necessary to collect such measures were missing. Project proposals or business cases always contained some form of objective, e.g. to complete the study or the infrastructure, and they usually contained some expected outcomes. Non-infrastructure project proposals were required to include an Evaluation Plan. In reviewing proposals and preparing Project Assessment Reports or foundation documents, project managers would assess

the proposals or business cases against the program's objectives (i.e. a project might address some or all of the objectives) and would reiterate the outcomes the project expected to achieve if the objectives were met. The assessments or submissions did not reflect, however, any specific assessment against, or linkage to, the Program's Performance Measurement Strategy.

In the projects sampled, there was a wide variety in the contribution agreements in terms of the quality of the statements of project objectives and outcomes (e.g. an objective only, a list of activities only, a list of milestones only, an objective and some outcomes). Contribution agreements regularly require retrospective analyses or evaluations or final reports (or even annual or progress reports) as a means to account for medium or long term results achieved. None of the contribution agreements, however, referenced the project proposal as constituting a part of the agreement as a means to require accounting for project results against original intended outcomes. As a result, there is no means to hold the recipient accountable for reporting against specific expected outcomes since, as the Transportation Infrastructure Programs Project Management Guide states (page 72, Section 17), "No prior document, announcement information or representation has legal effect unless incorporated by reference in the contribution agreement."

These requirements for reports, and a recent generic contribution agreement clause stating that the recipient may be requested to provide information in support of an evaluation well into the future, likely resulted from the implementation review referenced above. The utility of the generic clause added to agreements to extend the timeframe for requesting data will depend entirely, however, on the recipient's willingness or capacity to provide the information.

We also found that the expected timing for reports on outcomes was often unrealistic, for example, during annual or progress reports or immediately after project completion.

The lack of direct linkage to project specific objectives and outcomes results in ineffective collection of required (or available) performance information and in inefficiency as recipients who are unsure of what is expected will tend to either overlook relevant information or overload with irrelevant or unnecessary information.

As an example, Retrospective Evaluation Templates, prepared for specific components of the Program require the recipient to provide:

- basic background information on the project (which should already be available to Transport Canada through the project proposal or regular reporting, e.g. Agreement Management Committees, final reports, annual reports);
- an overview of how the Project met the GBCF investment criteria (presumably addressed in the project assessment);
- demonstration of how the Project advanced the development of the gateways, trade corridors and border crossings by meeting the GBCF objectives (presumably addressed in the project assessment);
- demonstration of how the Project provides benefits to Canadians in support of one or more of the following outcomes (presumably addressed in the project assessment); and
- project and program feedback and lessons learned (appears to be a client survey).

It would be more efficient if the requirement for retrospective evaluation type reporting were customized specifically to each project and the basis upon which it was approved. For example, the contribution agreement should include the expected outcomes or results of the project stated in the original proposal which specifically feed the Performance Measurement Strategy. It may also be more practical if the measurement of results through contribution agreements focused primarily on the completion of the infrastructure project, rather than longer term outcomes.

In reviewing the Performance Measurement Strategy, we noted that there were a number of other sources, apart from contribution agreements, identified for obtaining information in support of evaluating the program's effectiveness. Given these other sources, it may be appropriate to consider whether it is necessary to rely on contribution agreements to such an extent as is currently apparent, or at all, for the collection of performance information.

3. CONCLUSIONS

The audit found that overall, the Management Control Framework for the GBCF is both effective and efficient. The audit did identify, however, some practices which are of limited effectiveness and several opportunities to improve efficiency.

The Policy and Programs Groups responsible for GBCF delivery are aware of the requirement for a more risk-based approach to recipient reporting, project monitoring, and auditing that stems from the 2008 Policy and Directive on Transfer Payments. They have indicated their desire and commitment to move from a prescriptive one-size fits all approach to the monitoring of infrastructure projects to a more risk-based approach.

While the Policy and Programs Groups have limited capacity in many instances to modify existing contribution agreements, they should be able to reflect a more risk-based approach in some circumstances by not enforcing existing requirements, e.g. mandatory annual financial audits, and by looking for opportunities to incorporate new practices in either GBCF or future contribution programs.

Overall, the audit results afford an opportunity for the Groups to re-evaluate the risks that Transport Canada can be reasonably expected to mitigate and to assess the effectiveness of the current components of the Management Control Framework in being able to mitigate those risks. A refocused Management Control Framework should be able to demonstrate that components are applied differently depending on the assessed risk level of a project

4. RECOMMENDATIONS AND MRAP

It is recommended that the ADMs Programs and Policy:

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
1	<p>Review the various monitoring activities in the current management control framework to ensure they all efficiently address those risks that Transport Canada can realistically mitigate.</p> <p>Develop a risk mitigation model that will ensure different levels of monitoring activities are applied to projects with different levels of assessed project/recipient risks.</p>	<p>In consultation with other groups such as program management and Internal Audit, Transport Canada's Centre of Expertise on Transfer Payments will review the various monitoring activities in the current management control framework to determine whether the risks and risk factors that our tools currently focus on are appropriate. Once those risks have been confirmed, mitigating activities will be reviewed to ensure that the level of monitoring is scaled appropriately and that any overlap is avoided or minimized for any combination of mitigating activity used.</p> <p>Concurrently, for future programs, Transport Canada and Infrastructure Canada will work together towards the implementation of best practices that responds effectively to the risks specific to the program, the value of funding and the risk profile of the recipient. This will build on the existing PORT approach used by INFC and TC in respect of similar transfer payment</p>	March 31, 2014	<p>Transport Canada's Centre of Expertise on Transfer Payments</p> <p>Transportation Infrastructure Programs together with Transport Canada's Centre of Expertise on Transfer Payments.</p>

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
		<p>programs such as CSIF and BIF, which has been strongly endorsed in audits of Infrastructure Canada programming.</p>		
2	<p>Implement a Treasury Board Transfer Payment Directive compliant, risk-based approach to recipient auditing to determine which recipients will be subject to which type of audit and at which point(s) in time during the project's lifecycle.</p>	<p>Transport Canada will review the transition plan developed for GBCF to consider the findings of this audit and adjust the current reporting and audit mechanisms to implement a risk based approach to recipient audits.</p> <p>TC and Infrastructure Canada, will work together towards the implementation of best practices for a common, risk-based approach to recipient audits which includes policy guidance and tools, to assist in the planning and decision-making for recipient audits for infrastructure programs. Pilot recipient audits, currently underway, will inform the approach. Appropriate internal stakeholders, including the internal audit function, will be consulted to ensure the approach is relevant, compliant and considers the expertise of these functional areas.</p> <p>GBCF has no dedicated resources for conducting contracted recipient audits. Future programs will include financial requirements for</p>	December 31, 2013	Transportation Infrastructure Programs in conjunction with the Centre of Expertise on Transfer Payments.

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
		contracted recipient audits to ensure they can be carried out by the responsible program management, based on risk.		
3	Ensure that there is a clear understanding of and delineation of responsibilities of the Agreement Management Committee (AMC) versus the recipient versus Transport Canada.	<p>Transport Canada has revised and clarified the role of the AMC. The revised Agreement <u>Monitoring</u> Committee in the new departmental contribution agreement templates is a tool to monitor the administration of the agreement. New agreements will be modified to reflect the new clarified role as agreements are executed.</p> <p>Future programs will reflect a clear understanding and delineation of AMC responsibilities between the department and the recipient.</p>	December 31, 2013	Transport Canada's Centre of Expertise on Transfer Payments in collaboration with Legal services and Programs Group.
4	Identify opportunities to simplify and clarify contribution agreements.	<p>Transport Canada has developed a new departmental contribution agreement template that allows the department to simplify and streamline agreements based on risk.</p> <p>The GBCF template will be modified, where program terms and conditions allow, to adopt the streamlined, risk based approach developed for non-major infrastructure projects. The modified GBCF template will be used to manage funding for new projects and will also be</p>	March 31, 2014	Transport Canada's Centre of Expertise on Transfer Payments in collaboration with Legal services, Programs Group and Policy

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
		<p>considered for future infrastructure programs.</p> <p>Transport Canada is also leading an interdepartmental pilot initiative to develop a common, streamlined contribution agreement for funding for provincial/territorial projects. Should this agreement be approved it will be used for all future transfer payment programs.</p>		<p>Group.</p> <p>Transport Canada's Centre of Expertise on Transfer Payments in collaboration with Legal services, Programs Group and Policy Group.</p>
5	<p>Ensure that work instruments intended for GBCF application (e.g. GBCF Standard Operating Procedures, Project Management Guide, templates) are effective, relevant and current.</p>	<p>Transport Canada will update the essential work instruments intended for GBCF application to ensure they are effective, relevant, and current in order to comply with current TB Policy and Directive on Transfer Payments and to be consistent with departmental standards for infrastructure programs.</p>	December 31, 2013	<p>Transport Canada Programs Group and Policy Group.</p>
6	<p>Review the GBCF Performance Measurement Strategy to determine whether attempting to collect medium and longer term data through contribution agreements is cost effective.</p> <p>Ensure that requirements for retrospective analyses (and other performance type reports) in contribution agreements efficiently obtain the information by having a specific linkage to the project proposal, the project assessment and</p>	<p>Transport Canada will review the GBCF Performance Measurement Strategy and take into consideration the recommendations that may result from the program evaluation for the GBCF currently underway.</p> <p>For future infrastructure programs, TC and Infrastructure Canada will work together to implement best practises to performance measurement, including a</p>	March 31, 2014	<p>Transport Canada Programs Group and Policy Group</p>

#	Recommendation	Detailed Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
	the contribution agreement	review of performance reporting requirements in funding agreements that consider whether collection of project-specific retrospective analysis information is appropriate, sufficient and effective in supporting program evaluation.		