

Chapter 7

The Atlantic Groundfish Strategy

Contributions and Grants

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The Atlantic Groundfish Strategy

Contributions and Grants

Main Points

- 7.1** We have little assurance that all contributions under The Atlantic Groundfish Strategy (TAGS) were used for their intended purposes. These were part of TAGS active labour adjustment measures managed by Human Resources Development Canada (HRDC).
- 7.2** Most of the deficiencies noted in the audit relate to a lack of diligence in assessing project proposals and signing contribution agreements, as well as lack of monitoring by the Department.
- 7.3** Many of the files contained no project proposals; in others, proposals were not sufficiently developed to allow proper assessment. Some agreements lacked complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. There was little evidence of on-site monitoring visits to examine expense records.

Background and other observations

- 7.4** The Atlantic Groundfish Strategy, in effect from 16 May 1994 to 29 August 1998, comprised measures to assist those affected by the groundfish moratorium. About \$150 million of the \$1.9 billion allocated to TAGS was spent on active labour adjustment measures such as training, mobility assistance, wage subsidies and employment bonuses.
- 7.5** Those expenditures were not covered in our audit of The Atlantic Groundfish Strategy, reported in Chapter 16 of our October 1997 Report. Following the publication of that Report, the House of Commons Standing Committee on Fisheries and Oceans requested that we audit the expenditures.
- 7.6** Our Office and the Internal Audit Bureau (IAB) of Human Resources Development Canada agreed that IAB would audit the grants and contributions made under TAGS. We closely monitored and reviewed that audit so we could rely on the findings for this chapter.
- 7.7** TAGS had increased the caseload of officers by some 40,000 participants over a short period of time. This created pressure to identify, approve and contract for an unprecedented number of projects.
- 7.8** Several contributions went to projects that were not clearly related to TAGS. More than half of the agreements were signed after projects had begun. Expenditures were reimbursed without supporting documentation for the claims. For more than half of the projects reviewed, there was no evidence that the files had been closed, although most of those projects had been completed more than two years earlier.

Overall, Human Resources Development Canada agrees with the findings of the audit and recognizes that a number of important points and concerns are raised in the chapter. Actions undertaken to address the issues include the development of new policies and procedures, training for managers and staff and, in new initiatives, securing resources to ensure sufficient monitoring.

Introduction

7.9 The Atlantic Groundfish Strategy (TAGS) came into effect on 16 May 1994 (terminated on 29 August 1998), with the objective of restructuring the fishing industry in Atlantic Canada to make it economically viable and environmentally sustainable. This strategy comprised measures to assist individuals and communities affected by the groundfish moratorium. It applied to fishing areas in five provinces: Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and Quebec.

7.10 Human Resources Development Canada (HRDC) was responsible for the labour adjustment component of TAGS, a series of active measures aimed at adjusting affected workers out of the fishery and enhancing the profession of those fishers who remained active in the fishing industry. Exhibit 7.1 outlines these measures and indicates the amount of expenditures spent on each of them.

7.11 A key objective of the government was to ensure that the communities affected by the groundfish moratorium had sufficient funds to maintain essential economic and social activities. To that end, Human Resources Development Canada gave priority to income support for affected workers. To be eligible for income support, fishers and plant workers had to agree to participate in the active labour adjustment measures.

7.12 As TAGS evolved and participation proved higher than had been forecast, funds designated for the active labour adjustment measures had to be transferred twice to income support (in January 1995 and July 1996). As a result, the requirement to participate in these measures was gradually abandoned. The last projects under TAGS were approved more than two years ago.

7.13 TAGS increased the caseload of officers by some 40,000 participants over a short period of time. This created

pressure to identify, approve and contract for an unprecedented number of projects.

7.14 Moreover, given the lack of time available to plan and design the labour adjustment measures, HRDC developed some new options but mostly used those existing under another of its programs at the time, the Canadian Jobs Strategy, with little adaptation to reflect TAGS objectives. Furthermore, policies were introduced and changed as TAGS evolved, and so local managers had to be flexible and adapt accordingly. While implementing TAGS, the Department was also modifying its programs and reducing its work force.

7.15 Aspects of the labour adjustment component were discussed in our October

Exhibit 7.1

Active Labour Adjustment Measures

May 1994 to September 1998

Measures	Expenditures (\$ millions)
	Contributions
Mobility Assistance	2.2
Employment Assistance	15.7
Delivery Assistance	8.4
Self-Employment Assistance	0.4
Job Development	0.2
Training:	90.4
• Canada Employment Centre Purchases	
• Project-based Training	
• Workplace-based Training	
• Co-ordinating Groups	
• "Green Projects" – Training	
Job Opportunities	4.4
Community Opportunities Pool	1.3
"Green" Projects – Regular	20.3
Portable Wage Subsidies	2.6
	Grants
University Tuition	1.0
Employment Bonus	1.9
Total	148.8

Source: Internal Audit Bureau, Human Resources Development Canada

1997 Report Chapter 16 on TAGS. Following the tabling of our Report, the House of Commons Standing Committee on Fisheries and Oceans passed a motion requesting that our Office audit the expenditures made under the grants and contributions administered by HRDC for the active labour adjustment measures. A copy of the Committee's request is presented as an Appendix to this chapter (page 7–14). These expenditures represent about \$150 million of the \$1.9 billion allocated to TAGS.

Focus of the audit

7.16 Our objective was to respond to the request of the Standing Committee on Fisheries and Oceans and to provide assurance that projects funded under the active labour adjustment measures had met TAGS criteria; that they had been properly managed, controlled and monitored; and that the grants and contributions had been used for their intended purposes. Exhibit 7.2 provides a brief definition of grants and contributions.

Exhibit 7.2

Grants and Contributions – Definition

Transfer Payments

Grants and contributions are part of the category of expenditures known as transfer payments. These are transfers of money from the federal government to individuals and to organizations of various types, including businesses and other levels of government.

Grants

Grants are unconditional transfer payments for which eligibility and entitlement may be verified. If an individual or organization is eligible for a grant, the appropriate payment can be made without requiring the recipient to meet any future conditions.

Contributions

The payment of a contribution is subject to performance conditions that are specified in a contribution agreement. The recipient must continue to show that these conditions are being met in order to be reimbursed for specific costs over the life of the agreement. The government can also audit the recipient's use of the contribution, whereas this is usually not a requirement for a grant.

Source: Policy on Transfer Payments, Treasury Board of Canada Secretariat

7.17 The Internal Audit Bureau (IAB) of Human Resources Development Canada had already planned an audit of grants and contributions provided by the Department. We agreed with IAB that it would conduct the audit, and that we would monitor and review its work to assess its relevance to our objectives and to determine whether the supporting evidence was appropriate for our purposes.

7.18 Further details on our audit can be found at the end of the chapter, in **About the Audit**.

Observations

7.19 From our review of IAB's audit, we determined that the work was done well and that it followed professional standards. The audit results are presented in a report entitled "Audit of TAGS Grants and Contributions". At this writing, the final report had been submitted to HRDC management for approval.

7.20 The IAB audit team reviewed 193 project files, including 167 contribution agreements and 26 grants. It also met, where possible, with sponsors and with employees at Human Resource Centres of Canada. Four general criteria were used:

- The contracting process should comply with Treasury Board and HRDC standards for grants and contribution agreements.
- Projects should be managed effectively and be monitored operationally and financially.
- Sponsors should comply with the terms and conditions of their agreements.
- Grants and contributions should be paid only to entitled individuals or organizations, and contributions should be used solely for their intended purposes.

7.21 The audit identified important issues regarding the management of the

TAGS grants and contributions in this sample. The overall impact of the active measures on the fishers and plant workers of the affected regions was not considered in this audit. This has been addressed through program evaluation studies on TAGS. Exhibit 7.3 and the following observations present the main results of the IAB audit.

Weak Management, Control and Monitoring of TAGS Contribution Agreements

Proposals were not fully analyzed

7.22 One third of the files examined contained no proposal to support the project. Of the 111 files that did contain a proposal, 33 percent did not meet the criteria for the labour adjustment measure under which they had been approved. In most files, it was impossible to determine how the selection criteria had been applied. As a rule, there was nothing in the file to indicate why a project had been recommended or selected.

7.23 Few files contained enough information for the audit to verify whether the project sponsor had been entitled to the contribution under the measure for which the proposal had been submitted. Moreover, there was no indication that sponsors had been checked to see if they had any outstanding debt to the Crown, or were already receiving funds for similar activities.

Many projects were not clearly linked to TAGS

7.24 Many agreements did not state clear objectives for the project, and did not identify results that were measurable. In many cases, there was no clear indication that the project targeted TAGS participants, and several proposals did not state objectives related to TAGS.

7.25 Certain projects, particularly where courses were purchased, included TAGS and non-TAGS participants but

expenditures for both groups were funded through TAGS alone, instead of under the proper funding authorities in proportion to TAGS and non-TAGS participants.

Contribution agreements were undermanaged

7.26 In general, pro forma agreements were used that had been developed for the

Exhibit 7.3

Audit of TAGS Grants and Contributions
Sample Results

Contributions	Non-compliance (percentage of files)
Proposals	
Proposal on file	34
Linkages with TAGS	23
Compliance with eligibility criteria	33
Inclusion of estimates	42
Verification of debts owing to HRDC	80
Verification of other contracts with federal agencies	84
Supporting documentation for selection	83
Agreements	
Signature prior to effective date	53
Clear project objectives	26
Participant eligibility criteria clearly defined	43
Establishment of progress measurements	66
Amendments explained	43
Monitoring of agreements	
Review by supervisor	47
On-site monitoring of financial activities	76
• Remedial action taken	19
On-site monitoring of operational activities	74
• Remedial action taken	10
Off-site monitoring	51
• Remedial action taken	15
File closed	52
Payments	
Claims documented	34
Errors corrected	12
Payment according to terms and conditions	21
Payment within allowable limits	12
Grants	
Payment according to eligibility criteria	15

Source: Internal Audit Bureau, Human Resources Development Canada

In most files, it was impossible to determine how the selection criteria had been applied.

Canadian Jobs Strategy, and so the stated purpose of the agreement reflected that program and not The Atlantic Groundfish Strategy. None of these agreement forms were modified to reflect TAGS objectives.

7.27 In some cases, funds provided for a project were attributed to a measure other than the one under which the agreement had been signed. These changes were reflected on a schedule to the agreement that identified the project's eligible costs, but with no explanations for the change. Moreover, the changes were not made in the body of the agreement that spells out for the sponsor the terms and conditions that apply. There were unexplained differences between agreements, particularly in their clauses on objectives, sponsor/co-ordinator/ employer eligibility, costs, eligibility of participants, recruitment of participants, training, payments, GST and disposition of assets.

7.28 Terms and conditions of one measure were sometimes confused with those of another and applied under the wrong agreement. For example, agreements under the Delivery Assistance measure were used to contract for counselling services in remote areas, but the correct measure for those services was Employment Assistance. The Portable Wage Subsidies and Job Opportunities measures were similarly confused.

7.29 Whether it was a case of attributing the funds to the wrong measure or of using the wrong measure, the result was that the wrong terms and conditions were communicated to the project sponsor. This makes it difficult to determine under what criteria the projects were approved, managed, controlled and monitored. It also puts into question the reliability of reports on the funds used for each measure.

7.30 More than half of the agreements were signed after the project started. In one case, the project officer issued a

“prior commitment letter” to the sponsor before the agreement was approved, allowing the project to proceed without a formal agreement. In another case, an agreement for \$141,200 was signed after the project had been completed and the claim for reimbursement received. In addition, payments of over \$50,000 were made to a few projects with no signed agreement.

7.31 The auditors could not verify the authenticity of some signatures in all HRDC regions. Moreover, few files contained evidence that the sponsor signatories were signing officers with their respective organizations.

7.32 A project established at \$463,000 was split into four separate projects so that the local manager could sign the agreements. This practice does not comply with the delegation of authority.

7.33 Few projects were subject to on-site operational or financial monitoring and only about half the files showed evidence of any off-site monitoring (phone calls, memos and so on). In particular, one company received in excess of \$500,000 over the life of a project, went into receivership and was closed down before the project was completed. There was no evidence that the project had been monitored. Indications of problems existed early in the life of the project, and monitoring could have prevented the loss of more than \$100,000 that had been advanced to the sponsor but was not accounted for.

7.34 Some recipients of Self-Employment Assistance continued to receive payments for several months after their businesses had closed down. In another case, an employer under a Portable Wage Subsidy agreement continued receiving payments after the employee for whom the contribution was intended had become a partner in the company.

7.35 In most cases, expenditures were reimbursed although the claims had been

submitted without supporting documentation. In some cases, errors in claims went undetected and so payments were made for expenses that were not covered by the agreement.

7.36 Although most of the audited projects had been completed for almost two years, nearly half the files showed no evidence of the required close-out procedures. This made it impossible to determine, among other things, if the sponsor had accounted for all advances received, if overpayments had been made and had been recovered, if assets had been disposed of as directed, and if the project had achieved the expected results.

7.37 In summary, the review of the files found serious weaknesses in the management, monitoring and control of contribution agreements. Proposals did not exist or were not sufficiently developed to allow proper evaluation. Some agreements did not contain complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. Expense claims were not supported by documentation, and there was very little evidence of on-site monitoring visits to examine expense records. Objectives and expected results of projects were generally not clear. In general, the outcome of projects was not documented or known.

Grant Payments Generally Complied

Applicable policies and procedures were followed

7.38 Only two of the labour adjustment measures used grants, University Tuition and Employment Bonus. The audit found that in two cases the Employment Bonus was paid prior to the completion of the 52-week employment period. The employment counsellor was responsible for determining the eligibility of a participant and the amount of the bonus to be paid.

In most cases, there was a request from the employment counsellor to the project officer to initiate payment of the grant and some files contained letters of understanding that detailed the eligibility criteria for the bonus. Few files, however, contained the participant's information form and showed how the bonus was calculated.

Conclusion and Recommendation

7.39 We concur with the Internal Audit Bureau (IAB) that it is not possible to certify that most of the audited projects funded under various active labour adjustment measures met TAGS criteria; that they were properly managed, controlled and monitored; and that the grants and contributions were used for their intended purposes.

7.40 We are concerned about the findings of this audit. They clearly indicate a lack of diligence in assessing proposals and signing agreements, and a lack of monitoring.

7.41 These weaknesses could be a reflection of the circumstances that prevailed when TAGS was implemented, but that does not explain them away. We believe that the observations made in this chapter could apply to other situations. We note, however, that IAB is continuing its audit of active grants and contributions and has recommended that lessons learned from this audit be used to strengthen the management of grants and contributions in general.

7.42 Labour adjustment measures have been substantially modified. Several of the measures reviewed in the audit still exist and are applied in a context where greater authority has been delegated downward in the Department, when not wholly vested in the provinces. Although TAGS has now been terminated, the possibility remains that new partnerships may be entered into with the same sponsors.

Few projects were subject to on-site operational or financial monitoring.

We are concerned about the findings of the audit conducted by the Internal Audit Bureau.

7.43 Under the current labour adjustment programs, Human Resources Development Canada should ensure that:

- **contribution proposals are properly developed and are reviewed carefully;**
- **analyses and the reasons for decisions are clearly documented; and**
- **contribution agreements are adequately monitored.**

Department's response: Human Resources Development Canada has reviewed the chapter produced by the Office of the Auditor General. Overall, HRDC agrees with the findings; however, the urgency of addressing, with constrained resources, the immediate needs of the 40,000 TAGS clients in the early stages of the implementation cannot be understated.

Where practical, HRDC will address cases referred to in the internal audit report that require further action.

HRDC recognizes that the chapter raises a number of important points and concerns related to the managing, controlling and monitoring of TAGS grants and contribution agreements. As a result, the positive and valuable lessons learned from this audit are serving as a basis to assist HRDC to better manage, control and monitor grants and contribution agreements in other programs. In fact, HRDC has taken action: to develop new policies and procedures, to provide training for managers and staff, and to secure resources in new initiatives to ensure sufficient monitoring. Some of these actions are reflected in Chapter 8 of this Report, The Atlantic Groundfish Strategy: Follow-up.



About the Audit

Objective

The objective of the audit was to respond to a request made by the House of Commons Standing Committee on Fisheries and Oceans and to provide assurance that projects funded under TAGS active labour adjustment measures had met TAGS criteria; that they had been properly managed, controlled and monitored; and that the grants and contributions had been used for their intended purposes.

Approach

The Internal Audit Bureau (IAB) of Human Resources Development Canada had planned an audit of grants and contributions provided by the Department. We agreed with the IAB that it would conduct the audit, and we would monitor and review its work to assess its relevance to our objectives and to determine whether the supporting evidence was appropriate for our purposes.

We expected:

- that the internal audit work would be planned and conducted in accordance with generally accepted auditing standards;
- that audit reports would properly outline findings, be discussed with management, and be submitted to the Deputy Minister or the Audit Committee in a timely manner.

The criteria used for the audit by IAB are set out in paragraph 7.20 of the chapter.

Scope

Our audit of grants and contributions involved reviewing the work done by the IAB as it evolved. We conducted additional reviews where necessary.

Audit Team

Assistant Auditor General: David Rattray
Principal: Louis Lalonde
Director: Sylvie Paré

For information, please contact Louis Lalonde.

October 23, 1997
OTTAWA

Mr. L. Denis Desautels, FCA.,
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Dear Mr. Desautels:

During your testimony before the Committee on October 21, 1997, you advised us that you have the mandate and the ability to conduct a further, or more in-depth audit, to determine “where the money went” in regard to the list of TAGS-funded items provided by “The Help Group”:

Please accept this letter as an official request on behalf of the Steering Committee of Fisheries and Oceans to have said audit conducted at your earliest possible convenience.

I would appreciate hearing back from you as soon as possible as to what sort of a time frame this audit will involve so that I may report back to the Steering Committee.

Yours truly,

George Baker, M.P.,
Chairman,
Fisheries and Oceans Committee

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