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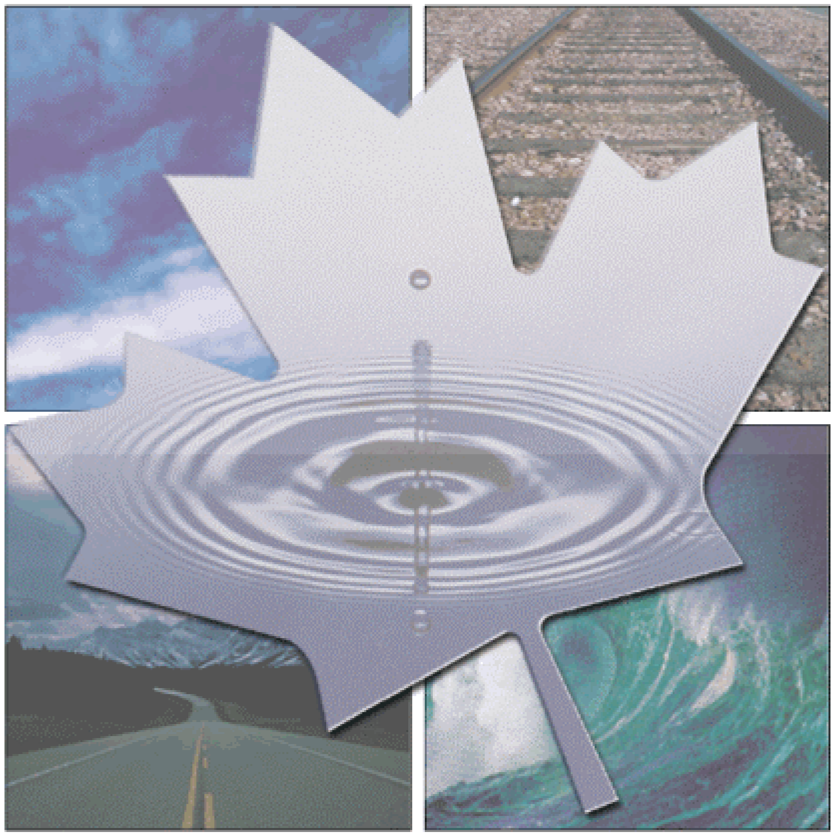

Audit of the National Safety Code Contribution Program

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1. EXECUTIVE SUMMARY

Transport Canada's Contribution Program in support of the National Safety Code (NSC) for Motor Carriers provided funds to the provincial/territorial jurisdictions for the implementation of the NSC. The term of the NSC Contribution Program (the Program) was for four years from April 1, 2000 to March 31, 2004. The total cost of the Program was approximately $17.8M.

This Program allowed the Federal Government to achieve its objectives for the NSC in a cost effective manner. Based on our discussions with Program Management, it is generally accepted that the federal contribution usually amounted to less than 10% of the total provincial effort. Therefore, if the provinces/territories did not participate in the Program, the cost to the Federal Government to achieve the objectives of the NSC would likely have been considerably more.

The objectives of this audit were to ensure due diligence and sound management of, control over, and accountability of Transport Canada’s National Safety Code Contribution Program. As required by Treasury Board’s Policy on Transfer Payments, program managers are responsible for ensuring an adequate control framework is in place to ensure compliance with terms and conditions of contribution agreements. This audit was performed to provide assurance to Senior Management at Transport Canada of due diligence in the management of this Program.

The scope of the audit was limited to the funding provided to the provinces/territories for the years ended March 31, 2002 and March 31, 2003. The audit work was performed during March and April 2004.

Results

We found that Program Management met three of the seven audit criteria established for this Internal Audit being:

- Formal on-going risk assessment;
- Effective systems providing information for decision-making; and
- Adequate financial, human and material resources.

However, there are areas for improvement to the management of the Program against four of the audit criteria established for this Internal Audit being:

- Program objectives being met and accuracy of information on results achieved;
- Effectiveness of planning and decision-making processes;

- The terms and conditions of the contribution agreements were in line with Treasury Board's Policy on Transfer Payments and the recipients complied with the terms and conditions; and
- Internal controls.

Renewal of this Program is planned for next year and the recommendations should be incorporated into future practices under the renewed Program.

Management Response

Program management has reviewed the audit report and largely agrees with the recommendations. The management action plan in response to specific recommendations is incorporated into this document.

Audit and Review Committee Decision (to be completed after ARC meeting)

The audit report and the management action plan (MAP) were presented to the Audit and Review Committee on January 12th, 2005. The Committee approved the audit and the MAP as presented.

2. INTRODUCTION

The Treasury Board Secretariat issued a revised Policy on Transfer Payments in June 2000. The release of the revised policy coincided with the tabling of Treasury Board's management framework, *Results for Canadians*. One of the key principles of this framework is responsible spending: ensuring that Canadians are getting value for their tax dollars. This revised policy supports this principle by further stipulating departmental responsibilities and accountabilities with respect to transfer payments. One requirement of the policy states that departments must develop a risk-based audit framework for the audit of contributions. Furthermore, departmental internal audit plans must include the provision for the review of internal management policies, practices and controls of transfer payments.

2.1 PURPOSE OF THE AUDIT

The purpose of this audit was to provide assurance to Senior Management at Transport Canada (TC) of due diligence in the management of the National Safety Code (NSC) Program (the Program). In order to ensure the effectiveness of NSC contribution Program Management and due diligence in the use of funds by the provincial/territorial recipients, an audit of this area was proposed in Audit & Advisory Services' Annual Audit Plan for Fiscal Year 2003/04. Ernst and Young LLP were contracted by Audit & Advisory Services to conduct this audit.

2.2 BACKGROUND OF THE NATIONAL SAFETY CODE

The NSC is a comprehensive code of minimum performance standards for commercial vehicle operations, with the objective of encouraging truck and bus safety, promoting efficiency in the motor carrier industry, and ensuring the implementation of consistent safety standards across Canada. The NSC was originally developed in 1987 in response to the impending economic deregulation of the trucking industry. Since that time, the standards have evolved, in order to enhance their effectiveness and to respond to new regulatory issues.

The NSC standards have been, and continue to be, developed by the Canadian Council of Motor Transport Administrators (CCMTA), through committees of federal, provincial, and territorial governments, industry and public interest representatives. Transport Canada, the provinces and territories are equal members of CCMTA. Almost all standards have been implemented through the enactment of regulatory legislation in the provinces and territories.

Motor carrier safety in Canada is a joint responsibility between the Federal Government and the provinces/territories. The Federal Government has responsibility for extra-provincial truck and bus travel, which has largely been delegated to the provinces/territories under the Motor Vehicle Transport Act (MVTA), while the provinces/territories have sole responsibility for local truck and bus travel.

Since 1987, TC has provided $71.0 million in funding to support the provincial/territorial jurisdictions in the implementation of the NSC. The most recent agreement, which terminated on March 31, 2004, provided $17.77 million in funding over the four-year period from 2000/01 to 2003/04 ($4.44 million per year).

As indicated in the Treasury Board submission for this Program, the complex nature of the motor carrier safety regime within the jurisdictions makes the determination of the source and amount of provincial/territorial funding difficult. This is due to the fact that the spending by the provinces/territories can come from a variety of programs and spending is not always identified as related to the motor carrier safety regime.

This Program allows the Federal Government to achieve its objectives for the NSC in a cost effective manner. Based on our discussions with Program Management, it is generally accepted that the federal contribution usually amounts to less than 10% of the total provincial effort. In exchange for the federal contribution, the provinces/territories provide data to monitor activities related to extra-provincial motor carriers. The contribution also demonstrates the federal support for the consistent application of safety standards with respect to extra-provincial carriers. Without the participation of the provinces/territories, the cost to the Federal Government to achieve these results would likely be considerably more.

OBJECTIVES OF THE NATIONAL SAFETY CODE

The objectives of the National Safety Code are as follows:

- To establish uniform safety regulations and enforcement across Canada;
- To improve commercial vehicle and driver safety on Canadian cross-border highways; and
- To ensure that, subsequent to economic deregulation in the 1980s, there is no compromise in the level of truck and bus safety.

2.3 OBJECTIVES AND SCOPE OF THE INTERNAL AUDIT

The objectives of this audit were to ensure due diligence and sound management of, control over, and accountability of the National Safety Code Contribution Program.

The audit scope was limited to the most recent contribution of $17.8 million. The scope of the audit was limited to the funding provided to the provinces/territories for the years ended March 31, 2002 and March 31, 2003. The contribution agreement was signed after the fiscal year ended on March 31, 2001; therefore, the 2000/01 year was considered a zero-dollar year. The funding was allocated equally over the remaining three years of the term of the agreement.

The audit procedures were performed during the period of March and April 2004.

2.4 AUDIT CRITERIA

The following criteria were assessed during the audit:

1. Program Management was satisfied that Program objectives were being met and that information on results achieved was accurate.
2. The terms and conditions of the contribution agreements were in line with Treasury Board's Policy on Transfer Payments and the recipients complied with the terms and conditions.
3. An effective control framework was in place and was being applied by Program Management to monitor contribution agreements and to ensure the following items:
    - 3.1 Overall planning and decision-making processes were effective;
    - 3.2 Adequate internal controls were in place;
    - 3.3 Formal on-going risk assessment of the Program and the recipient were performed to determine monitoring required; and
    - 3.4 Systems provided Senior Management with timely, accurate and useful information for decision-making.
4. Program Management had adequate financial, human and material resources to ensure the Program met its objectives.

2.5 METHODOLOGY

The methodology used to conduct this audit included the following items:

- File documentation reviews were conducted for Ontario, British Columbia, Nova Scotia, and Yukon to determine, on a sample basis, whether the jurisdictions satisfied the terms and conditions as stated in the contribution agreements;
- Project files were reviewed for evidence that due diligence was exercised throughout the planning, monitoring and reporting phases of each contribution agreement's life cycle; and
- Interviews were conducted with functional and program managers to determine operational processes and best practices.

2.6 STRUCTURE OF THE REPORT

The remainder of this report is structured as follows:

Section 3 describes the findings, recommendations and management action plans resulting from the audit. This section is broken down into subsections as follows:

3.1 Program Management Was Satisfied That Program Objectives Were Being Met

3.2 Terms And Conditions Of Contribution Agreements Complied With Treasury Board Policy On Transfer Payments

3.3 Control Framework

3.4 Program Management Had Adequate Resources

3. FINDINGS, RECOMMENDATIONS, AND MANAGEMENT ACTION PLAN

3.1 PROGRAM MANAGEMENT WAS SATISFIED THAT PROGRAM OBJECTIVES WERE BEING MET

The Program's objectives were built into the terms and conditions of the contribution agreements, which required the provinces/territories to meet performance criteria to be eligible for funding. For example, the contribution agreements required the provinces/territories to comply with four standards of the NSC. In addition, the provinces/territories must provide Transport Canada with performance data to be eligible for full funding. Program Management evaluated the reported results to ensure that the Program objectives were being met.

The following issue should be considered in the renewal of the Program.

Compliance with NSC Standards

The contribution agreements stated that the provinces/territories must comply with NSC Standards 7, 12,14, and 15. Program Management commissioned a program evaluation, which was performed by Goss Gilroy Inc. in October 2003. The evaluation found that not all provinces/territories were complying with all requirements of these standards.

Recommendation(s)	Management Action Plan with Expected Completion Date
Program Management should consider whether failure of the provinces/territories to comply with all aspects of the NSC standards should impact funding provisions. Specific penalties and a funding formula should be defined within the renewed contribution agreements.	Provisions will be incorporated, on an annual basis, into the renewed agreements that require the provinces/territories to implement specific program elements contained within specified NSC standards. Penalties for non-compliance are also contained in the agreements. The department is proceeding through the approval process in December 2004/January 2005.

3.2 TERMS AND CONDITIONS OF CONTRIBUTION AGREEMENTS COMPLIED WITH TREASURY BOARD POLICY ON TRANSFER PAYMENTS

Requirements of Treasury Board's Policy on Transfer Payments include ensuring sound management of the Program. All of the applicable policy requirements have been addressed by the other audit criteria used in conducting this audit.

We did identify some areas where improvements could be made to the management of the Program. These areas have been discussed in the recommendations in the other sections of this report.

3.3 CONTROL FRAMEWORK

3.3.1 PLANNING AND DECISION-MAKING PROCESS

As part of the process for receiving Program approval from Treasury Board, a Results-Based Management and Accountability Framework (RMAF) was developed that summarized the objectives, desired results, measures and evaluation criteria. This established the Program objectives and linked them with departmental priorities.

The objectives were communicated to the provinces/territories through the terms and conditions in the contribution agreements.

The Program goals and objectives described the expected results in measurable terms. The qualitative and quantitative performance indicators established in the RMAF were communicated to the provinces/territories through the contribution agreements. Periodic formal reports were prepared by Program Management, in a timely manner, to show achievement towards goals and objectives in quantitative/qualitative terms.

Eligibility criteria for the Program existed and were linked to the objectives of the Program. Due to the nature of this Program, all of the provinces and territories were eligible, assuming they met the performance criteria in the contribution agreements. Program Management communicated the eligibility criteria to all the provinces/territories.

Our procedures did identify the following issues that should be considered in the event of Program renewal.

Definition of Eligible Expenses

The definition of eligible expenses in the contribution agreements was not clearly defined. The definition did not specify what types of expenditures were to be considered as eligible, other than expenditures on behalf of the NSC Program.

Although the definition of eligible expenses is not clearly defined, the provinces/territories incurred costs that would likely be included in a definition of eligible expenses. Our testing identified that the majority of the costs incurred by the provinces/territories for this Program related to salaries expense, which is a type of expenditure normally considered eligible for this type of program. The amounts incurred for salaries by the provinces/territories included in our testing exceeded the contribution made by the Federal Government.

Recommendation(s)	Management Action Plan with Expected Completion Date
The definition of eligible expenses should be clarified in the renewed contribution agreements. For example, eligible expenses could identify specific categories of expenses such as salaries, maintenance costs, etc.	The renewed contribution agreements will contain an enhanced definition of eligible expenses and will also require those expenses to be reported in greater categorical detail as per Appendix B of the new agreements. The department is proceeding through the approval process in December 2004/January 2005.

Late Penalty

The contribution agreement required invoices be submitted within three months of the period end. There was no penalty for provinces/territories that remitted the invoices after the 3-month deadline. There were no payments made unless an invoice was received and the province/territory provided the required performance information.

Recommendation(s)	Management Action Plan with Expected Completion Date
Since the receipt of the performance data is more critical for Program effectiveness than receiving the invoices on a timely basis, the renewed contribution agreements should provide a deadline for submitting performance data. In the renewed contribution agreements, consideration should be given to a reduction in the contribution by a specified amount for each month the information is late.	The renewed agreements will contain a provision that requires the provinces/territories to submit their Performance Measures and Data Report within three (3) months of the end of the fiscal year. The department considered assessing a penalty for late submission of the Performance Measures and Data Report as part of the program design for renewal of the program but concluded that it was counter productive to do so. It is paramount that the work is done and less important that it be reported in a specified time frame. The report is required in order to process recipient claims for payment and therefore, recipients are already sufficiently motivated to submit their claims at the earliest opportunity after the close of the fiscal year.

3.3.2 INTERNAL CONTROLS

Internal controls were in place to ensure the effective management of the Program in terms of review and approval of agreements, delegated authority, segregation of duties, and control of expenditures.

Agreements reviewed by Program Management were properly screened for compliance with all the eligibility criteria. There were adequate controls in place to ensure that the proper authorities approved the agreements.

Invoices received for payment under the Program were processed in accordance with the requirements of the Financial Administration Act.

The recipients provided the necessary documentation to support the receipt of the funds through remittance of performance data and an invoice. Each invoice from the provinces/territories was required to have a schedule of expenses attached, to provide a summary of the NSC expenditures made. Program Management reviewed the schedule of expenses for overall reasonableness, ensured it was accompanied with signatures by financial staff from the provinces and that performance requirements were being met.

In the event that the performance criteria within the terms and conditions of the contribution agreement were not satisfied, Program Management took steps to address the situation. [redacted] The Program terms and conditions do not provide guidance in the event a province/territory does not meet the performance criteria. Thus, Program Management developed a methodology for adjusting the contribution to reflect the failure to meet the performance criteria. [redacted].

The funding provided to the provinces/territories did not exceed the approved level of funding. The allocation of the available funding to the provinces/territories was determined at the beginning of the Program. The actual amounts paid were consistent with this pre-determined allocation.

Our procedures identified the following issues that should be addressed to improve the effectiveness of the Program's internal controls, in the event that the Program is renewed.

Evaluation of Eligible Expenses

Any expenditure in support of the NSC would qualify as eligible using the definition within the contribution agreements. Due this vague definition, Program Management was unable to verify expenditures as eligible expenses, where those expenditures may only be indirectly related to the NSC. However, Program Management approved payments based on invoices received from the provinces/territories with a supporting schedule of expenses, and relied on provincial financial staff sign-off on invoices remitted to Transport Canada.

Program Management's practice did not include periodic requests for supporting vouchers or other documentation substantiating that the costs were incurred.

Recommendation(s)	Management Action Plan with Expected Completion Date
Once the definition of eligible expenses has been clarified in the renewed contribution agreements, Program Management should implement a process to validate the eligibility of expenses incurred by the provinces/territories. This may include obtaining formal certification from the provinces/territories regarding the accuracy of the expense reports provided by the Senior Finance Officer. Furthermore, consideration should be given to periodically validating expenses were incurred. Sampling techniques or a requirement to have the provincial/territorial auditors perform an audit of the expenses are possible approaches to substantiate costs incurred.	The renewed agreements require any claim for payment by a jurisdiction to be supported by an accounting statement, a list of the Eligible Costs incurred, and certified by the Senior Financial Officer of the Recipient. The Program Management will conduct operational audits periodically to verify that the Performance Measures have been completed as reported by the jurisdictions. Since these agreements are with provincial/territorial governments, it is not considered necessary to perform financial audits more frequently than is currently the case.

Documentation Requirements

British Columbia (B.C) did not provide an accounting schedule with their invoice in April 2003, as required in the contribution agreement, although the payment was still made. (The schedule was eventually provided when requested as part of this audit.)

Recommendation(s)	Management Action Plan with Expected Completion Date
In the event that the Program is renewed, payments should not be made until all the requirements of the contribution agreements have been met. As discussed in the following observation, if there are acceptable deviations from these requirements, they should be clearly defined and approved.	The situation with B.C. was an error [redacted] however the appropriate documentation was subsequently obtained from B.C. To prevent a re-occurrence, a check-off list will be developed for processing invoices.

Deviations from Performance Targets

When a province/territory was within 10% of it's performance targets, full funding was still provided by Program Management. Neither the contribution agreement nor the Program approval from Treasury Board provided for this practice. The practice was developed jointly by the Motor Carrier staff and approved by the Chief, Motor Carriers. It was established to alleviate unnecessary administrative burdens to both parties, if the deficiencies were minimal.

Per section 7.3.2 of Treasury Board's Policy on Transfer Payments, only the Minister can make changes to the contribution agreement.

Recommendation(s)	Management Action Plan with Expected Completion Date
The practice of allowing a 10% grace in achieving the performance targets should be assessed for reasonableness by Program Management. If it is determined that this is reasonable, then the practice should be formally approved as part of the approval for the renewed Program.	The renewed agreements have been revised to incorporate a formula for calculating the payments – no provision for allowances are provided. The provinces/territories prefer this approach as it clearly defines their obligations and the financial impact of non-compliance.

Definition of Penalties for Non-Compliance with Performance Targets

The contribution agreements did not provide for any penalty, if provinces/territories did not meet their performance targets.

[redacted]

Recommendation(s)	Management Action Plan with Expected Completion Date
The renewed contribution agreements should specify the nature and calculation of penalties in the event performance targets are not met.	The renewed agreements will be revised to incorporate a formula for calculating penalties in the event that performance targets are not met. The provinces/territories prefer this approach as it clearly defines their obligations and the financial impact of non-compliance.

3.3.3 FORMAL RISK ASSESSMENT

As part of the approval process for the Program, a Results-Based Management and Accountability Framework (RMAF) was developed that incorporated elements of a risk assessment. A Risk-Based Audit Framework (RBAF) was also developed, but at the time, program managers were not required to document a formal risk assessment of the Program within this framework. However, this is now a requirement under Treasury Board's Policy on Transfer Payments.

While risks were considered through the development of the RMAF and RBAF, there was not a comprehensive assessment of risks, including strategies for addressing these risks.

Through our interviews with program managers, they were able to identify the significant risks relating to the Program. Formally documenting these risks will help to ensure risks will be appropriately mitigated.

Our procedures identified the following issue that should be addressed, in the event that the Program is renewed.

Risk Assessment

The management team of the NSC Program did not perform and document a formal risk assessment that could be used to determine specific requirements for program monitoring. This is now a requirement of Treasury Board's Policy on Transfer Payments, but was not required at the time of the Program initiation.

Recommendation(s)	Management Action Plan with Expected Completion Date
A risk assessment should be performed and documented, and strategies should be developed for dealing with the risks, in the event of Program renewal.	[redacted]

3.3.4 SYSTEMS PROVIDE EFFECTIVE INFORMATION FOR DECISION-MAKING

The contribution agreements required the provinces/territories to provide information on their activities related to the NSC as a condition of receiving funding. This ensured that the program managers obtained the information necessary to evaluate the Program.

The information provided by the provinces/territories met Program Management's needs and was used in the decision-making process.

There was a continuous learning process in place to improve the Program where lessons learned from the monitoring process were incorporated into Program redesign. Program Management is currently reviewing the Program to determine changes required to be incorporated into the Program renewal planned for next year.

3.4 PROGRAM MANAGEMENT HAD ADEQUATE RESOURCES

Treasury Board approved financial resources for the Program. Program Management then allocated the available funding to the provinces/territories. The payments made to the jurisdictions were consistent with the level of funding approved by Treasury Board. [redacted]

The objectives of the Program took into account the available resources. Four officers at Transport Canada were available to monitor the Program. [redacted]

Recommendation	Management Action Plan with Expected Completion Date
[redacted]	[redacted] The source of funding is from within Transport Canada.