Western Economic Diversification Canada
Diversification de l'économie de l'Ouest Canada

Canada

Audit and Evaluation

Quality Assurance Review Step II: The Best Practices Report

June 2000

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Executive Summary

This document presents best practices in grant and contribution management. Several sources have been consulted, the most important of which is the Quality Assurance Review (QAR) fieldwork, but also includes input from OAG reports, the very recent draft work by the OAG; *A Risk Assessment Framework for Grant and Contribution Programs*, and Treasury Board's draft revision to the Transfer Payment Policy.

Best practices are presented in reference to four major issue areas; due diligence, clear attainable objectives, measurement and reporting of performance against objectives, and finally, managing funds in a responsible manner. They are provided in a constructive and informative manner, offering opportunities for the stakeholders in WD's grants and contributions portfolio to share in the knowledge gained from the QAR initiative. These practices presented here are fairly specific, but are meant to provide only overall direction, not step-by-step micro-level instruction managing specific grant and contribution efforts.
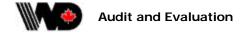
Best Practices - Due Diligence

The completion, verification and/or analysis of the following documents (and their inclusion on file) represent the best practices of WD with regard to due diligence:

1. Terms and Conditions Checklist
2. Project Assessment Summary
3. Project Approval Note
4. All core documents:
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- WD Project Screening Information
- WD Information Release Letter
- Client Project Proposal
- Client Financial Report
- Client Business Plan
- WD Terms and Conditions Checklist
- WD Project Assessment Summary
- WD Project Approval Note
- WD Letter of Offer
- WD/Client Signed Agreement
- WD Monitoring Plan
- WD Client Contact Notes

5. Supporting information for the core documents

Best Practices - Clear, Attainable Objectives

Best Practices with regard to ensuring good objectives are straightforward - program as well as monitoring and payments staff review and request revision of objectives so those statements meet the recognized characteristics of well-stated objectives. Namely; objectives must be clear, address both results and activities, be complete, reasonable, and relate to program expectations.

Best Practices - Performance Measurement and Reporting

In summary, the completion, verification and analysis of the following documents (and their inclusion on file) represent the best practices of WD with regard to performance measurement and reporting:

1. All core documents:

    - WD/Client Signed Agreement
    - WD Monitoring Plan
    - Client Progress Report
    - WD Project Monitoring Report
    - WD Risk Assessment for Claim Verification
    - WD Project Audit Report

2. Supporting information for the core documents.

Best Practices - Managing Funds Responsibly

In terms of managing funds responsibly, the completion, verification and analysis of the following documents (and their inclusion on file) represent best practices:

1. All core documents:

    - Client Claim for Reimbursement
    - Client Progress Report
    - WD Project Monitoring Report
    - WD Risk Assessment for Claim Verification
    - WD Record of Claim Review
    - WD Project Audit Report
    - WD Record of Payment

2. Supporting information for the core documents
3. Financial audits
4. On-site visits

QAR - Next Steps

A wealth of effort exists to demonstrate WD's strong approach to managing the department's grant and contribution portfolio. Through QAR, these best and promising practices are now available to be shared; allowing WD to build on the existing grant and contribution management efforts and promote the consistent application of the best and promising practices identified in this report. By doing so, we are assuring that grant and contribution funds at WD are providing the maximum intended benefits to Canadians, and that scrutiny of our practices would result in consistently positive observations.

In this light, it is recommended that the QAR Initiative continue with the implementation of Step Three that includes; the development of practical tools for all levels of management and staff who handle WD grants and contributions, the development of a training package in the train-the-trainer mode to share the knowledge gained, and the delivery of that training. By collecting and sharing information on best practices in managing WD's grant and contribution portfolio through the QAR initiative, WD is acting in a positive manner and has assumed a leadership role for government departments that provide grants and contributions to Canadians.

Background

As a result of discussions with the Special Advisor to the Deputy Minister regarding issues raised by the Office of the Auditor General (OAG) in Chapter 27 of their December, 1998 Report; Audit and Evaluation, in consultation with all stakeholders, has undertaken a Quality Assurance Review (QAR) of grants and contributions (Gs&Cs) at Western Economic Diversification Canada (WD).
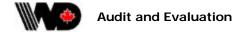
In 1994 and 1995, the OAG audited a number of contribution programs delivered by Industry Canada and by federal regional development agencies (including WD). At that time they noted opportunities for improvement in different aspects of program delivery, including concerns about due diligence in project assessment. Their recommendations included the need for:

- More persuasive assessments to support funding decisions, and documentation that reflects all the major factors supporting decisions to approve assistance;

- The streamlining of guidelines and criteria for assessing applications, differentiated by size and risk, and simplification of application documentation for small projects;

- Better co-ordination with other federal and provincial departments in view of the potential for duplication of effort and funding; and

- Greater attention to collecting repayable contributions.

The QAR initiative represents a proactive effort to move WD's grant and contribution efforts further along a continuum to having all of the characteristics that the OAG describes in Chapter 27 of the December, 1998 Report as, *Qualities of a Well-Managed Grant or Contribution Program:*

- The choice of funding instrument - grant or contribution - respects accountability to Parliament and achieves a balance among principles of cost-benefit, risk management, and reasonable treatment of program recipients.

- Management can explain how recipients are expected to benefit from funding and to what end.

- Program officers understand who and what is eligible for funding, under what conditions funding can be provided, for what purposes, and in what amounts.

- Potential applicants are aware of the program.

- Eligible projects represent value for money to both the applicant and the program.

- More deserving recipients are funded and at an appropriate level.

- Funding is used for the purposes agreed.

- Problems with project and program performance are resolved quickly.

- Management reporting demonstrates a good knowledge of program performance.

- Money owed to the Crown is collected promptly (in the case of repayable contributions).

The QAR Initiative has provided an opportunity for WD to be proactive and move to the forefront of government departments in providing grants and contributions that are administered in a manner which ensures due diligence and provides performance information in keeping with government policy and

central agency expectations. And, in line with the Mid-Term Strategy, this initiative shows WD in a leadership position that emphasizes a move to being a Department that sets an example for others.

Objective and Scope

Objective

When complete, the QAR initiative will result in a consistent approach for the grants and contributions handled by WD. Once implemented, practices suggested as a result of QAR will help to ensure that due diligence is addressed, and that the statement and assessment of clear and measurable results is provided for WD's grants and contributions portfolio. In doing so, WD will meet the expectations of the OAG and enhance the accountabilities which currently exist in the Department.
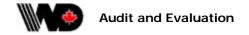
Scope

The QAR initiative is focused on existing, ongoing, and future initiatives and programs for which WD is directly responsible (e.g.: ITPP, FJST), or that WD delivers through arrangements with third parties (e.g.: CFDC's). Files from FY 1997-98 to FY 1998-99 were looked at in conducting the fieldwork related to Step Two of the QAR initiative.

The QAR effort thus far has not covered funding through the Department's O&M budget (e.g.: CBSCs), nor has it addressed grants and contributions that have recently been covered by other distinct accountability mechanisms. Both the Infrastructure Works Program (IWP) and the Manitoba flood-related Jobs and Economic Recovery Initiative (JERI) are examples of the types of programs not covered by the QAR initiative. These two initiatives have recently been covered by OAG audits or other evaluations.

Issues Considered

The issues considered during the Step Two fieldwork were drawn in large part from Chapter 27 of the 1998 OAG Report, many of which were re-emphasized in their November 1999 Report. In Chapter 27, the OAG made several recommendations that are pertinent to WD; saying that Departments should:

1. ensure that projects funded in contribution programs represent **value for money** to both the applicant and the program;
2. apply the respective **terms and conditions** approved by the Treasury Board for its grant and contribution programs when assessing applications for funding;
3. **document** this assessment to provide proper justification for the decision to fund or not fund the project;
4. further **clarify the objectives** of the Programs by defining clear, attainable goals and expected annual results;
5. ensure that **due diligence** is exercised in the review and approval of grants and contributions under the Program;
6. ensure that recipients provide the required **performance information**;
7. obtain assurance that Programs exercise **due diligence** in selecting and managing projects;
8. set clear **annual performance expectations** for its contributions; and
9. **assess performance annually**.

The Preliminary Quality Assurance Review approach developed for Step One was revised for use in Step Two. Step One used a checklist developed for an initial assessment of a small set (15) of G&C program files. With the completion of this initial work, there was an opportunity to review the QAR Checklist, and the revision included in Appendix Two was used for the Step Two fieldwork. The broad issues considered by the fieldwork were as follows:

- **Due diligence:** Demonstrated by reviewing and approving applications in a complete and appropriate manner and providing persuasive assessments based on relevant documentation to support decisions to approve assistance.

- **Clear, attainable objectives:** That allow management to explain how recipients are expected to benefit from funding and to what end.

- **Performance against objectives is measured and reported:** Ensure control, monitoring and evaluation of the funding effort and that funding is used for the purposes agreed.

- **Funds are managed in a responsible manner:** Ensure that resources are used efficiently and that payments and repayments occur in a timely manner.

These issues represent coverage at the project, not program, level. By making that distinction, QAR does not consider program-level issues such as compliance with government or departmental priorities or overall program reporting (e.g. Annual Report, Performance Report, etc.). The schematic on the next page helps to put the QAR initiative in perspective, and place the issues covered by QAR relative to an overall project life-cycle.

Methodology

Overall

The QAR initiative was approached in four steps:
- Step One (complete):   Issue identification, planning, and analysis.

- Step Two (near completion):   Quality Assurance Review.

- Step Three (underway):   Develop and provide tools.

- Step Four (planned):   Quality Assurance Follow-up.

Each step is described more fully in Appendix One - *The General Approach to the QAR Initiative*. The project allowed for a 'stop or go' decision after each step with consultation undertaken on completion.

About This Step of the QAR

During Step Two, a team from Audit and Evaluation, using the approved QAR Approach, executed the fieldwork of examining a statistically representative sample of G&C files. The files were selected by choosing a random sample of some 70 files from the 2025 eligible files (see the Objectives and Scope section above) identified by a download from the WD financial system.

The selected files represented all regions and a strong cross-section of programs, as well as representation of projects within those programs (see Appendix Three). The fieldwork was coordinated with regional management and staff; and, where possible, debriefings were conducted at the completion of the work to share the observations from the QAR field work with regional management and staff.

Program Life Cycle	Project Life Cycle	QAR Issues
Program Concept: Needs identification and assessment, consultation, concept papers.	Project Enquiry: Call, visit, letter, E-mail, essential project information provided and recorded.	Due diligence: Demonstrated by reviewing and approving applications in a complete and appropriate manner and providing persuasive assessments based on relevant documentation to support decisions to approve assistance.
Program Policy: Preparation of MC, review at all levels, Ministerial sign-off, cabinet approval.	Project Screening Information: Supporting information (as per program requirements, file opened, information recorded, additional information request as required.	
Program Resources and Authorities: Draft Treasury Board Submission, TB review, Ministerial sign-off, Treasury Board approval.	Project Assessment: Against terms and conditions or other relevant criteria.	
Program Administration: Data systems, forms, policies/procedures directives for delivery officers, standard agreements, accountability framework.	Project Recommendation / Approval: PAS, PAN, financial delegations and corporate system updates.	
Program Launch: Press releases, brochures, information for applicants.	Project Agreement: Standard conditions used, including monitoring and payment provisions.	Clear, attainable objectives: That allow management to explain how recipients are expected to benefit from funding and to what end.
Program Delivery	Project Activity: Client undertakes activities as agreed.	Performance against objectives is measured and reported: Ensure control, monitoring and evaluation of the funding effort and that funding is used for the purposes agreed.
Program Evaluation and Internal Audit: Framework or plan as per the accountability framework, should be in place	Project Monitoring and Payment: Interim and final; claim documentation, review and verification of claim, (re)payment as per delegated authorities, record keeping.	
Program Revision, Extension or Completion: Taking into account the findings of the evaluation and audit work.	Project Completion: Final report, repayment made, file closed	Funds are managed in a responsible manner: Ensure that resources are used efficiently and that payments and repayments occur in a timely manner.

Structure and Content of this Report

The remainder of this document is dedicated to presenting - in a broad sense - best practices and promising practices in grant and contribution management. Several sources, the most important of which is the QAR fieldwork, were used to develop this best practices document. The input from the OAG's reports was also considered, as was Treasury Board's revisions to the Transfer Payment Policy, and the very recent draft work produced by the OAG; *A Risk Assessment Framework for Grant and Contribution Programs*. Best practices are presented in reference to four major issue areas; due diligence, clear attainable objectives, measurement and reporting of performance against objectives, and finally, managing funds in a responsible manner.

These best and promising practices are provided in a constructive and informative manner, offering opportunities for the stakeholders in WD's grants and contributions portfolio to share in the knowledge gained from the QAR initiative. As mentioned, the information here comes primarily from observing best practices in the files examined and by taking into account the work of the central agencies (Treasury Board and the Office of the Auditor General) in the field. Finally, while these best practices are fairly specific, they are presented as overall direction, not in terms of step-by-step micro-level instruction for undertaking the management of specific grant and contribution efforts. That effort has yet to be undertaken.

Conceptual Framework

Exhibit One (*QAR Best Practices Conceptual Framework and Guide*) on the following two pages serves several purposes. First, it provides a summary of this Best Practices report at a high level. Second, it gives a sense of the logic and thinking behind the structure of the remainder of the document. And finally, it acts as a 'map' and reference point for the content of the document by providing references to the applicable table and page numbers contained in the report.

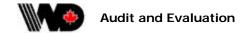| Exhibit One: QAR Best Practices Conceptual Framework and Guide			
To …	Ensure that due diligence is addressed, that both statements and assessments of clear and measurable results are provided, and that funds are managed responsibly for WD's grants and contributions portfolio.		
We…	Exercise Due Diligence	State Clear, Measurable Objectives	Measure and Report Performance	Manage Funds Responsibly
In an effort to…	Review and approve applications in a complete and appropriate manner and provide persuasive assessments based on relevant documentation to support decisions to approve assistance.	Allow management to explain how recipients are expected to benefit from funding and to what end.	Ensure control, monitoring and evaluation of the funding effort and that funding is used for the purposes agreed.	Ensure that resources are used efficiently and that payments and repayments occur in a timely manner.
By …	Information gathering, verification, analysis, preparation and entry.		
To make sure that …	• Other methods of funding have been exhausted; • Funding will not have a negative impact on privately funded enterprises; • The recipient entity has the capacity (e.g.: managerial, financial, etc.) to deliver the project; • Other federal and provincial departments have not duplicated funding; • Recipients are funded and at an appropriate level; • A comparative assessment of the value for money to both the applicant and the program has been completed (e.g.: cost-benefit, cost-effectiveness); • A rigorous assessment, based on clear criteria, has been made regarding the risk inherent in the project; • Alternative methods of delivery have been identified and assessed; • Environmental concerns have been identified and assessed; and that • Human rights concerns have been identified and assessed. [Refer to Table Two, Page 14]	• Objectives are clearly stated; • Relate to results as well as activities; • Contain essential elements; stated condition, expected quantitative measure, and time frame; • Are plausible and realistic. • Achievement is attributable to the program effort; • Achievement will provide incremental results; • Are related to the statement of overall program goals and objectives; and • Comply with overall program authorities. [Refer to Table Three, Page 16]	• Clear and unambiguous terms and conditions exist; • Monitoring and evaluation requirements are clearly set out; • Measures clearly reflect objectives; • Monitoring occurs on a regular and timely basis, appropriate to risk; • Evaluation occurs as per the agreement and in accordance with TB guidelines in a timely manner; • There is a mechanism for resolving problems, and problems with performance are resolved quickly; and • Reporting demonstrates a good knowledge of program performance. [Refer to Table Five, Page 19]	• An ongoing assessment of the efficient use of the funds exists. • Payments made properly in accordance with the agreement (in the case of repayable contributions, money owed to the Crown is collected promptly). • Payments are based on verified evidence of appropriate expenditures. • Projects are processed and managed in a timely manner. [Refer to Table Seven, Page 21]

Exhibit One: QAR Best Practices Conceptual Framework and Guide				
To …	Ensure that due diligence is addressed, that both statements and assessments of clear and measurable results are provided, and that funds are managed responsibly for WD's grants and contributions portfolio.			
We…	Exercise Due Diligence	State Clear, Measurable Objectives	Measure and Report Performance	Manage Funds Responsibly
The core documents that demonstrate these practices are…	• WD Project Screening Information • WD Information Release Letter • Client Project Proposal • Client Financial Report • Client Business Plan • WD Terms and Conditions Checklist • WD Project Assessment Summary • WD Project Approval Note • WD Letter of Offer • WD/Client Signed Agreement • WD Monitoring Plan • WD Client Contact Notes [Refer to Table One, Page 12]	• Client Project Proposal • Client Business Plan • WD Program Terms and Conditions Checklist • WD Project Assessment Summary • WD Project Approval Note • WD/Client Signed Agreement • WD Monitoring Plan	• WD/Client Signed Agreement • WD Monitoring Plan • Client Progress Report • WD Project Monitoring Report • WD Risk Assessment for Claim Verification • WD Project Audit Report [Refer to Table Four, Page 18]	• Client Claim for Reimbursement • Client Progress Report • WD Project Monitoring Report • WD Risk Assessment for Claim Verification • WD Record of Claim Review • WD Project Audit Report • WD Record of Payment [Refer to Table Six, Page 20]

Best Practices

Due Diligence

Established Benchmarks

The recently tabled draft revisions to the Treasury Board Policy on Transfer Payments contains rather clear direction on the definition of due diligence from TB's perspective. This view compliments the recent work by the OAG on grants and contributions which offers that adequate due diligence might be defined and demonstrated by reviewing and approving applications for G&C funding in a complete and appropriate manner. The OAG views good practices in this regard as including the existence of persuasive assessments to support funding decisions, and documentation on file that supports decisions to approve assistance.

Using the OAG's approach as a reference, the sample of 70 G&C files was reviewed with the aim of identifying how the following aspects of the practice of due diligence were exercised at WD:

- It is demonstrated that other methods of funding have been exhausted.
- An assessment has been made to ensure that funding will not have a negative impact on privately funded enterprises.
- An assessment has been made of the ability (e.g.: managerial, financial, etc.) of the recipient entity to ensure they are capable of delivering the project.
- Other federal and provincial departments have been consulted to ensure that funding is not duplicated.
- Recipients are funded and at an appropriate level.
- A comparative assessment of the value for money to both the applicant and the program has been completed (e.g.: cost-benefit, cost-effectiveness).
- A rigorous assessment, based on clear criteria, has been made regarding the risk inherent in the project.
- Alternative methods of delivery have been identified and assessed.
- Environmental concerns have been identified and assessed.
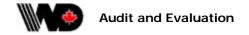- Human rights concerns have been identified and assessed.

The following section details the observations with regard to the practice of due diligence in terms of WD's grants and contributions portfolio.

> *Ensuring due diligence at the individual project level is very much a matter of following strong practices in verifying and analyzing project information in a complete and appropriate manner.*

Core Practices Related to Due Diligence

Ensuring due diligence at the individual project level is very much a matter of following strong practices in verifying and analysing project information in a complete and appropriate manner. And, as mentioned, the OAG considers that good practice in this regard means that persuasive assessments should be undertaken to support funding decisions, and that documentation should exists on file to reflect all the major factors supporting decisions to approve assistance.

WD Project managers rely on many sources of information to ensure due diligence; and generating key documents on file is the responsibility of either WD or the client. The information gathered is used to

produce a number of "core documents" that can be characterized by the type of effort (or *practices*) required to generate those documents. Those practices include; information gathering, preparation and entry, information verification, and information analysis.

The table below (*Due Diligence - Core Documents and Processes*) lists principal documents observed in support of WD's due diligence efforts. As well, the practices typically undertaken in putting these documents together are summarized. The table runs from the initial effort at the top - to latest at the bottom. The document name, indicating clearly who would prepare it - WD, client, or both - is listed on the left, with the three columns to the right showing the practices undertaken to generate the documents.

Table One: **Due Diligence - Core Documents and Processes**	Practices Undertaken		
	Information Gathering, Preparation and Entry	**Information Verification**	**Information Analysis**
WD Project Screening Information	●	●	●
WD Information Release Letter	●		
Client Project Proposal		●	●
Client Financial Report		●	●
Client Business Plan		●	●
WD Program Terms and Conditions Checklist	●	●	●
WD Project Assessment Summary	●	●	●
WD Project Approval Note	●	●	●
WD Letter of Offer	●		
WD/Client Signed Agreement	●		
WD Monitoring Plan	●		●
WD Client Contact Notes	●		

These documents represent the core of the due diligence efforts undertaken at WD. As well, they represent the minimum set of documents for G&C project files considered by WD. Together they represent a cumulative "best practice" in terms of a complete and appropriate review and approval mechanism for all projects.

In looking at the WD files, it is clear the **Project Assessment Summary** and/or the **Project Approval Note** are the essential summary documents observed in terms of the due diligence practices used in managing the grant and contribution portfolio of WD. These instruments – and the documents to support the summary information – are essential, and **no project should be funded without their appropriate completion and approval.**

When the terms and conditions for the Western Diversification Program are factored in, specific Treasury Board (TB) terms and conditions govern virtually all of WD's grant and contribution efforts. In addition, WD-internal terms and conditions or operating guidelines may exist. Considering this, a best practice in terms of due diligence is the use of a **"Terms and Conditions Checklist"** to provide a clear and

exhaustive assessment of the project against the TB and WD criteria for the program under which the project might be funded. Presented below is an example of part of a terms and conditions checklist that represents this practice. This one might cover WD's First Jobs in Science and Technology Program:

Terms and Conditions Checklist - First Jobs in Science and Technology Projects				
Terms and Conditions	**Assessment**	**Verified**	**Supporting Document(s) / Reference**	**Officer Sign Off**
Firm Eligibility				
Applicant is a Western Canadian based company.	○ Yes ○ No	○ Yes ○ No	Incorporation documentation / Ref. A-1	John Doe
Applicant company has fewer than 250 employees.	○ Yes ○ No	○ Yes ○ No	Payroll documentation / Ref. A-2	John Doe
Project Eligibility				
Project fits into the technology acquisition part of the business plan.	○ Yes ○ No	○ Yes ○ No	Business Plan / Ref. B-1, pg. 4.	John Doe
There is an identified need for the employee.	○ Yes ○ No	○ Yes ○ No	Business Plan / Ref. B-1, pg. 5.	John Doe
And so on, to include all the FJST Terms and Conditions …				

A promising practice that is recognized not only in assuring due diligence, but through-out the project life-cycle is the formalization on-file of informal contact information from phone calls, meetings, non-audit related site visits, etc. It is recognized that WD, by the nature of the organization, has not formalized this practice; but it serves as a promising practice in terms of understanding the full story for each project.

Supporting Practices Related to Due Diligence

In terms of each of the core documents, the detailed information that goes into creating them is the evidence that supports a credible assessment of each application and project. To do so, relevant, appropriate and complete documentation must exist that clearly supports the decision(s) made to provide assistance; and each document (other than those that are standard) follows a form and structure dictated by specific program requirements.

With this understanding of the core practices in place; there is an appreciation of the essential context in which efforts to ensure due diligence in project approval takes place. The table below (*Examples of the Supporting Information Used to Ensure Due Diligence*) provides a sense of the types of information

observed in support of the decisions made to fund projects; particularly as those documents relate to best practices in managing the due diligence aspect of grants and contributions.

The support documents listed are examples of the types of information; and they are of primary importance to the two summary documents - the Project Assessment Summary and the Project Approval Note. Sufficient and appropriate verification and analysis of the support documents happens before the summary assessments are tendered and signed off. The inclusion of such evidence on file to support the core documents and answer the due diligence issues is essential.

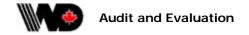| **Table Two:** **Examples of the Support Information Used to Ensure Due Diligence**	
Due Diligence Issue	**Examples of Supporting Information**
Other methods of funding have been exhausted.	• Bank refusal(s). • Government refusal(s). • Government reference(s).
Funding will not have a negative impact on privately funded enterprises.	• Client Project Proposal • Client Financial Report • Client Business Plan
The recipient entity has the capacity (e.g.: managerial, financial, etc.) to deliver the project.	• Client Project Proposal • Client Financial Report • Client Business Plan
Other federal and provincial departments have not duplicated funding.	• Identification of, and communication with other federal/provincial departments.
Recipients are funded and at an appropriate level.	• Treasury Board Terms and Conditions
A comparative assessment of the value for money to both the applicant and the program has been completed (e.g.: cost-benefit, cost-effectiveness).	• Client Project Proposal • Client Financial Report • Client Business Plan
A rigorous assessment, based on clear criteria, has been made regarding the risk inherent in the project.	• Client Project Proposal • Client Financial Report • Client Business Plan
Alternative methods of delivery have been identified and assessed.	• WD Project Assessment Summary and Project Approval Note

Table Two:	
Examples of the Support Information Used to Ensure Due Diligence	
Due Diligence Issue	**Examples of Supporting Information**
Environmental concerns have been identified and assessed.	• CEAA Approval • WD Project Assessment Summary
Human rights concerns have been identified and assessed.	• WD Project Assessment Summary and Project Approval Note

While the listing of support documents shown here is by no means exhaustive, they represent the types of information observed where best practices with regard to providing supporting information for decisions made. They represent an example of a substantive minimum provision for information in that regard.

Best Practices Summary - Due Diligence

In summary, the completion, verification and analysis of the following documents (and their inclusion on file) represent the best practices with regard to due diligence:

1. Terms and Conditions Checklist
2. Project Assessment Summary
3. Project Approval Note
4. All core documents
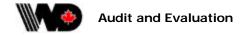5. Supporting information for the core documents

Clear, Attainable Objectives

Established Benchmarks

One of the more persistent recommendations over the past two decades of work by central agencies has been that clear, attainable objectives for programs and projects must be set. This allows program management to explain how recipients are expected to benefit from funding and to what end.

As a matter of practice, the statement of clear and measurable objectives is recognized to have a number of attributes. Using both the suggestions of central agencies on the topic, and the known practices of audit and evaluation professionals; the sample of files was reviewed in an effort to identify instances where the statements of objectives had the following characteristics:

- Clearly stated.
- Relate to results as well as activities.
- Contain essential elements; stated condition, expected quantitative measure, and time frame.
- Plausible and realistic.
- Achievement is attributable to the program effort.
- Achievement will provide incremental results.
- Related to the statement of overall program goals and objectives.

- Comply with overall program authorities.

The following section details the observations with regard to the practice of stating clear and measurable objectives in terms of the projects managed under WD's grants and contributions portfolio.

<u>Practices Related to Stating Clear, Attainable Objectives</u>

Stating clear, measurable and plausible objectives for individual projects is a complex matter, and requires a clear understanding of what a project can contribute in the context of the stated expectations for the program overall. This is where the Best Practice of using a Terms and Conditions Checklist comes into play. Using the Terms and Conditions Checklist helps to ensure that the objectives for the project will fall within the context of the program, and that individual projects will contribute to the success of the Program's.

A key benefit to stating objectives in a manner that is clear, measurable and relevant is that monitoring and payment becomes a less subjective or arbitrary exercise – payments are made against claims that provide concrete evidence of achievement against well-stated objectives. **A promising practice in this case is the activity of including monitoring and payment staff during the process of defining the parameters of the agreement between the client and WD**. Doing so helps to ensure that when claims are received, payments can be made against achievements that are recognized by all to be seen as contributing to, or meeting clear objectives. The table below (*Best Practices in Stating Objectives – Examples*) provides a sense of what good and poor statements of objectives for a project designed to create new jobs in electronics might look like.

Table Three:		
Best Practices in Stating Objectives – Examples		
Characteristics of well stated objectives	**Good Examples**	**Poor Examples**
Clearly stated.	• The project will create 10 new full-time, on-going jobs in the field of electronics within 6 months of funding.	• The project is expected to create 10 jobs.
Related to results as well as activities.	• The project will maintain the 10 new on-going jobs for the full 5-year period of funding.	• The project will actively recruit graduates in the field [as the only objective].
Contain essential elements; stated condition, expected quantitative measure, and time frame.	• The $30, 000 funding will contribute to the creation of 10 new full-time, on-going jobs in the field of electronics within 6 months of funding.	• The project is expected to create 10 jobs.
Plausible and realistic.	• The $30, 000 funding will contribute to the creation of 10 new full-time, on-going jobs in the field of electronics within 6 months of funding.	• The $30, 000 funding will significantly alleviate unemployment in the field of electronics.

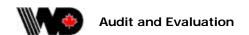| Table Three:		
Best Practices in Stating Objectives – Examples		
Characteristics of well stated objectives	**Good Examples**	**Poor Examples**
Achievement is attributable to the program effort.	• The $30, 000 funding will contribute to the creation of 10 new full-time, on-going jobs in the field of electronics within 6 months of funding.	• The $30, 000 funding will significantly alleviate unemployment in the field of electronics.
Achievement will provide incremental results.	• The $30, 000 funding will contribute to the creation of 10 new full-time, on-going jobs in the field of electronics within 6 months of funding.	• The project is expected to create 10 jobs.
Related to the statement of overall program goals and objectives.	• *An objective that relates to job creation in electronics if that is the program intent.*	• *An objective that does **not** relate to job creation in electronics if that is the program intent.*
Comply with overall program authorities.	• *An objective that relates to job creation in electronics if that is the program intent.*	• *An objective that does **not** relate to job creation in electronics if that is the program intent.*

In addition to the guidance provided by the central agencies, best practices with regard to clearly stated and measurable expectations from the files of WD were observed, showing all of the attributes identified.

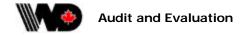Best Practices Summary - Clear, Attainable Objectives

Best Practices with regard to ensuring good objectives are straightforward - program as well as monitoring and payments staff review and request revision of objectives so those statements meet the recognized characteristics of well-stated objectives. Namely; objectives must be clear, include results and activities, be complete, reasonable, and relate to program expectations.

> *Program, as well as monitoring and payments staff, review and request revision of objectives so those statements meet the recognized characteristics of well-stated objectives.*

Performance Measurement And Reporting

Established Benchmarks

Linked to the clear and measurable statement of objectives is the notion that performance against those objectives is measured and reported. Doing so helps to ensure that there is control, monitoring and evaluation of the funding effort and that funding is used for the purposes agreed. As before, guidance provided by central agencies was consulted in looking through the WD files to identify instances where the following strong practices would be observed:

- The terms and conditions set in the agreement are clear and unambiguous.
- Monitoring and evaluation requirements are clearly set out.
- There are measures in place that clearly reflect objectives.
- Monitoring occurs on a regular and timely basis, appropriate to risk.
- Evaluation occurs as per the agreement and in accordance with TB guidelines in a timely manner.
- There is a mechanism for resolving problems, and problems with performance are resolved quickly.
- Reporting demonstrates a good knowledge of program performance.

The following section details the observations with regard to performance measurement and reporting as it relates to WD's grants and contributions portfolio.

<u>Core Practices Related to Measuring and Reporting Performance</u>

The genesis of best practices with regard to measuring and reporting on project and program performance lies undertaking best practices both in terms of due diligence and in defining clear, measurable objectives. The inclusion in formal agreements of both activity and results-oriented objectives, along with clear monitoring provisions provides the cornerstones of constructing strong performance measurement and reporting.

As was the case with best practices related to due diligence, best practices with regard to performance measurement and reporting rely on the preparation, verification and/or analysis activities related to the production of core documents. The table below (*Measuring and Reporting on Performance - Core Documents and Processes*), lists the principal documents observed on file in support of WD's performance measurement and reporting efforts. The practices typically undertaken in putting these documents together are summarized with the initial effort at the top, and the latest at the bottom. The document name, prefaced by who would prepare it - WD, client, or both - is listed on the left, with the three columns to the right showing the practices undertaken to generate the documents.
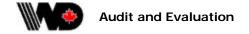
Table Four: **Measuring and Reporting on Performance - Core Documents and Processes**	**Practices Undertaken**		
	Information Gathering, Preparation and Entry	**Information Verification**	**Information Analysis**
WD/Client Signed Agreement	●		
WD Monitoring Plan	●		●
Client Progress Report		●	●
WD Project Monitoring Report	●	●	●
WD Risk Assessment for Claim Verification	●	●	●
WD Project Audit Report	●	●	●

Each core document answers to one or more of the issues related to ensuring strong performance measurement and reporting, and the specific information and processes behind the core documents is evidence that supports the overall process of assessing the performance of each project. To do so, relevant, appropriate and complete documentation (based on reasonable activities) exists that clearly

supports the performance reported; and each of those documents and activities conforms to agreed upon expectations.

These core practices and documents are in place to provide assurance that issues with regard to performance measurement and reporting are addressed. The table below (*Performance Measurement Issues and Related Core Documents*) provides an overview of how specific core documents are related to issues of the performance measurement and reporting of grants and contributions. Performance issues identified are addressed through the completion of the core documents and the inclusion of supporting documentation on file to address those issues.

Table Five:	
Performance Measurement Issues and Related Core Documents	
Performance Measurement Issue	**Related Core Documents**
Clear and unambiguous terms and conditions.	• WD/Client Signed Agreement
Monitoring and evaluation requirements are clearly set out.	• WD/Client Signed Agreement • WD Monitoring Plan
Measures clearly reflect objectives.	• WD/Client Signed Agreement • WD Monitoring Plan
Monitoring occurs on a regular and timely basis, appropriate to risk.	• WD/Client Signed Agreement • WD Monitoring Plan • WD Project Monitoring Reports • WD Risk Assessment for Claim Verification • WD Project Audit Report
Evaluation occurs as per the agreement and in accordance with TB guidelines in a timely manner.	• WD/Client Signed Agreement WD Monitoring Plan • WD Project Monitoring Report
There is a mechanism for resolving problems, and problems with performance are resolved quickly.	• WD/Client Signed Agreement • Client Progress Report
Reporting demonstrates a good knowledge of program performance.	• WD/Client Signed Agreement • Client Progress Report

In summary, the completion, verification and analysis of the following documents (and their inclusion on file) represent best practices with regard to performance measurement and reporting:

1. All core documents, and
2. Supporting information for the core documents.

Managing Funds In A Responsible Manner

Established Benchmarks

As might be expected, financial probity has been an essential component in the examination of the management of grants and contributions by central agencies and departmental accountability mechanisms alike. And, while the QAR was not intended to have a primary focus on financial matters, the review was conducted looking for the following basic tenets of strong financial management:

- An ongoing assessment of the efficient use of the funds exists.
- Payments made properly in accordance with the agreement (in the case of repayable contributions, money owed to the Crown is collected promptly).
- Payments are based on verified evidence of appropriate expenditures.
- Projects are processed and managed in a timely manner.

The following section details practices with regard to managing the handling of funds as they relate to WD's grant and contribution efforts.

Core Practices Related to Managing Funds in a Responsible Manner

Best practices with regard to managing funds in a responsible manner are inextricably tied to the best practice activities undertaken in terms of due diligence, defining clear, measurable objectives and measuring and reporting performance. It is essential that an agreement contain clear and measurable activity and results-oriented objectives, so that claims can be adjudicated against those expectations.

As before, best practices rely on the preparation, verification and/or analysis activities related to a set of core documents that are essential to managing funds responsibly. The table below (*Managing Funds – Core Documents and Processes*), lists the core documents observed on file in support of WD's financial management regime. Documents and practices are listed first to last; with document name and who prepares it (WD, client, or both) on the left, and related practices on the right. Some documents are inter-related to the practices of performance measurement and reporting – and for good reason. Payments are made based on the demonstrated achievement of the results specified in the agreement.

Table Six: **Managing Funds - Core Documents and Processes**	**Practices Undertaken**		
	Information Gathering, Preparation and Entry	**Information Verification**	**Information Analysis**
Client Claim for Reimbursement		●	●
Client Progress Report		●	●

Table Six: Managing Funds - Core Documents and Processes	Practices Undertaken		
	Information Gathering, Preparation and Entry	Information Verification	Information Analysis
WD Project Monitoring Report	●	●	●
WD Risk Assessment for Claim Verification	●	●	●
WD Record of Claim Review	●	●	●
WD Project Audit Report	●	●	●
WD Record of Payment	●		

The documents and practices presented in the table above were observed in files as essential efforts undertaken at WD to ensure that funds were managed in a responsible manner. These are the minimum set of documents produced for all grant and contribution project files in terms of managing funds. Taken as a group they represent a best practice by providing a complete and appropriate approach to managing grant and contribution funds.

Each of the core documents and related practices answers to one or more of the issues related to ensuring that funds are managed in a responsible manner, and the specific information and processes behind the core documents is evidence that supports the overall process of ensuring that funds are managed appropriately. To do so, relevant, appropriate and complete documentation (based on reasonable activities) exists that clearly supports the payment decisions made; and each of those documents conform to agreed upon conventions for their production.

These core practices and documents are in place to provide assurance that issues with regard to managing funds are addressed. The table below (*Responsible Fund Management - Issues and Related Core Documents*) provides an overview of how specific core documents are related to the issues considered in the QAR with regard to managing grant and contribution funds. Funding (or payment) issues identified are addressed through the completion of the core documents, including appropriate supporting documentation on file to address those issues.

Table Seven: Responsible Fund Management – Issues and Related Core Documents	
Fund Management Issue	Related Core Documents
An ongoing assessment of the efficient use of the funds exists.	• Client Progress Report • WD Project Monitoring Report • WD Risk Assessment for Claim Verification • WD Project Audit Report

Table Seven: Responsible Fund Management – Issues and Related Core Documents	
Fund Management Issue	**Related Core Documents**
Payments made properly in accordance with the agreement (in the case of repayable contributions, money owed to the Crown is collected promptly).	• Client Claim for Reimbursement • WD Record of Claim Review • WD Record of Payment
Payments are based on verified evidence of appropriate expenditures.	• Client Claim for Reimbursement • WD Risk Assessment for Claim Verification • WD Record of Claim Review • WD Project Audit Report • WD Record of Payment
Projects are processed and managed in a timely manner.	• Client Claim for Reimbursement • WD Record of Payment

Supporting Practices Related to Managing Funds in a Responsible Manner

There are two essential best practices that help ensure that funds are managed in a responsible manner; financial audits, and on-site visits. While the activities related to the core documents are the primary undertaking, financial audits and on-site provide the necessary secondary assurance that information contained in the documents are valid and reliable reflections of both the performance of the projects and the financial expenditure claimed. Both of these mechanisms are essential as on-going practices to provide support to reporting and financial payment obligations made clear in the agreements.
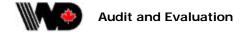
Best Practices Summary – Managing Funds Responsibly

In terms of managing funds responsibly, the completion, verification and analysis of the following documents (and their inclusion on file) represent best practices:

1. All core documents
2. Supporting information for the core documents
3. Financial audits
4. On-site visits

Next Steps

A wealth of effort exists to demonstrate WD's strong approach to managing the department's grant and contribution portfolio. Through QAR, these best and promising practices are now available to be shared; allowing WD to build on the existing grant and contribution management efforts and promote the
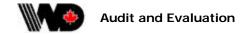
consistent application of the best and promising practices identified in this report. By doing so, we are assuring that grant and contribution funds at WD are providing the maximum intended benefits to Canadians, and that scrutiny of our practices would result in consistently positive observations.

In this light, it is recommended that the QAR Initiative continue with the implementation of Step Three that includes; the development of practical tools for all levels of management and staff who handle WD grants and contributions, the development of a training package in the train-the-trainer mode to share the knowledge gained, and the delivery of that training. By collecting and sharing information on best practices in managing WD's grant and contribution portfolio through the QAR initiative, WD is acting in a positive manner and has assumed a leadership role for government departments that provide grants and contributions to Canadians.

Appendix One – General Approach to the QAR Initiative

STEP	Description
Step One (complete) Issue identification, planning, and analysis.	• Document review (OAG chapters - current and past), current TB policies, selected WD files; • Selected interviews; • Development and use of a **Preliminary Quality Assurance Review Approach,** and • Production of a **Planning Report**, which contains preliminary findings and provides a recommendation and course for further action, as well as the **Draft Quality Assurance Review Approach**; • Consultation on the document.
Step Two (underway) Quality Assurance Review.	• Execute a full Quality Assurance Review using the approved QAR Approach to examine a statistically representative sample of G&C files from the past two years; and • Prepare a **Final Report on the Quality Assurance Review (this report)**. • Consultation on the document.
Step Three (underway) Develop and provide tools.	• Develop **practical tools** (tailored to WD) for all levels of management and staff who handle WD grants and contributions; giving full reference to the requirements laid out in the OAG's performance framework, once it is developed. • Develop **training packages** in the train-the-trainer mode to share the knowledge gained; and • Deliver training packages.
Step Four Quality Assurance Follow-up.	• To take place 9-12 months after completed training, and in reference to the OAG's Performance Framework; • Assessment of training effectiveness (which may include a review of files against criteria provided) to determine if the initiative has attained stated objectives; • Prepare a **Follow-up Report** based on the findings.

Appendix Two – QAR Checklist Issues

Due diligence is demonstrated by reviewing and approving applications in a complete and appropriate manner. Persuasive assessments exist to support the funding decisions, and documentation is on file that reflects all the major factors supporting decisions to approve assistance.
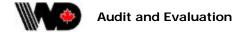
- It is demonstrated that other methods of funding have been exhausted.
- An assessment has been made to ensure that funding will not have a negative impact on privately funded enterprises.
- An assessment has been made of the ability (e.g.: managerial, financial, etc.) of the recipient entity to ensure they are capable of delivering the project.
- Other federal and provincial departments have been consulted to ensure that funding is not duplicated.
- Recipients are funded and at an appropriate level.
- A comparative assessment of the value for money to both the applicant and the program has been completed (e.g.: cost-benefit, cost-effectiveness).
- A rigorous assessment, based on clear criteria, has been made regarding the risk inherent in the project.
- Alternative methods of delivery have been identified and assessed.
- Environmental concerns have been identified and assessed.
- Human rights concerns have been identified and assessed.

Clear, attainable objectives are set, allowing management to explain how recipients are expected to benefit from funding and to what end.

- Objectives are clearly stated.
- Objectives relate to results as well as activities.
- Objectives contain essential elements; stated condition, expected quantitative measure, and time frame.
- Objectives are plausible and realistic reflecting strength in program design.
- Achievement of objectives is clearly attributable to the program effort.
- Achievement of objectives will clearly provide incremental results.
- Objectives are related to the statement of overall program goals and objectives.
- Objectives as stated comply with overall program authorities.

Performance against objectives is measured and reported to ensure control, monitoring and evaluation of the funding effort and that funding is used for the purposes agreed.

- The terms and conditions set in the agreement are clear and unambiguous.
- Monitoring and evaluation requirements are clearly set out.
- There are measures in place that clearly reflect objectives.
- Monitoring occurs on a regular and timely basis, appropriate to risk.
- Evaluation occurs as per the agreement and in accordance with TB guidelines in a timely manner.
- There is a mechanism for resolving problems, and problems with performance are resolved quickly.
- Reporting demonstrates a good knowledge of program performance.
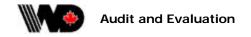
Funds are managed in a responsible manner.

- An ongoing assessment of the efficient use of the funds exists.
- Payments are based on verified evidence of appropriate expenditures.
- Payments are made properly in accordance with the agreement (in the case of repayable contributions, money owed to the Crown is collected promptly).
- Projects are processed and managed in a timely manner.

Appendix Three – Sample File List

PROGRAM	REGION	PROJECT No.
AGRI VALUE-ADDED LOAN (TD BANK)	Alberta	A98LN0003
AGRI VALUE-ADDED LOAN (TD BANK)	Alberta	A98LN0006
AGRI VALUE-ADDED LOAN (TD BANK)	British Columbia	B99LN0006
AGRI-VALUE ADDED FUND (CIBC & FCC)	Manitoba	M98LV0003
AGRI-VALUE ADDED FUND (CIBC & FCC)	Saskatchewan	S98LV0003
AGRI-VALUE ADDED FUND (CIBC & FCC)	Saskatchewan	SLVZ00002
CDA FOUND. FOR INNOVATION SUPPORT	British Columbia	BXJZ00004
CDA FOUND. FOR INNOVATION SUPPORT	Manitoba	MXJZ00002
CF - PACIFIC SALMON FISHERY	British Columbia	BFEZ00001
ENVIRONMENTAL INDUSTRIES FUND	British Columbia	B98LE0014
EXPORT READINESS (ITPP)	Alberta	A98XH0011
EXPORT READINESS (ITPP)	Alberta	A98XH0024
EXPORT READINESS (ITPP)	Alberta	A98XH0026
EXPORT READINESS (ITPP)	Alberta	A99XH0011
EXPORT READINESS (ITPP)	Alberta	AXHZ00016
EXPORT READINESS (ITPP)	Alberta	AXHZ00027
EXPORT READINESS (ITPP)	British Columbia	B98XH0001
EXPORT READINESS (ITPP)	British Columbia	B98XH0024
EXPORT READINESS (ITPP)	British Columbia	B99XH0018
EXPORT READINESS (ITPP)	British Columbia	B99XH0037
EXPORT READINESS (ITPP)	British Columbia	B99XH0046
EXPORT READINESS (ITPP)	British Columbia	BXHZ00039
EXPORT READINESS (ITPP)	British Columbia	BXHZ00047
EXPORT READINESS (ITPP)	British Columbia	BXHZ00050
EXPORT READINESS (ITPP)	British Columbia	BXHZ00063
EXPORT READINESS (ITPP)	British Columbia	BXHZ00069
EXPORT READINESS (ITPP)	Manitoba	M97XH0024
EXPORT READINESS (ITPP)	Manitoba	MXHZ00010
EXPORT READINESS (ITPP)	Saskatchewan	S98XH0006
FIRST JOBS IN S&T PROGRAM	Alberta	A99YD0019
FIRST JOBS IN S&T PROGRAM	Alberta	AYDZ00033
FIRST JOBS IN S&T PROGRAM	British Columbia	B98YD0025
FIRST JOBS IN S&T PROGRAM	British Columbia	B98YD0028
FIRST JOBS IN S&T PROGRAM	British Columbia	B98YD0047
FIRST JOBS IN S&T PROGRAM	British Columbia	B99YD0054
FIRST JOBS IN S&T PROGRAM	British Columbia	BYDZ00016
FIRST JOBS IN S&T PROGRAM	British Columbia	BYDZ00042
FIRST JOBS IN S&T PROGRAM	British Columbia	BYDZ00045
FIRST JOBS IN S&T PROGRAM	Manitoba	M99YD0003

HEALTH INDUSTRIES FUND	British Columbia	B98LH0002
INFO.TECH.& COMMUN.FUND (ROYAL BK)	Alberta	A98LI0001
INFO.TECH.& COMMUN.FUND (ROYAL BK)	Manitoba	M98LI0010
INFO.TECH.& COMMUN.FUND (ROYAL BK)	Saskatchewan	S99LI0001
KNOWLEDGE BASED INDUSTRIES FUND	British Columbia	B98LK0004
KNOWLEDGE BASED INDUSTRIES FUND	British Columbia	B98LK0009
KNOWLEDGE BASED INDUSTRIES FUND	British Columbia	B98LK0029
MANITOBA PARTNERSHIP AGREEMENT	Manitoba	M98PG0002
MANITOBA PARTNERSHIP AGREEMENT	Manitoba	MPGZ00004
NATIONAL PROGRAMS	British Columbia	B97NA0001
SERVICE DELIVERY NETWORK	Alberta	A98SD0004
SERVICE DELIVERY NETWORK	Alberta	A99SD0001
SPONSORSHIPS-CONTRIBUTION PAYMENTS	Alberta	A98QC0011
SPONSORSHIPS-CONTRIBUTION PAYMENTS	Alberta	AQCZ00006
SPONSORSHIPS-CONTRIBUTION PAYMENTS	Alberta	AQCZ00010
SPONSORSHIPS-CONTRIBUTION PAYMENTS	British Columbia	B99QC0007
SPONSORSHIPS-CONTRIBUTION PAYMENTS	British Columbia	BQCZ00019
SPONSORSHIPS-CONTRIBUTION PAYMENTS	British Columbia	BQCZ00046
SPONSORSHIPS-CONTRIBUTION PAYMENTS	British Columbia	BQCZ00047
SPONSORSHIPS-CONTRIBUTION PAYMENTS	Manitoba	MQCZ00015
SPONSORSHIPS-CONTRIBUTION PAYMENTS	Saskatchewan	SQCZ00003
STRATEGIC INITIATIVES PROGRAM	Alberta	A98SI0001
STRATEGIC INITIATIVES PROGRAM	Alberta	A98SI0004
STRATEGIC INITIATIVES PROGRAM	British Columbia	BSIZ00002
STRATEGIC INITIATIVES PROGRAM	Manitoba	MSIZ00005
STRATEGIC INITIATIVES PROGRAM	Saskatchewan	SSIZ00001
WESTERN ECONOMIC DIVERSIF. PGM.	Alberta	A97WD0006
WESTERN ECONOMIC DIVERSIF. PGM.	Alberta	A98WD0016
WESTERN ECONOMIC DIVERSIF. PGM.	British Columbia	B98WD0005
WESTERN ECONOMIC DIVERSIF. PGM.	British Columbia	BWDZ00006
WINNIPEG DEVELOPMENT AGREEMENT	Manitoba	M98DW0008