Consulting and Audit
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# Assessment of
# NSERC/SSHRC
# Award Monitoring Activities

Prepared for

The Natural Sciences and Engineering Research Council (NSERC)
and
The Social Sciences and Humanities Research Council (SSHRC)

Prepared by

Consulting and Audit Canada
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CAC<sub>CVC</sub>

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# Executive Summary

The objectives of this assessment were:

- To assess the policies, procedures and practices used for activities related to award monitoring (grants and scholarships for researchers and universities), including review visits.

- To assess the usefulness of award monitoring to the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC) and the perceived usefulness to the universities.

**Policies, procedures and practices used for activities related to the award monitoring**

In our opinion, the policies, procedures and practices used for activities related to award monitoring are satisfactory as they allow NSERC and SSHRC (the Councils) to adequately assess the soundness of control frameworks put in place by universities in their management of research grants as trustees of the Councils. We have segregated our observations between good practices and areas offering opportunities for improvement, for which we provide recommendations.

A number of good practices have been identified. The most significant are:

- other tasks performed by the Financial Monitoring Team (FMT) allow them to maintain contact with universities and to make their job more interesting;

- binder with background information pertaining to universities;

- notification of upcoming visits to NSERC/SSHRC employees; and

- good interconnection between award monitoring and the NSERC and SSHRC Web sites.

The following areas for improvement, with recommendations, have been identified:

- policies and procedures on review visits, investigations and follow-up of review reports need to be more formalized;

- incomplete documentation and paper trails of review files;

- high turnover of the Financial Monitoring Team; and

- joint visits with the Canadian Institutes of Health Research (CIHR) and the Canada Foundation for Innovation (CFI), although manageable, do not always work adequately.

**Usefulness of award monitoring to the Councils and the universities**

Although there is no doubt that award monitoring activities present positive outputs for the Councils and the universities, the communication of information obtained through these activities still needs improvement before these activities reach their full potential. We provide examples of good practices and areas for improvement with recommendations.

We have identified a number of good practices. The most significant are:

- good communication between the FMT and universities during the review process;

- opportunities for feedback and benchmarking provided to universities;

- professionalism of FMT staff; and

- exchanges of useful information between the FMT and Award Administration.

We have identified the following areas for improvement, with recommendations:

- some sections or aspects of review reports need modification or clarification;

- perceived discrepancy between the tone used at the debriefing in comparison to the content of the review report;

- late issuance of final review reports; and

- opportunities for sharing more information obtained through review visits with other groups within NSERC and SSHRC.

# 1. Background

As stated by the President of the Treasury Board (TB), the most important priority of the government is to be responsive to the needs of citizens. This is a central theme of the government's modern comptrollership initiative outlined in *Results for Canadians: A Management Framework for the Government of Canada*. This initiative includes the following commitments: responsible spending, requiring that control frameworks be in place to ensure due diligence, and proper stewardship of public funds.

The monitoring function is an important element of the control framework of both the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC). Universities act in trust for grant and scholarship funds earmarked for researchers and students (collectively referred to as "awards"). They make a specific commitment to provide responsible management of the funds awarded as well as the necessary infrastructure and administrative support to awardees.

Financial monitoring of awards is the responsibility of the Financial Monitoring Team (FMT) (formally known as the Review and Investigation Team) which is part of the Common Administrative Services Directorate (CASD) responsible for providing corporate services to both Councils. This financial monitoring includes a wide array of activities, the main one being review visits conducted in universities. The FMT is also responsible for other activities such as the follow-up of Grant Residual Funds, the processing of annual Statements of Account (Form 300) submitted by universities, and the special investigation of potential misuse of awards.

NSERC and SSHRC's Audit Committees have requested that a joint assessment be completed on the activities related to award monitoring under the responsibility of the FMT, with more emphasis on review visits. Consulting and Audit Canada (CAC), an agency of Public Works and Government Services Canada, has been asked to conduct this assessment.

To help understand this report, an overview of the specific objectives of review visits and the main steps involved is provided in **Appendix A**.

# 2.    Objectives

The objectives of this assessment were:

- To assess the policies, procedures and practices used for activities related to award monitoring, including review visits.

- To assess the usefulness of award monitoring to the Councils and the perceived usefulness to the universities.

# 3.    Scope

The scope of the assessment of award monitoring activities is related to the two objectives.

The assessment of the policies, procedures and practices used for activities related to award monitoring included:

- background information found on the NSERC and SSHRC Web sites;

- Treasury Board Secretariat's policies on grants and comptrollership;

- policies and procedures used to assess the effectiveness of the control framework in place at universities receiving funding;

- policies and procedures used to select the universities to be visited;

- policies and procedures used by the FMT for review visits and investigations; and

- practices and procedures used for the follow-up of review reports, including corrective actions undertaken by universities to address the recommendations.

The assessment and analysis of the usefulness of award monitoring to the Councils and the perceived usefulness to the universities included:

- methods used to monitor award guidelines for university administrators, researchers and students;

- processes used by the FMT to communicate results at the end of review visits and to report results in writing; and

- reporting of monitoring findings, obtained through review visits and investigations, to senior management of both Councils and their Executive Committees.

# 4.    Assessment Approach

The approach taken for this assessment consisted of the following:

- analyzing all current documents provided by the FMT specific to the items described in the scope;

- interviewing different stakeholders at NSERC and SSHRC, including the Common Administrative Services Directorate (CASD) and the Networks of Centres of Excellence (NCE) (Appendix B);

- reviewing a sample of working files and corresponding reports from previous review visits conducted over the last two years, including all related communications;

- accompanying FMT staff during a review visit they conducted in March 2004 at Trent University; and

- interviewing key staff at a sample of eight (8) universities where review visits have taken place in the last two years to assess the usefulness of the visits and the universities' satisfaction with the visits. The universities were selected according to the following criteria: visit conducted with the review plan, size of the university, on-site review vs. in-house review, visit conducted with and without the third funding agency (CIHR). The selected universities included:

  - Trent University

  - University of Waterloo

  - Lakehead University

  - University of Ottawa

  - University of Victoria

  - University of Alberta

  - University of Calgary

  - Université du Québec à Rimouski

# 5.    Assessment Team

The Team, all from Consulting and Audit Canada, consisted of the following members:

Ron McCabe           Project Manager

Sabin Chassé          Consultant

Issam Iskandarani     Consultant

# 6. Observations on the policies, procedures and practices used for activities related to award monitoring

## 6.1 Conclusion

In our opinion, the policies, procedures and practices used for activities related to award monitoring are satisfactory as they allow the Councils to adequately assess the soundness of control frameworks put in place by universities in their management of research grants as trustees of the Councils. We have segregated our observations between good practices and areas offering opportunities for improvement, for which we provide recommendations.

## 6.2 Good practices

### 6.2.1 Other tasks performed by the FMT allow them to maintain contact with universities and to make their job more interesting

In addition to the tasks related to conducting review visits and their follow-up, FMT staff is also responsible for other tasks such as monitoring the Grant Residual Fund (GRF) and reconciling Statements of Account (Form 300). These tasks allow FMT staff to maintain good relationships with individuals involved in grants in universities as they are not solely perceived as "auditors" conducting periodic review visits. This also gives FMT staff an opportunity to obtain information on universities that might be of interest in future visits. It also presents the significant advantage of making the job of the staff even more interesting, broadening their work experience and enhancing their knowledge of the Councils' guidelines.

### 6.2.2 Binder with background information pertaining to universities

As a practice, FMT staff keep a binder on some universities, including documents of different sources that provide background information that might be useful for a future review visit. An example could be a particular policy adopted by a university and obtained through a third-party source. The binder also documents issues of concern that were brought to the attention of the FMT by individuals at universities, NSERC/SSHRC employees and other stakeholders. Unless the seriousness of these issues warrants an ad hoc investigation, the information is documented in the binder for the next visit to the university concerned.

### 6.2.3 Notification of upcoming visits to NSERC/SSHRC employees

Prior to a review visit, an e-mail is sent to all NSERC/SSHRC employees to ask them to inform FMT staff if they have any financial concerns about the university to be visited (such as practices, policies or particular grant accounts that need more scrutiny). This practice is an efficient way of getting up-to-date and first-hand information from a number of sources. It also

has the advantage of periodically reminding NSERC/SSHRC employees about the FMT's award-monitoring practices.

### 6.2.4 Good interconnection between award monitoring and the NSERC and SSHRC Web sites

Throughout its communication with universities, the FMT often refers to the information posted on the NSERC and SSHRC Web sites such as roles and responsibilities of the Councils and universities, program guidelines and descriptions of review visits. For example, these references are made in the letter sent to universities to confirm an upcoming visit or in review reports issued once the visits are completed.

This practice allows a good interconnection between the award monitoring processes and procedures and the information found on the Web sites. In this respect, it reinforces the use of the Web sites by universities to improve their knowledge and understanding of the Councils' guidelines. It also allows FMT staff to save time as they can refer to the information on the Web sites to supplement the explanations they provide to universities.

### 6.2.5 Interviews with different stakeholders during review visits

During review visits, interviews are conducted with different stakeholders involved in the Councils' programs; for example, representatives of the following groups: business office, research grant office, graduate studies, researchers, students, human resources, and procurement. These interviews allow first-hand information to be obtained that can be used in different ways such as identifying areas needing deeper review or completing the description of the control framework put in place by the visited university to manage the Councils' grants. In some visits, they generate most of the findings and observations in review reports.

## 6.3 Areas offering opportunities for improvement

### 6.3.1 Policies and procedures on review visits, investigations and follow-up of review reports need to be more formalized

Procedures on review visits are covered by the Procedures Binder, which contains numerous templates used by FMT employees to prepare the various documents needed throughout the review visits, from the notification letter sent to a university where a visit has been scheduled, to the review report. The templates, which comprise most of the binder's content, are adequate in that they provide staff with general guidance on how to prepare specific documents. However, with only a few exceptions, we found that the binder does not contain detailed procedures. Some significant steps and aspects involved in review visits need to be covered in-depth with written procedures.

An example of a step that needs more guidance pertains to the decision on the number of tests to be conducted on transactions reported in grant accounts. In theory, the number of tests is calculated with a matrix based on two parameters: the error rate and the confidence level.

However, in the absence of appropriate guidance on how to assess these parameters, employees have made this decision more on a judgmental basis than on the results provided by the matrix.

Procedures relating to the description of the university's policies and procedures also need to be more detailed. According to the Memorandum of Understanding (MOU) on the Roles and Responsibilities in the Management of Federal Grants and Awards signed with the granting Agencies, policies, systems, procedures and controls (collectively referred to as their "control framework") must be established and maintained to ensure compliance with the Agencies' requirements. Although information is already obtained on the control framework by different means (such as the review of answers provided by the university in the "Review – Issues and Questions" questionnaire, interviews with the university's representatives and the assessment of policies and procedures found on the university's Web site), the FMT currently has no procedures detailing how all this information is to be systematically gathered and used to support the testing of transactions, as well as the general opinion stated in the review report on the control framework.

In the fall of 2003, the FMT started to draft procedures on issues such as notification and scheduling of visits, review files, additional information to be considered when preparing a visit and documents needed in planning a visit. However, due to lack of time, this process has since been postponed. Having proper written procedures will help maintain the quality of review visits even if the FMT experiences additional personnel turnover in the future.

Policies and procedures on investigations and follow-up of review visits also need to be clarified. Investigations appear to have been the subject of a document drafted by former members of the FMT; however, in the last few years, steps relating to investigations have been addressed through verbal procedures and practices.

As well, no written policies or procedures have been adopted on the follow-up of review visits to ensure that universities have taken the steps required to correct shortfalls identified in review reports. Interviews conducted with the Councils and university representatives suggest that the follow-up on review visits conducted over the last few years has been adequate. However, this activity needs formalization.

## Recommendation 1

**In addition to the directives currently found in document templates, all significant steps relating to review visits and investigations should be detailed in written procedures.**

### 6.3.2    Incomplete documentation and paper trails of review files

Review files correspond to binders containing all documents and information gathered during the review visits. Maintaining adequate review files is important for several reasons such as adequately planning all details pertaining to a visit and supporting all observations and recommendations included in the review report. They are also used in quality control by helping the FMT officer heading the review visit, as well the FMT manager, to ensure that the FMT's

procedures and guidelines dealing with the conduct of review visits have actually been followed and that all risk areas identified prior to and during the visit were adequately dealt with. Review files can also be used for the visit follow-up and for training new employees.

Although review files are generally adequate, we have identified some areas needing improvement. Review programs are used to ensure that all review steps have been performed and to indicate where the corresponding information they have generated can be found in the review file. For the files assessed, we found that review programs have been completed during the planning period for the visit but not after the start of the fieldwork. The review program, when used as a checklist, constitutes an easy way to avoid duplication and oversight, and consequently should be filled out right up to end of the review cycle.

We also found that planning for the visit was based on three different documents, the "Strategic Plan," the "Planning Points" and "Take a look at." A planning memo is a significant internal document of the review file, allowing FMT staff to plan and conduct review visits more effectively and to ensure that all areas of concern, where applicable, have been covered through review steps. To avoid any confusion, the above-mentioned planning documents should be merged.

Other secondary aspects of review files also need improvements, among them indexing and cross-referencing of some of the working documents, sorting of test results by categories of expenses to match the information detailed in the review report, and documenting observations and findings obtained through interviews conducted with university staff and researchers.

## Recommendation 2

**Part of the content and structure of review files should be revised to ensure more adequate and efficient documentation of review visits.**

### 6.3.3    High turnover of the Financial Monitoring Team

The FMT has experienced high personnel turnover in recent years, as well as some difficulties in staffing positions. The FMT is a small group of five members, including a manager. All the current members joined the team within the last three years. Although the FMT appears to have properly managed this situation, the instability of the workforce within a small team may cause a number of negative impacts such as not being able to deliver timely review reports. Also, adequacy of review visits and reports is mainly based on audit experience, as well as the staff's sufficient knowledge of the Councils' guidelines.

A variety of factors affect turnover. This situation requires an analysis to identify the underlying causes of these staffing issues.

This issue could also be addressed by different means, among them an adequate sharing between team members of information gathered during review visits, the availability of back-up employees within CASD, continuous training of employees, and good supervision of staff by the FMT Manager.

**Recommendation 3**

**CASD should analyze reasons for high turnover among the FMT employees and take steps to address its findings.**

### 6.3.4 Joint visits with the Canadian Institutes of Health Research (CIHR) and the Canada Foundation for Innovation (CFI), although manageable, do not always work adequately.

In recent years, NSERC and SSHRC have jointly conducted some of their review visits with CIHR. This means that the three Agencies visited the universities together, including attending the main meetings held during those visits (with the exception that CIHR tested its own sample of transactions). A common review report was later issued. There have also been some visits where a fourth agency, the Canada Foundation for Innovation (CFI), was present during the same period. However, these visits were not joint visits as CFI conducted interviews and tested transactions on its own. No common meetings were held between CFI and the two or three other granting Agencies.

Interviews with representative of universities and the two Councils have shown that joint visits with CIHR and CFI, although manageable, do not always work adequately. The general opinion is that these granting Agencies have different sets of programs, projects and guidelines than NSERC and SSHRC. As for involving additional granting Agencies in review visits, unless these Agencies are partnered in common grant projects, universities see no value-added. Review visits in their current format appear to be already demanding enough; adding other agencies would put too much pressure on university staff and the grantees.

These reasons were put forward by some universities to question the value of having CFI conduct visits in parallel with NSERC, SSHRC and CIHR. CFI appears to pursue different objectives, as its transfers are done through contributions as opposed to grants.

We also found that sharing roles and responsibilities as well as communication between the FMT and CIHR with regard to review visits needs to be more formalized. For example, more information should be shared before a review visit starts.

**Recommendation 4**

a) **The two Councils should assess whether or not to continue conducting review visits with CFI.**

b) **The FMT should take necessary steps to improve the sharing of roles and responsibilities as well as communication with CIHR.**

# 7.    Observations on the usefulness of award monitoring activities to the Councils and Universities

## 7.1    Conclusion

Although there is no doubt that award monitoring activities present positive outputs for the Councils and the universities, the communication of information obtained through these activities still needs improvement before these activities reach their full potential.  Below are good practices and areas for improvement, along with our recommendations.

## 7.2    Good practices

### 7.2.1    Good communication between the FMT and the universities during the review process

Communication during the review visit is very satisfactory.  Universities are kept well informed during the whole process, and FMT staff take into account the explanations the universities submit.  These exchanges are based on trust and partnership.

### 7.2.2    Opportunities for feedback and benchmarking provided to universities

Review visits compare favourably to other similar reviews and audits conducted on transfer payments as they allow more discussion, feedback and benchmarking.  There is also adequate balance between the review of transactions and the assessment of the control framework.  In addition, universities appreciate the FMT staff's advice on how to respond to some of the recommendations based on what they have seen in other universities.  In addition, universities greatly appreciate the information session held during the review visit.

### 7.2.3    Professionalism of FMT staff

FMT staff is seen as being very professional and having good communication skills.

### 7.2.4  Exchanges   of   useful   information   between   the   FMT   and   Award Administration

There is a good channel of communication between the FMT and Award Administration because of the complementary objectives pursued by this group.  Examples of good practices are the participation of FMT staff in the weekly "Question Period" meeting held by Award Administration, as well as the debriefing by FMT members after each review visit on significant identified findings.  The outstanding quality of the communication between these two groups allows them to exchange useful and mutually beneficial information.

# 7.3    Areas offering opportunities for improvement

## 7.3.1    Some sections or aspects of review reports need modification or clarification

Although a great deal of observations, comments, clarifications and answers are informally shared between the FMT and the university throughout the review process, the review report is the most significant document for a university as it represents the review process' end-product. It more formally establishes the opinion of the granting Agencies on the control framework put in place by the university and, through management's responses, formalizes the commitment of the university to the review's recommendations.  For these reasons, a great deal of attention must be attached to the content as well as to the form of the review report.

Our assessment of some of the review reports issued over the last two years has led us to identify some areas that need modification or clarification.

### a) Expressions used in the report's appendix called "Summary of Transactions Reviewed"

The purpose of the Appendix entitled "Summary of Transactions Reviewed" is to provide summary information on the results of the detailed testing conducted on sample transactions recorded in grant accounts.   Results are sorted for the following categories of expenses: equipment/computer, travel, salary, material and supplies, and other.   For each of these categories, figures are provided on the number of "Transactions Reviewed," "Non-Compliant Transactions" and "Ineligible Transactions."

In the Appendix, the expression "Non-Compliant Transactions" is defined as, "transactions [that] are eligible but do not comply with the Agencies' guidelines." We believe that this expression needs to be clarified as the notion of eligibility must necessarily be considered in reference to defined guidelines.   In this case, one may assume that the guidelines referred to are the university's guidelines.   For this reason, the expression should be modified either as, "These transactions, although eligible with regard to the universities' guidelines, do not comply with the Agencies' guidelines" or more simply as, "These transactions do not comply with the Agencies' guidelines."

The expression "Ineligible Transactions" also needs some clarification.   In the Appendix, it is defined as, "transactions [that] should not have been charged against Agencies' funds and may be subject to reimbursement." For obvious reasons, the use of the word "transactions" both in the expression itself and its definition is not appropriate.   Therefore, it should be replaced by the word "expenses." This expression should also be made more accurate by stipulating that these expenses are not eligible according to the Agencies' guidelines.

### b) Consistency between the overall opinion expressed in the Executive Summary and the observations, recommendations and Summary of Transactions Reviewed

The Executive Summary includes an overall opinion expressed on the university's control framework put in place to ensure compliance with the Agencies' guidelines and sound management of research funds. This opinion is important because it sets the tone for the rest of the report and might be legitimately understood by the university's management as representing the main conclusion reached by the Agencies following the review visit. Therefore, this opinion and the content of the report should always be in agreement.

Based on the assessment of review reports, we have found that observations, recommendations and the Summary of Transactions Reviewed do not always appear consistent with the overall opinion expressed in the Executive Summary. In some instances, the university's control framework has been rated as "adequate" even when many significant observations and recommendations were made in the report and when non-compliant transaction rates in the 20% to 25% range were found.

A transaction is qualified as non-compliant even when a sole requirement attached to the corresponding category of transactions is not met. For some categories of transactions, several requirements must be met which increase the odds that a transaction will be deemed non-compliant.

For example, for travel expenses recorded through travel claims, each of the following requirements must be met:

- indication of the purpose of the trip, including the dates and destinations;

- official supporting documentation (e.g., prospectus or program, indicating the dates of conferences and workshops);

- original receipts, such as hotel bills, car rental agreements (credit cards slips are not valid receipts);

- original air travel ticket receipts (airline boarding passes will not be accepted in lieu of ticket receipts except in the case of electronic tickets);

- separate claim for each trip made by an individual;

- conformity to the university's travel policies and procedures;

- for claimants other than the grantee, the affiliation with the grantee's research group must be specified, and if the traveler is the grantee himself/herself or a visiting researcher, the travel claim must be countersigned by the department head or dean confirming the relevance of the travel to the research being funded.

It is difficult for a travel claim to meet all the requirements, and thus rates of non-compliant transactions might end up high. Although all the requirements correspond to legitimate means of control, they must be weighed against the risk they represent of an ineligible expense not being identified by the controls in place at the university.

This rule also applies to observations and recommendations included in the review report. In some cases, we found that even if the rate of occurrence of a particular source of non-compliance was apparently low, and its impact on potential ineligible expenses was low and the university had been rated as having a good control framework, the non-compliance still led to an observation and recommendation in the report. As mentioned, we found that there is a lack of guidance on how to assess the universities' control framework. We believe that formalizing this other aspect of review visits could be useful in deciding which non-compliant transactions warrant observations and recommendations in the review report, taking into account sound risk management criteria.

We also found that for some of the reports issued over the two last years, the Summary of Transactions Reviewed provided details explaining which particular transactions had been rated as non-compliant, and for each of them, the reason for the non-compliance. This practice should be extended to all reports as it helps universities to understand the reasons for non-compliance of some of the transactions tested. It also allows a better link between the results of the testing of transactions and the observations and recommendations in the report.

### c) Reporting on the review of the Networks of Centres of Excellence (NCE)

In addition to the review visits conducted in universities, the FMT is also responsible for conducting similar visits to the current 21 Networks of Centres of Excellence (NCE). Review visits to the NCE are generally conducted concurrently with visits to universities because, with a few exceptions, most of them are hosted by universities, and because the NCE rely partly on universities to manage their funds. For these reasons, results of the review of a university and the NCE it hosts are reported in the same review report.

The scope of the review visits conducted at the NCE are similar to review visits conducted at universities. The FMT reviews the administrative and control frameworks that the NCE have put in place to ensure that they comply with the Agencies' guidelines and the funding agreement signed with the Agencies and the host university. These responsibilities are mainly fulfilled through interviews with the NCE's representatives as well as the review of operating expenses and the requirements of the funding agreement.

We found that the reporting on the financial review of the NCE hosted by universities needs to be improved. The reporting on their review is amalgamated with the main review conducted at universities. However, the NCE constitute organizations that are distinct from universities in their management and objectives. Also, they are funded under a distinct program created by NSERC, SSHRC and CIHR. Consequently, the report on their financial review should either be included in a separate section of the main review report or in a separate report, including observations and recommendations where needed.

## Recommendation 5

**The following modifications or improvements should be made to the review report:**

a) **Modify the definition of "Non-Compliant Transactions" and the expression "Ineligible Transactions" used in the Summary of Transaction Reviewed;**

b) **Weigh the rate of non-compliant transactions against the risk of non-control and the impact of non-compliance on ineligible expenses to determine if an observation and a recommendation are necessary;**

c) **In the Summary of Transactions Reviewed, provide details explaining which particular transactions have been rated as non-compliant, and for each of them, the reason for the non-compliance;**

d) **Report on the results of the review of the NCE either in a distinct section of the review report or in a separate report.**

### 7.3.2 Perceived discrepancy between the tone used at the debriefing in comparison to the content of the review report

Some universities have told us that they were surprised to see that the message they perceived in the review report was harsher than the generally positive tone and comments provided to them at the debriefing.

More than anything else, this apparent discrepancy appears to be a matter of perception. While universities have not brought up potential causes for the discrepancy, several factors could explain it. One explanation might be that at the debriefing, direct contact between FMT staff and the university's representatives tends to be much less formal than in a review report. It is possible that this contact creates an atmosphere where the FMT is more inclined either to put emphasis on positive findings identified by the review visit, or to put shortfalls more in perspective.

Another explanation might also be that at the debriefing there is no insistence on the findings obtained through the testing of transactions recorded in grant accounts because, generally, several transactions need follow-up. However, in the review report, the final results of the testing have been tabulated in the Appendix "Summary of Transactions Reviewed" with possibly additional non-compliant transactions or eligible expenses. For reasons mentioned earlier, this Appendix appears to present a darker picture of the actual results of the testing. It is also possible that the tabulation of results might lead the FMT to submit additional observations and recommendations not mentioned during the debriefing as they were still unknown or were being looked into at the time. In this respect, we were told by some universities that during the debriefing, they would have liked to have been provided with the magnitude of non-compliant transactions uncovered by the testing to help them understand the extent of shortfalls.

### Recommendation 6

**The FMT should ensure that the same message is conveyed both at the debriefing and in the review report.**

### 7.3.3    Late issuance of final review reports

Guidelines for service standards state that the draft report should be issued within 20 working days after a visit has been completed, that the university should be given another 20 working days to respond and that the final report should be issued within 5 working days of receipt of the university's response, unless further clarifications are needed.  In theory, these guidelines mean that final reports should be issued within a three-month period after the conclusion of a review visit.

The analysis of review visits conducted in the last few years has shown that for most of the visits, the draft report has been issued after approximately two months.  Although this period does not comply with the time frame stated in the service standards, it still seems acceptable. We found that for about half of the review visits, final versions of the review report were issued within an acceptable timeline of three months after the conclusion of the visit.  However, for some of the review visits, final review reports were issued very late ─ between 6 and 12 months after the fieldwork was completed.

Different reasons may explain the late issuance of final review reports.  In some cases, there may have been an unusual number of observations and recommendations in the draft report; this generally means that the university needs a longer period to prepare its responses. For some of the review visits in which CIHR took part, it appears as if the postponement may have been caused by the extended delay in CIHR dealing either with the writing of the review report, the follow-up on transactions or the university's responses.  As mentioned, this may have been because the roles and responsibilities between the FMT and CIHR were not formalized enough. Lack of availability of the university's personnel during summer vacations or busy periods may also explain the postponement of some review reports.

The late issuance of the final review report has negative impacts.  The most obvious one is that the significance of the report tends to decrease with the passage of time.  There is then a risk that the university visited wrongly interprets the late issuance as meaning that the report's observations and recommendations are not that important to the Councils after all.  Also, even if the Councils' approval of corrective measures proposed by universities is not required, some universities might still conclude that since they have not yet received the final report, they should wait to implement some of the corrective measures, as delaying the issuance of the report might be caused by the Councils' disagreement with some of them.  Consequently, the university loses part of the momentum generated by the review visit.  Another downside of the late issuance of review reports is that follow-up visits by FMT staff simply take more time and become less efficient.

### Recommendation 7

**The FMT should put corrective measures in place to ensure that its service standards relative to the issuance date of final review reports are enforced, including a more rigorous follow-up with universities and improved cooperation with CIHR.**

### 7.3.4   Opportunities for sharing more information obtained through review visits with other groups within NSERC and SSHRC

The review visit process allows the FMT to obtain a whole array of significant information on universities in the context of their relationship with the Councils.  This information can be divided into two main categories: financial and non-financial information.

The financial information corresponds to the opinion on the adequacy of the control framework that universities have put in place to manage the Councils' grants.  This information constitutes the main goal of review visits and is summarized in the review report.  According to the current practice, a copy of the review report is given only to the management of the visited university and to CASD's Director of Finance.  Also, during meetings held three or four times a year, members of the Executive Committees of both NSERC and SSHRC are briefed on the main conclusion reached following recent review visits.  This means that either the visit was successful and that a draft report will be issued or that concerns were raised which will probably result in a follow-up visit over the next few years.  Finally, when one of the Councils' presidents visits a university, the FMT is asked to notify the President's Office of any significant outstanding issue raised in recent review visits.

Although dissemination of information in review reports is very limited, interviews conducted with some of the stakeholders suggest that they find the current process adequate.  This could be taken to mean that they feel they don't need to be informed about the review report's content unless there is a major issue.  However, there is certainly a need to clearly define what constitutes a major issue, as this definition may vary between stakeholders.  As well, individuals other than the ones we interviewed might also be interested in reading the review report or being briefed on its content.

Review visits also allow the FMT to get access to non-financial information.  Some of this information is included in the review report because it pertains to the Councils' guidelines and, more specifically, to the scope of review visits. However, even if this information might be useful to other groups within NSERC and SSHRC, other issues are never mentioned in the review report since they fall outside the scope of the visit.  Examples of such issues are the overall degree of satisfaction with NSERC and SSHRC programs, the quality of communication between the Councils and the university, the level of funding, and the understanding of program guidelines, etc.  In fact, just about any issue could be of particular interest to the two Councils. Programs and Audit and Evaluation might be interested in this information as it could complete or corroborate information obtained through other means.

As mentioned among the good practices, there is already a good channel of communication in place with Award Administration because of the complementary objectives pursued by this group. However, direct and formal exchanges between the FMT and other groups are not frequent enough.

In the past, some representatives of different groups within the Councils have accompanied FMT members during review visits.  This practice could still be used in the future as it presents an excellent opportunity for other groups to share information of common interest with FMT staff,

better understand how visits are conducted, participate in some parts of the visit such as the information session usually held mid-week, and hold distinct meetings with university representatives.

## Recommendation 8

**FMT should consider opportunities for sharing more information, obtained through review visits relating to financial and non-financial issues, with other groups within NSERC and SSHRC.**

# 8. Acknowledgement

We would like to thank the management and staff of NSERC and SSHRC for the support they provided to our team during this assessment. We want to particularly mention that the full cooperation provided to us by Carole Crête-Robidoux, Manager of the FMT, and her team was instrumental to this assignment.

# Appendix A: Objectives and Main Steps of Review Visits

The purpose of the information provided below is to present an overview of the specific objectives of review visits and the main steps involved. This information is mainly based on the description found on NSERC and SSHRC's Web sites, in the section entitled "A Monitoring Approach for a Financial Review Visit" and dated May 2001. (http://www.nserc.gc.ca/institution/finreview_e.htm). Some key terms have been bolded to facilitate the understanding of the process involved.

**The objectives of the review visits are to:**

- review the effectiveness of the policies, controls and systems in place at the institution to ensure that policies and regulations of NSERC, SSHRC and CIHR (the Canadian Institutes of Health Research) are followed and that research funds are well managed;

- review the expenditures of researchers to ensure that they were made in accordance with the Agencies' policies, regulations and guidelines as described in NSERC's *Program Guide for Professors*, SSHRC's *Grant Holder's Guide* and CIHR's *Grants and Awards Guides*, and for the purposes intended;

- review the control framework in place at the institution to administer NSERC, SSHRC and CIHR scholarships and fellowships funds and to ensure that these funds are administered according to the Agencies' guidelines;

- assess if researchers are well supported by Research and Financial Services and have the tools necessary to properly and effectively manage their research funds; and

- share and disseminate information on guidelines and expectations for financial and scientific accountability and integrity.

**Steps involved in review visits**

The review of accounts at the institution is limited to NSERC, SSHRC and CIHR grant accounts and normally covers the last complete fiscal year. The Financial Monitoring Team (FMT), using a statistical sampling approach and targeted accounts, selects award holders from NSERC, SSHRC and CIHR grants accounts for review. Ledger sheets are requested from the institution for these specific accounts. From these, a number of transactions from various categories of expenses are selected for review, based on volume, dollar value and area of risk. Then, a listing of these individual transactions is sent to the institution for retrieval of the original supporting documentation.

The FMT will also review global payments of fellowships and scholarships at the institution. To proceed, the FMT will select a random sample of scholarships and fellowships recipients and, while on site, look at processes used by the institution to manage these funds.

Prior to the visit, the FMT advises researchers, fellows and scholars that it will be looking at their accounts. This letter is normally sent about one month before the review visit.

At the beginning of the visit, the FMT conducts an **information session** to gather details, comments and concerns from administrators at the institution. Generally, two or three people from the Agencies meet with representatives of Financial Services and the Research Grants Office; sometimes, they meet with individuals from other departments as well, such as Ethics and Human Resources.

During the monitoring visit, **the FMT looks at transactions** and may ask officers at the institution for further details. If the documentation available seems insufficient, the FMT contacts the researchers or the departmental assistant to get more information. Certifications required for research are also reviewed.

In cases where the documentation held by the Research Accounting section does not provide sufficient information to assess the eligibility of the expenses, the FMT communicates these findings directly to researchers. When ineligible expenses are charged to grant accounts, the grant accounts must be reimbursed. The FMT then requests confirmation from the institution that the reimbursement was made to the proper grant account.

The FMT will also **contact scholars and fellows** as well as researchers to obtain their comments regarding the administration of their funds at the institution. These meetings are informal and are meant to improve the Agencies' support to the research community. To assess the community's understanding of the Agencies' guidelines, the FMT also inquires on their knowledge on this subject.

Normally, officers from the Agencies will hold an **information session** during the week to cover topics such as the responsibility of the three partners (the grantee, institutions and agencies), and on financial accountability. This session is intended to be interactive. Questions and feedback from the participants are encouraged.

At the end of the visit, a **debriefing session** is held with institution staff to review findings and provide an opportunity for both groups to give feedback and ask any remaining questions.

The FMT may need to complete the follow-up on transactions with researchers and institution staff over several weeks following the visit, depending on the volume of transactions reviewed. Following this, a **draft report** will be prepared that includes findings and relevant information obtained prior to, during and after the visit. Once approved internally within the Funding Agencies, the draft report will be sent to the **institution for comments**.

The institution provides comments in the draft report. Depending on the nature of the comments, the FMT engages in further discussion with the institution and revises the draft report in the context of those discussions. The **final version** is sent to the institution's authority. This completes the review visit exercise, unless a **follow-up visit** is required.

The process for one institution generally lasts four to six months.

# Appendix B: List of NSERC and SSHRC Employees Interviewed

During the fieldwork, the following employees of NSERC, SSHRC, including the Common Administrative Services Directorate (CASD) and the Networks of Centres of Excellence (NCE) were interviewed:

Rafika Amira, Senior Evaluation Officer, Corporate Performance, Evaluation and Audit, SSHRC

Rita Carrière, Awards Administration Manager, CASD

Carole Crête-Robidoux, Manager, Financial Monitoring Team, CASD

Jean-Claude Gavrel, Director, NCE

Robert Giroux, Acting Director of Finance, CASD

Barney Laciak, Senior Planning Analyst, Policy and International Relations, NSERC

France Landriault, Director, Corporate Performance, Evaluation and Audit, SSHRC

Nigel Lloyd, Executive Vice-President, NSERC

Nathalie Meilleur, Senior Internal Auditor, Policy and International Relations, NSERC

Kristyna Miedzybrodzka, Director, Bio-Industries Division, NSERC

Geneviève Plouffe, Officer, Financial Monitoring Team, CASD

Paul A. Potvin, Senior Officer, Financial Monitoring Team, CASD

Chantale Renaud, Senior Officer, Financial Monitoring Team, CASD

Jean Saint-Vil, Program Officer, NCE

Pascale Saulnier, Officer, Financial Monitoring Team, CASD

Carole Therien, Awards Administration Officer, CASD

# Asses

# sment of NSERC/SSHRC Award Monitoring Activities
## Management (Action Plans) Responses

Management Responses completed by:     Carole Crête-Robidoux
As of:                                 9 July 2004

| | Audit Recommendation | Management Response | OPI | Due Date |
|---|---|---|---|---|
| **Observations on the policies, procedures and practices used for activities related to award monitoring** | | | | |
| 6.3.1 | In addition to the directives currently found in document templates, all significant steps relating to review visits and investigations should be detailed in written procedures. | Agreed. A complete set of procedures is being developed for the review visits and investigations. | FMT | December 2004 |
| 6.3.2 | Part of the content and structure of review files should be revised to ensure more adequate and efficient documentation of review visits. | Agreed. This recommendation is being implemented. For example, during the last review visit, an effort was made to broaden the scope of the strategic plan. In the past, the strategic plan was used to record all areas of concerns and/or risks identified during the planning stage of the review. During the current visit, all new findings identified during the on-site review were added to the strategic plan including the source of the information. As well, information pertaining to a specific issue that had been identified and included in the plan prior to the visit was added, and the source of the information was identified again. This information is indexed to the review binder appropriately. The team will continue to streamline this process to ensure more adequate and efficient documentation of review visits. | FMT | Complete |
| 6.3.3 | CASD should analyze reasons for high turnover among the FMT employees and take steps to address its findings. | The high turnover of staff in the section is primarily related to the complexity and nature of the work associated with being part of a review | FMT | Ongoing |

| | Audit Recommendation | Management Response | OPI | Due Date |
|---|---|---|---|---|
| | | team and the frequent need to travel. Resolution of this issue continues to be a priority for Management. Certain steps to remediate this situation have already been implemented. These include offering the team members training and development courses such as courses in writing effective reports, stress management, dealing with confrontational situations, etc. As well, specific tools have been developed to assist the team when writing the review reports, e.g. a report template containing the main sections of the report as well as a log which references the most common findings and recommendations that have been written in previous reports. Management will continue to explore other ways to stabilize the team as much as possible. | | |
| 6.3.4 | c) The two agencies should assess whether or not to continue conducting review visits with CFI; | For over a year now, it has been the practice to consult the institutions before inviting CFI to join us on our review visits. CFI is invited only when an institution has agreed to them joining the agencies. | FMT | Complete |
| | d) FMT should take necessary steps to improve the sharing of roles and responsibilities as well as communication with CIHR. | Agreed. CIHR, NSERC and SSHRC have been working at clarifying roles and responsibilities since they have joined their review visits. We will continue to work on steps to improve the sharing of roles and responsibilities as well as communication with CIHR. | FMT | Ongoing |
| **Observations on the usefulness of award monitoring activities to the agencies and universities** | | | | |
| 7.3.1 | The following modifications or improvements should be made to the review report: | Agreed. However, since some of the reports are written jointly with CIHR, we will discuss these changes with our colleagues at CIHR before | FMT | March 2005 |

| Audit Recommendation | Management Response | OPI | Due Date |
|---|---|---|---|
| a) Modify the definition of "Non-Compliant Transactions" and the expression "Ineligible Transactions" used in the Summary of Transaction Reviewed; | implementation. | | |
| b) Weigh the rate of non-compliant transactions against the risk of non-control and the impact of non-compliance on ineligible expenses to determine if an observation and a recommendation are necessary; | Institutions, through the MOU, agree to ensure that they and the grantees operate in compliance with the relevant agency guidelines and therefore exercise due diligence and have the proper controls in place. It is our view that each transaction that is non-compliant with agency guidelines indicates a breakdown in the controls, which could result in agency funds being used for the wrong purpose. We feel that it is our responsibility to inform the institution each time a transaction is non-compliant. However, not all observations result in a recommendation. In some cases, depending on the risk to the agencies and the institutions, some of these will be included in the report under the findings and an appropriate recommendation will be provided. In other cases when the risk is judged to be less critical, these observations are simply communicated to the university as an information item in a separate section of the report and no recommendation is provided. We will continue to weigh the non-compliant and non-eligible expenses to determine when an observation and recommendation is warranted. | | No further action required. |
| c) In the Summary of Transactions Reviewed, provide details explaining which particular transactions have been rated as non-compliant, and for each of them, the reason for the non-compliance; | Our current practice is to keep the university administrators informed of all transactions that are thought to be non-compliant and/or ineligible. When transactions are found to be non-compliant we will endeavour to clearly indicate the reason for the non-compliance in the report. This issue will be discussed with our colleagues at CIHR in | FMT | March 2005 |

| | Audit Recommendation | Management Response | OPI | Due Date |
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| | | order to streamline the approach between the agencies. | | |
| | d) Report on the results of the review of NCEs either in a distinct section of the review report or in a separate report. | For those NCEs that use the host institution's financial systems as well as their policies, the scope and approach for the review of the NCEs remain the same as for the host institution. Therefore, all findings and recommendations made to the host institution apply to the NCEs. Furthermore, the monitoring team reviews a pre-selected number of transactions from the NCE administrative centre (in the same way transactions from grant accounts are reviewed) in order to get an assurance that the institution's controls and practices are being followed by the NCE and that the agency funds are used for eligible expenses. However, in the event that the NCE does not reside within the host institution, the result of the monitoring visit will be recorded in a separate section of the monitoring review report. This issue will be discussed with our colleagues at CIHR in order to streamline the approach between the agencies. | FMT | Dec 2004 |
| 7.3.2 | The FMT should ensure that the same message is conveyed both at the debriefing and in the review report. | The purpose of the debrief session is twofold: it keeps the institutions well informed of those issues that have come up during the review and which will be included in the review report; and it is viewed as an excellent opportunity for the institutions to provide the agencies with information that may or may not have an impact on the findings. We will continue to brief the institutions fully on the issues in order to ensure that the same message is conveyed at the debriefing and in the review report. | FMT | Complete |
| 7.3.3 | The FMT should put corrective measures in | The time frame outlined in the service standards | FMT | December |

| | Audit Recommendation | Management Response | OPI | Due Date |
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| | place to ensure that its service standards relative to the issuance date of final review reports are enforced, including a more rigorous follow-up with universities and improved cooperation with CIHR. | document will be reviewed. Therefore, the document will be updated to reflect a more realistic time frame. Currently, the agencies give the institutions up to one month to provide their responses to our recommendations. If the comments are not received within that time frame, a follow-up is conducted with the institutions. If an extension is requested, the agencies will usually agree. We will continue to follow up closely with the institutions to ensure timely receipt of comments and will continue to work with CIHR to ensure that the agreed time frame is respected. | | 2004 |
| 7.3.4 | FMT should consider opportunities for sharing more information, obtained through review visits, relating to financial and non-financial issues with other groups within NSERC and SSHRC. | Agreed. Currently, it is our practice to inform staff from both agencies of any comments that the team obtained from the researchers and/or the university administrators during the review visits. As well, in the near future, we will endeavour to provide staff with useful information on the review visits as well as keep them informed on the results of the visits conducted during the year through meetings and all other opportunities. | FMT | Ongoing |