



Industry
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Review of the Access.ca Pilot Project - Phase II

Management Response and Action Plan

April 9, 2001

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GENERAL COMMENTS

Public Service managers are accountable to senior management and Ministers, who in turn are accountable to Parliament and Canadians for achieving results in accordance with government regulations, demonstrating due diligence and determining value for money in the use of public funds. Public trust and confidence is maintained through the demonstration of public service values and responsible and accountable stewardship of public funds.

An effective internal audit function provides objective examinations of evidence for the purpose of providing independent assessments of risk management, management control frameworks, practices and information used for decision making and reporting. Industry Canada sought to verify that some of its more innovative and partnership-based programs were being managed in a manner that would meet the requirements for public accountability. Selected programs managed by the Information Highway Applications Branch (IHAB) were audited in 2000. The audit put in place an action plan to address the comptrollership gaps that were identified. One element of this action plan was a further audit of the Access.ca pilot project.

The objectives of the Access.ca audit were to determine:

- S** whether government contracting, transfer payments and other financial management policies have been complied with;
- S** whether proper financial controls exist for the management of the project; and
- S** whether management has reasonable assurance that the program is well managed and is being implemented in a timely manner.

The Access.ca audit covered the period from the Fall of 1999 to December 2000. Many of the activities examined occurred during the same time period as those examined by the previous IHAB audit (1998-99 and 1999-2000 for the review of grants and contributions and a 5 year review of contracts from 1995 to 2000).

Connectedness, the Information Highway Applications Branch and Access.ca

Connectedness is a foundation for a knowledge-based economy and society. Connected citizens are better able to access the knowledge they need to develop their skills and acquire new ideas that lead to new and more effective ways of contributing to the economy and society. Networked businesses are well positioned to take advantage of local and global opportunities and innovations that lead to increased productivity and prosperity. Through this competitive, knowledge-based

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advantage, Canada can be at the forefront of the development of new products and services and enhance its attraction for investment.

A significant part of Industry Canada's Connecting Canadians initiative is delivered by the Information Highway Applications Branch. The budget of this Branch is approximately \$124 million in fiscal year 2000-2001. For the most part, IHAB's contribution programs are largely delivered through partnerships with other organizations, many of which are voluntary organizations or other levels of government.

The basic concept of Access.ca is to provide all Canadians with simple, easy-to-use access to personal community-based Canadian content on the Internet. An individual wishing to build a home, for example, could use Access.ca to link to local information on obtaining a building permit, and contacting builders and suppliers in their community.

In the first phase of Access.ca, the basic concept of providing citizens with a personal portal was tested. The second phase of the project was to develop appropriate user-friendly software to support the Access.ca concept (approximately \$4.7 million in 1999-2000, the year covered by the audit). When the software has been fully developed, consideration will be given to a series of additional field trials.

MANAGEMENT RESPONSE

- ◆ Industry Canada (IC) accepts the findings, conclusions and recommendations of the audit of the demonstration stage of the Access.ca project and has developed an action plan to deal with the issues raised.
- ◆ Management agrees that there were deficiencies in management practices as well as errors in judgement.
- ◆ It is Industry Canada policy that contracts be awarded in accordance with applicable laws, trade agreements and established procurement policies and practices.
- ◆ Overpayments, if any, are being recovered.
- ◆ There was no evidence uncovered of any conduct by government officials that requires further investigation.
- ◆ Management recognizes that subsequent to the completion of training on contracting policies and practices, an employee of Access.ca attempted to arrange for a contractor's name be added to a consultant's draft proposal. This was an error in judgment and was stopped. Had the contract proceeded, it would have created a conflict of interest situation.

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- ◆ Finally, to ensure public accountability, transparency and quality management in Industry Canada, a follow-up compliance audit will be undertaken by the Fall 2001 by an independent auditor.

ACCESS.CA ACTION PLAN

In addition to the measures included in the IHAB audit action plan (details on page 5), specific measures have been undertaken to respond to the recommendations and findings of the Access.ca audit.

Technical Assessment

Audit recommendation – A complete technical assessment be undertaken.

Action – A technical assessment of the software has been conducted by officials of Industry Canada's Communications Research Centre, a leading-edge telecommunication, learning and research centre. The CRC technical team determined that the internal Beta release is unique and leading edge design and could be considered for deployment and that value for money has been received.

Intellectual Property/Revenue Sharing Agreements

Audit recommendation – IC legal counsel review all intellectual property/revenue sharing agreements entered into by IHAB.

Action – As recommended by the auditors, IC legal counsel reviewed IHAB's Intellectual Property/Revenue Sharing agreements. While the majority are problem-free, some deficiencies were identified and will be corrected in future agreements as IHAB consults IC legal counsel on all agreements.

Release

Audit recommendation – Follow established Federal Government contracting practices for the rollout of Access.ca

Action – It is Industry Canada policy that contracts be awarded in accordance with applicable laws, trade agreements and established procurement policies and practices. The Department will follow established Federal Government contracting practices before any Access.ca release.

In addition to responding to the specific recommendations of the Access.ca audit, the following measures will also be undertaken:

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Recovery of Funds

- ◆ The Department is in the process of determining if full value for money was received for the fees paid to the provincial agency and will take steps to recover funds if required. As part of the process of determining whether deliverables invoiced by the provincial agency were sufficient to meet the requirements of the agreement, IHAB requested cost justification for the facilitation fees from the provincial agency. IHAB has engaged independent auditors to review the claims to determine if full value for money was received. If any overpayments are identified, recovery action will be taken.

Further Control Measures

- ◆ In addition to the current review by Legal Services of all IHAB agreements and contracts over \$5,000, controls have been further strengthened . All Industry Canada sole source contracts over \$25,000, amendments bringing the total to \$25,000 or other complex contracts are now subject to review by the Program and Services Board, Industry Canada's internal management board to ensure integrity in the O&M contracting function.

Instructions to Managers/Expectations

- ◆ All Industry Canada managers were advised on February 5, 2001 of the critical role that they play to ensure appropriate financial management controls are used in the decision-making process and the spending of public money. In addition, they were reminded of their responsibility to act with probity, prudence and concern for value.
- ◆ All IHAB managers, including Access.ca management, have received specific direction with regards to management accountabilities, responsibilities and standards in the management of IHAB programs.
- ◆ All IHAB employees were required to update their Conflict of Interest declarations, by April 11, 2001 including the submission of a nil report.

Follow-up Audit

- ◆ Finally, to ensure public accountability, transparency and quality management in Industry Canada, a follow-up compliance audit of selected IHAB programs, including Access.ca, will be undertaken by Fall 2001.

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IHAB ACTION PLAN

IHAB is currently implementing a twelve point action plan to address the recommendations of the earlier September 2000 audit. The IHAB action plan reinforces management accountability and practices through control measures, training, monitoring, reporting and further review and audit scrutiny. As part of IHAB, Access.ca will directly or indirectly benefit from these measures.

A summary of the IHAB action plan measures and their status follows.

ACTION ITEM	STATUS
Control measures	
<p>Financial, contracting and program authority temporarily removed from Community Access Program and VolNet program managers and administrators until they received training to reinforce their responsibility and accountability under the Financial Administration Act and Treasury Board policy on transfer payments.</p>	<p>Done – CAP and VolNet managers and administrators trained.</p> <p>All other IHAB managers, program officers and administrators will be trained by June 22, 2001.</p> <p>All IC managers advised on February 5, 2001 of their role to ensure appropriate financial management controls are used in the decision-making process and spending of public money and reminded of their responsibility to act with probity, prudence and concern for value.</p> <p>All IC sole source contracts over \$25,000, amendments bringing the total to \$25,000 or other complex contracts now subject to review by the Program and Services Board, IC’s internal management board to ensure integrity in the O&M contracting function.</p>

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ACTION ITEM	STATUS
IHAB to seek sign-off of Industry Canada Legal Services on all IHAB agreements and contracts over \$5,000 before they are signed by program managers.	Done and ongoing; will remain in effect until July 2001 at which point it will be reviewed.
IHAB directors engage in early consultation with Legal Services and the Comptroller's Branch on proposed projects and contracts.	Done and ongoing on a file by file basis. In addition, a Solutions Committee comprised of Legal, Comptroller, Program and Services Branch and IHAB staff meet regularly to resolve issues as one of the ways to ensure program integrity.
The hold-back percentage for all IHAB programs will be 10%, as a minimum, in accordance with conventional departmental practice.	Done and ongoing, unless otherwise approved by the Program and Services Board.
Complete the staffing of a financial officer position and a contracting officer position in IHAB.	Done.
Training	
All IHAB managers, program officers and administrators to complete training in financial, contracting and program authority to reinforce their responsibility and accountability under the Financial Administration Act and Treasury Board policy on transfer payments.	All individuals who lost signing authority have been trained. Management of the Access.ca program received training in September and October 2000. All IHAB staff to be trained by June 22, 2001.

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ACTION ITEM	STATUS
Monitoring and Reporting	
<p>IHAB will establish a monitoring plan which complies with the requirements of the Treasury Board Policy on Transfer Payments.</p>	<p>Underway – IHAB contracted with Consulting and Audit Canada to complete a monitoring plan. PSB reviewed the CAC monitoring plan and IHAB’s approach for further work in this area and agrees that IHAB must develop an IHAB management control framework as well as program specific monitoring plans based on the risk profile of each IHAB program. Additional work to be carried out, in a phased approach, by December 2001.</p> <p>In addition, there will be a clear locus of accountability in the organization for monitoring control.</p>
Review and Audit Scrutiny	
<p>A legal review will be initiated of IHAB projects, agreements and contracts.</p>	<p>Completed – The review confirmed many of the findings of the September IHAB audit and of the Access.ca audit on the inadequate adherence to requirements stipulated in government policies and the appropriateness of the contracting practices followed by IHAB.</p> <p>The legal review acknowledges that, since September 2000, the steps taken to address the findings of the September IHAB audit have resulted in improvements to IHAB projects, agreements and contracts.</p> <p>There was no evidence of any conduct by government officials that requires further investigation.</p>

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<p>IHAB will review all payments against claims and identify any overpayments or reimbursement of ineligible costs.</p>	<p>Underway – IHAB engaged an independent auditor to review 25% of agreements. For CAP, PSB has accepted the business case presented by IHAB on value for money. For greater certainty, it has been decided that individual CAP sites will be audited on an in-depth basis for both value for money and proof that payments were made and to improve further program design. No further payment on these agreements will be made until completion of this further audit.</p> <p>In the case of VolNet and Learnware, discussions between the independent auditors and the Department have revealed inconsistent interpretations of the term “in-kind costs”. Steps are being taken to ensure that future project authorizations and agreements contain clear wording with respect to eligible cost categories in accordance with applicable policies.</p> <p>The audit of ConnectNB revealed that no recoveries were required.</p>
<p>Audit and Evaluation Branch will initiate an internal audit of a sample of IHAB pilot projects, not covered by the scope of this audit.</p>	<p>Completed – audit of Access.ca undertaken – action plan developed and being implemented.</p>

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<p>IHAB will review their organizational design.</p>	<p>Completed – Deloitte Touche contracted to comment on organization issues, balance between management and operations, and how financial administration function should be organized.</p> <p>PSB recommended approval of the IHAB plan for organizational design under the following principles: the creation of strong centralized program integrity function; detailed training of staff on program integrity and control issues; reduction of span of control of DG to allow for greater program integrity; and adequate involvement of regional offices to ensure effective program monitoring.</p> <p>Necessary organization changes will be completed, including preparation of job descriptions and classifications, staffing to be undertaken as a priority.</p>
<p>IHAB will prepare an assessment of whether it is using the appropriate instrument (grant, contribution or contract) to deliver its programs.</p>	<p>Completed – Assessment prepared by Consulting and Audit Canada presented to PSB. The main instrument to be used will be the contribution instrument, which will be adapted to match the risk profile of the recipient, the nature of the receiving entities and principles of cost effectiveness.</p>