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AUDIT OF THIRD PARTY DELIVERY ARRANGEMENTS

Final Report

Audit and Evaluation Branch

September 2003

Canada 

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I. Executive Summary

The audit of Aboriginal Business Canada's ("ABC's") Third Party Delivery Arrangements was selected based on a risk assessment conducted in 2001 that identified third party delivery arrangements as a high-risk area within ABC. Risk in this context refers to elements of ABC's program delivery that may have a significant impact on the program's ability to achieve its objectives. The audit considered the soundness of ABC's risk management strategies and practices, management control frameworks and practices, and information used for decision making and reporting in third party delivery arrangements. This differs from a financial audit, which relates solely to the examination of items of a financial nature. The scope of the audit included all identified third party delivery agreements under contract with ABC as of February 28, 2003.

The audit was conducted in accordance with the Institute of Internal Auditors' *Standards of the Professional Practice of Internal Auditing*, Treasury Board's *Policy on Internal Audit* and Treasury Board's/Institute of Internal Auditors' *Alternative Service Delivery Management Guide* and *Alternative Service Delivery Internal Audit Guide* ("Guides").

The results of the audit should be used by ABC management to improve existing management practices, controls, processes and procedures.

Background

ABC's third party delivery arrangements are considered to be joint delivery arrangements, which are arrangements under which both ABC and the third party delivery provider share responsibility for program delivery through a collaborative approach. ABC has two main types of third party delivery arrangements that were the subject of this audit:

1. *External Delivery Organization Arrangements (XDO)* – Under XDO arrangements, ABC provides *operational* funding to Aboriginal organizations to allow for outreach activities on behalf of ABC. External delivery officers act on behalf of ABC to deliver ABC's program in selected areas and all projects are approved and funded by ABC. XDOs arrangements were originally designed to utilize the successful Aboriginal Capital Corporation network to address issues of geographic coverage and build capacity within these organizations.
2. *Alternative Service Delivery Arrangements (ASD)* – Under ASD arrangements, aspects of ABC's program delivery are transferred to a third party organization that is Aboriginal owned and operated. ASD's are provided with operational and project funding to deliver the ABC program, and have been given the authority to approve projects up to a maximum of \$50,000.

There are four stages typically associated with third party delivery arrangements: Decision Stage, Development and Approval Stage, Operational Stage, and Wind-up/Renewal Stage. As the majority of ABC's third party delivery arrangements have been in place for several years, ABC's third party delivery arrangements currently lie within the Operational Stage. As such, the audit focused primarily on the two key management processes that impact the Operational Stage: management's review of the implementation of the transition plan, and contract performance monitoring and evaluation.

Scope and Findings

The audit examined ABC's management controls, risk management practices and information for decision making and reporting in the Decision Stage and Development and Approval Stage covering the initial decision to enter into third party delivery arrangements and the selection and approval processes for external delivery organizations and alternative service delivery organizations. There were no significant findings noted, i.e. no major deficiencies in management practices and controls over these stages were identified. While the processes over the selection of the original XDO arrangements in the early 1990's were not overly formal or consistently documented, considerable improvement was noted during the ASD selection process in the late 1990's during which candidates were formally assessed against established criteria, risks were considered in the decision making process, and individual assessments and approvals were formally documented on file. ASD arrangements were made with successful XDOs that demonstrated a high level of management and organizational capacity to assume the additional responsibilities associated with this type of delivery arrangement.

Significant findings from our examination of the Operational Stage of ABC's third party delivery arrangements have been categorized under three main headings as detailed below.

Management Control Framework

A formal management control framework has not been established over third party delivery arrangements to guide the assessment and monitoring of the significant risks impacting these arrangements, the ongoing management of third party delivery arrangements, and to strengthen accountability. While agreements with both XDOs and ASDs describe expected monitoring practices and reporting requirements of the third party deliverer, a significant amount of flexibility is granted to regional ABC managers in determining the nature and extent of ongoing monitoring of ASD arrangements. This is intended to allow for managers to work with the needs of each individual organization. As a result, the frequency and form of ongoing communications with ASDs and monitoring activities is largely left to the judgement of regional ABC managers. This may result in inconsistencies in the strength of ABC's relationships with ASDs and the frequency, nature and quality of ongoing monitoring of ASD arrangements.

Although ABC considers risk in its selection of third party deliverers and has established some controls over the selection and operation of its third party delivery arrangements, changes in risk over the life cycle of the arrangements has not been consistently considered and lack detailed supporting documentation.

Further, there may be a lack of understanding both within ABC and within the third party delivery organizations of which ABC representative has overall responsibility for the management of third party delivery arrangements, a lack of common understanding of the intended roles and results of third party deliverers, inconsistencies in the hiring and training of third party delivery officers across the country, and inconsistencies in the frequency and form of communication between ABC managers and ASD and XDO management across the country.

We recommend that a formal management control and accountability framework be developed for third party delivery arrangements that addresses roles and responsibilities, performance expectations, training requirements, and monitoring expectations. ABC should continue to investigate and implement initiatives which encourage more frequent and ongoing dialogue to discuss opportunities, concerns, and sharing of best practices and should develop risk-based guidelines to assist in the monitoring of third party delivery hiring practices, identifying minimum qualifications required and considering the differences between the employment pools in remote locations and larger urban centers. ABC's right to influence the hiring of XDO officers and ASD staff involved in ABC program delivery should be entrenched in its third party delivery contribution agreements.

Performance Measurement System

ABC lacks a formal and comprehensive performance measurement system for the evaluation and monitoring of its third party delivery arrangements. This reduces management's ability to gain a clear picture of the overall performance and results of its third party delivery programming, and may impede or reduce ABC's ability to be proactive in responding to issues as they arise.

Opportunities exist to enhance the existing performance measurement system through: the inclusion of qualitative measures in order to provide a well-rounded evaluation of third party delivery performance; requesting input from the third party deliverers in the development of performance measures; the communication of performance measures to all staff which will form part of the accountability framework; and the development of standard benchmarks with detailed guidelines to enable comparison among the third party delivery arrangements.

Monitoring and Reporting

Although ASD agreements require quarterly reporting to ABC, ASD organizations have not been provided with a clear definition of the expected format or content of these reports. Third party reporting has been mainly informal and inconsistent. While agreements currently define the expected performance measures that should be reported on by the ASD organization, there is no prescribed format for such reporting.

ABC should clarify its reporting expectations and communication guidelines that will form part of the management control and accountability framework, and develop related standard reporting formats to assist with the effective operation of the monitoring process. In addition, monitoring expectations for both individual agreements at the operational level and at the program level should be clearly defined, communicated and followed up. Finally, data gathering and reporting systems should be modified to capture all relevant project information and to support an early warning system to indicate when performance results may not meet expectations.

2. Background

Third party delivery arrangements have been used extensively by organizations for a variety of reasons and benefits. ABC has implemented pilot projects to utilize these arrangements to improve client service in remote and rural areas of Canada. The success of third party delivery arrangements requires the efforts of both the initiating organization (ABC) and the provider. To increase the likelihood of success, some key control mechanisms include: choosing the most appropriate provider (as determined through the selection process); agreeing on a rigorous, mutually beneficial governance process; and, managing and monitoring the third party delivery arrangement throughout its life-cycle.

Types of Third Party Arrangements

There are several types of third party delivery arrangements: joint delivery, contract-out, transfer, and privatization. The following criteria are used to distinguish between each type:

- accountability remaining with the initiating organization;
- complexity of the arrangement;
- relationship with the provider; and
- control of the service provided.

Under the definitions provided in the Guides, ABC and its third party delivery arrangements are considered joint delivery arrangements.

“A joint delivery arrangement is one in which both the initiating (or buyer) organization and the third party delivery provider share responsibility for the service employing a collaborative approach.” (Alternative Service Delivery Internal Audit Guide)

Under ABC’s Alternative Service Delivery (ASD) arrangements, aspects of ABC’s program delivery are transferred to a third party organization that is Aboriginal owned and operated. ASD’s are provided with operational and project funding to deliver the ABC program, and have been given the authority to approve projects up to a maximum of \$50,000.

In addition to ASD arrangements, ABC provides *operational* funding to Aboriginal organizations to allow for outreach activities on behalf of ABC. In this type of arrangement, external delivery officers (XDO’s) act on behalf of ABC to deliver ABC’s program in selected areas. Under XDO agreements, the XDO does not receive any *project* funding - all projects are approved and funded by ABC.

From the four criteria identified above, the most significant criteria that distinguish a joint delivery arrangement are accountability and the complexity of the arrangement.

Stages of a Third Party Delivery Arrangement

The *Guides* outline four stages of a typical third party delivery arrangement, which are applicable to all types: Decision Stage, Development and Approval Stage, Operational Stage, and Wind-up/Renewal Stage. As the majority of XDO arrangements have been in place since the early 1990's and ASD's since 2000, ABC falls within the Operational Stage in terms of its arrangements with its third party delivery organizations. This stage is characterized by a completed transition of the service delivery to the third party, (Transition Plan Stage) followed by the day-to-day operations of the third party organization in its delivery of the outsourced service (Performance Monitoring and Evaluation Stage). It is during this stage that the guides suggest that an evaluation of the accountability and overall governance of the third party delivery arrangement should be conducted. Of the management processes identified in the *Guides*, two impact the Operational stage of the third party delivery arrangement - management's review of the implementation of the transition plan, and contract performance monitoring and evaluation. Both of these management processes within ABC were reviewed in detail. In addition, key processes in the Decision Stage and Development and Approval Stage were examined as a means of assessing the reasonableness of management controls, risk management practices and reporting and information for decision making during the initial decision to enter into third party delivery arrangements and during the selection and approval of individual third party deliverers.

Risk Associated with the Operational Stage of a Third Party Delivery Arrangement

Uncertainty or risk should be formally considered and evaluated from the time ABC contemplates a third party delivery arrangement to the time when the initiative is completed. Any change in the delivery of the service will lead to a change in the risk profile faced by management. Therefore, an understanding of the risks, and controls that need to be in place, will facilitate decision-making. Risk management is an ongoing process that should be applied to each stage of the third party delivery arrangement life-cycle. Given that control is a key consideration in assessing risk, we also assessed the management controls in place that assist ABC with decision-making and monitoring. The *Guides* outline specific risks that have been considered in the evaluation of ABC's management of its third party delivery arrangements.

With a joint delivery arrangement, the Guides suggest that the Operational Stage is of lower-to-medium risk in the overall life-cycle of the third party delivery arrangement. There is shared accountability between ABC and the third party deliverer, due to the ongoing relationship, and both contribute to effective service delivery. In addition, there is generally less complexity in this type of an arrangement. Risk is further decreased as ABC is still very much involved and has the ability to quickly steer the third party deliverer back on track if deviations are experienced and/or has the ability to return to "in-house" service due to the retention of its expertise.

Some potential risks within the implementation of the transition plan stage include:

- failure to properly define the roles and responsibilities of each party; and
- lack of flexibility of the third party deliverer to meet new and changing requirements.

Some potential risks within the performance monitoring and evaluation stage include:

- the service provider does not meet objectives;
- inefficiency by the service provider; and
- lack of performance reporting.

Other potential risks related to the various stages of third party delivery arrangements are provided in Appendix C.

3. Objectives, Scope, Approach and Criteria

Objectives and Scope

The objective of the audit was to provide an independent and objective assessment of the soundness of ABC's risk management strategies and practices, management control frameworks and practices, and information used for decision making and reporting in third party delivery arrangements. This included: determining the type of alternative service delivery employed by ABC; the life-cycle stage of ABC's third party delivery arrangements; management processes applicable to this life-cycle stage (based on the *Guides*); and consideration of risk and control frameworks in place. Although the focus of our audit was on the Operational Stage, potential risks within the other stages were considered due to their impact on the effectiveness of the Operational stage.

Specifically the audit reviewed the availability of timely, relevant, and reliable management information (both financial and non-financial), support for appropriate decision-making at all levels, accountability in the use of resources, monitoring and reporting of actual results, the overall management control framework applied and the efficient and effective management of risk.

The scope of the audit included all known third party delivery agreements under contract with ABC as of February 28, 2003. The agreements were selected on a judgemental basis. Our audit included three of the four current ASD arrangements and eight of the 15 XDO arrangements in the sample, and also included a site visit to one of the ASD organizations. This judgemental sample was chosen based on known practices in place at the site, duration of the third party deliverer's relationship with ABC, and those arrangements considered to be of highest risk based on past performance, as well as the opinions of ABC management.

At the time of the audit, an evaluation of ABC's third party delivery arrangements was also being undertaken. The concurrent timing of the audit and evaluation was favoured in order to take advantage of the sharing of information and ensure minimal disruption to ABC employees and their service deliverers.

Audit Approach

The audit approach included a review of documentation including accountability accords and contribution agreements for the ASDs and XDOs selected; a review of a sample of ABC's project files related to the ASDs and XDOs selected; consultations with representatives of ABC management and officers in Head Office and the regions; and consultations with General Managers and External Development Officers from each of the ASDs and XDOs selected in our sample. In addition, we conducted a site visit to one of the ASD organizations that included discussions with ASD staff on file management and documentation. During May 2003, we presented our preliminary findings to participants at ABC's XDO Conference through which third party deliverers were provided with an opportunity to validate our findings and provide input into recommendations for improvement.

The audit plan and audit criteria were developed using the *Guides* identified above, consultations held with ABC management in Head Office, a review of background documentation on the ASD pilot initiative, previous reports from Quality Assurance Reviews, and ABC's presentation on External Delivery Organizations – Strengthening the Relationship.

Audit Criteria

The audit plan, submitted to ABC management in Head Office on February 28, 2003, described the criteria to be applied in the audit. The audit criteria define the standards against which ABC's management of its third party delivery arrangements were assessed and were selected with reference to the Treasury Board's/Institute of Internal Auditors *Alternative Service Delivery Management Guide* and *Alternative Service Delivery Internal Audit Guide*, and to standards and practices followed by ABC.

While our audit criteria address the four key stages of the third party delivery life-cycle, the primary focus of our examination was on the Operational Stage as this is the current stage of the third party delivery life-cycle within ABC. However, evidence to support the criteria in the other stages was also examined as decisions made in these stages impact the effectiveness of the Operational Stage. The audit criteria are outlined in Appendix A of this report. Each of the criteria was tested through our discussions with management and staff of ABC and the selected ASDs and XDOs, a review of the ASD and XDO agreements, a review of a sample of ABC's projects relating to the selected ASDs and XDOs, and with reference to best practices in alternative service delivery arrangements.

4. Audit Findings

Although the focus of the audit was on the Operational stage of the third party delivery arrangements as this is the current lifecycle stage of the arrangements, we assessed ABC's practices and procedures of the other two earlier stages, specifically the Decision Stage and the Development and Approval Stage. No significant findings were noted.

While the processes over the selection of the original XDO arrangements in the early 1990's were not overly formal or consistently documented, considerable improvement was noted during the ASD selection process in the late 1990's during which candidates were formally assessed against established criteria, risks were considered in the decision making process, and individual assessments and approvals were formally documented on file. ASD selection criteria focused on assessing the organization's managerial capacity and previous performance as an XDO as critical success factors to a successful ASD arrangement. This is consistent with leading practices in alternative service delivery.

The following outlines our findings with respect to the Operational Stage of a third party delivery arrangement.

4.1 Management Control Framework

ABC management has implemented a number of management controls over its third party delivery arrangements. Standard contribution agreements are in place for all XDO and ASD arrangements, requiring the submission of periodic reports, the right to conduct an annual audit of the arrangement, and defining expected performance targets. Third party delivery organizations are required to submit a detailed business plan prior to the renewal of agreements which must outline the organization's planned marketing and promotion activities, staffing plans, and performance targets for funded projects by strategic priority area. External delivery officers are invited to participate in weekly provincial office screening meetings and to participate in training sessions provided to ABC Development Officers, including Road Shows and Regional and National Focus Training Days. XDOs were also invited to attend ABC's XDO/CO-1 training course held in November 2002. In addition, an XDO Conference is hosted by ABC, generally every 18 months, through which XDO and ASD representatives are invited to meet to discuss issues of common interest. All XDOs are provided with access to ABC's Toolkit, which is an electronic policies and procedures manual to guide officers through all phases of a project life cycle.

Issue #1 – There is no formally documented management control framework for third party delivery arrangements.

ABC has historically adopted a regional or decentralized approach to its management of third party delivery arrangements, allowing regional managers to exercise their judgment in determining the nature and frequency of communications with third party organizations, the frequency and extent of monitoring activities, the extent to which ABC will be involved in hiring and staffing activities, and other matters. In addition, although

a director level of the management team has been responsible for the oversight and implementation of third party delivery arrangements, this overall responsibility is not commonly known or recognized among ABC's XDO and ASD organizations. This decentralized approach, while attempting to recognize and work with the unique needs of each third party delivery organization, may result in a lack of clarity or common understanding of the roles, responsibilities and accountabilities within ABC and the service providers. As a result, XDOs dedicated to ABC programming are often unsure of where their accountabilities lie.

The lack of a visible "champion" of third party delivery arrangements within ABC makes it more difficult in terms of enabling exchanges of information between the third party delivery organizations, or to provide cross training opportunities to new organizations to help them "learn the ropes" and new processes (e.g. how to set up Board kits, forms, etc.). The lack of an ongoing forum to allow for the sharing of best practices may result in more limited opportunities for improvement and efficiency gains.

It should be noted, however in a recent XDO Conference, ABC management made some significant progress by sharing some of these preliminary audit findings with the third party deliverers. The conference provided participants an opportunity to set priorities and identify corrective action on many of the issues identified, and provided a venue for all third party deliverers to voice their concerns within other areas. From the consultations conducted, both third party deliverers and ABC staff and management believed the XDO conference was considered a critical success factor in ensuring ongoing beneficial relationships and to support future improvement initiatives.

In addition, although risks are considered in the initial decision-making process when selecting and approving ASD and XDO agreements, there is no formal process for monitoring and assessing risk throughout the life cycle of the agreement. This may impact management's ability to effectively monitor performance and may lessen the ability of management to proactively identify issues as they arise. In addition, resource allocation decisions on activities such as time spent on monitoring and communications with individual organizations may be sub-optimal if they are not reflective of the relative risk of each organization.

Issue #2 – Staffing practices are inconsistent

The audit noted inconsistencies in the hiring of external delivery officers under both ASD and XDO arrangements. As ABC has outsourced its service delivery, responsibility for hiring of external officers resides with the third party delivery organization. However, the strength and capability of external delivery officers is a critical success factor in the accomplishment of ABC's objectives and in the success of the XDO or ASD arrangements. Currently, the outsourcing agreements require the XDOs and ASDs to ensure that candidate profiles are consistent with the competencies required of a CO-2 level. However, the CO-2 level requirement may not be realistic in all circumstances given the remoteness of certain locations and the possible lack of available skilled professionals willing to service the area. Consideration should be given to hiring an individual with the right "fit" and understanding of the program and service area who can then be trained in financial analysis and other relevant skill sets required to effectively deliver the program.

To properly manage these differing scenarios, a risk-based approach would be appropriate to guide the level of involvement of ABC management in the hiring process. For example, if no significant issues have arisen with past hiring decisions within an organization, a notice of a change in staff may be sufficient. However, should ABC have issues with the results of past hiring decisions, it may wish to be more involved in the staffing process through such activities as attending potential candidate interviews, reviewing the candidate's resume, etc. Specific guidelines would assist in determining when specific actions by ABC are warranted. Any guidelines should also note courses of action should deviations be encountered, with the requirement of the third party delivery organization to assess the potential exposure and how the risk(s) will be managed. The guidelines should also be sufficiently flexible to adapt to changing circumstances and should also address the required competencies of an external officer.

In addition to hiring, there are also inconsistencies in the staffing of officers within third party delivery organizations. Some organizations staff only one officer for ABC program delivery while others assign some ABC program responsibilities to each officer within the organization. Although the practice of staffing only one officer within an XDO or ASD may fail to meet the goal of building capacity within the host organization should the external delivery officer leave the organization, it may be deemed to be the most appropriate staffing approach for the third party. For example, due to scarcity of required skill sets, it may only be possible to staff one individual in certain organizations. ABC needs to continue to be sensitive to the individual needs of each organization, recognizing that different models may work in different situations. However, ABC needs to monitor whether an organization's staffing approach is giving due consideration to the related risks of the approach. High turnover and the hiring of inexperienced or inadequately skilled officers should be a concern to ABC, as these events may negatively impact the overall performance of the third party delivery officer and increase the costs of delivery. ABC has little recourse to deal with poor performing third party deliverers other than to terminate the agreement with their host organization, as the XDOs have no direct accountability to ABC. Therefore it is critical that ABC monitor its hiring practices of third parties to manage its risks and ultimate accountability.

Recommendation #1: ABC should document and implement a formal management control and accountability framework to guide the management and operations of its third party delivery arrangements. The framework should address the following elements:

- the roles and responsibilities of internal and external individuals involved in third party delivery arrangements, including the designation and communication of the individual tasked with overall management of third party delivery;
- the reporting relationships of these individuals;
- clear expectations of performance, outlining the basic operating principles and rules to follow, and easily measurable performance indicators; and
- clear statement of the requirement for ongoing program review and evaluations to assist in program improvement.

Recommendation #2: ABC should continue to investigate and implement initiatives that encourage more frequent and ongoing dialogue between ABC and third party delivery providers to discuss opportunities, concerns, and sharing of leading practices.

Recommendation #3: ABC should revise its hiring guidelines for third party delivery organizations to reflect a risk-based approach that identifies minimum qualifications required and considers the differences between the employment pools in remote locations and larger urban centres. ABC should implement appropriate monitoring activities of new staff hires and require related hiring and staffing approaches to be addressed, with related risks and controls, in the organization's business plan submitted annually to ABC.

4.2 Performance Measures

XDO and ASD agreements specify performance targets expected of the organization. These targets are to be set by ABC, with input and involvement of the third party delivery organization. Third party delivery organizations are currently measured primarily on their achievement of cash flow and project targets.

Issue #1 – Lack of relevant performance measures

Performance of third party delivery arrangements is measured on financial indicators with little consideration of qualitative or non-financial measures such as service delivery, timeliness of approvals or client satisfaction. Although one objective of ABC's third party delivery arrangements is to provide outreach services to clients in selected areas, current performance measures do not adequately incorporate a measurement of whether ABC's target market is being reached or whether intended impacts have been achieved. The results of the measures may not give an accurate picture of achievements or illustrate the cause and effect relationships between the measures and strategic outcomes. Measures that are neither relevant nor balanced may constrain motivation, accountability, budgeting, planning and/or feedback. Focus should be on establishing performance measures that link to ABC's priorities with respect to third party delivery.

In addition, it appears that both XDO and ASD organizations are often not consulted on the setting of their annual cash flow and project targets. While in some cases, organizations clearly felt they had been sufficiently consulted through the performance goal setting process, others felt performance targets were imposed upon them and had little opportunity to provide input. The lack of consensus between ABC and its external officers on setting performance targets may negatively impact the achievement of results, including less incentive for acceptance of the targets and a lack of ownership of the performance indicator(s).

This issue may be addressed by the establishment of a committee from a cross-section of ABC Development Officers and Regional Managers and ASD/XDO General Managers and External Officers to discuss the merits of an improved performance measurement system and proposed performance measures. ABC should consider a team approach and invite input on the indicators to be used, as well as the criteria and methodology for “normalizing” the measures to account for regional differences. It is critical to obtain input from both ABC and third party deliverers to gain “buy-in” from the third party deliverers. Such a committee could also be tasked to review and approve regional performance targets.

Issue #2 – Lack of formal standards or benchmarks

One primary reason for the initiation of third party delivery arrangements is to provide service to clients in selected areas. However, ABC does not have formal standards or benchmarks against which third party delivery costs can be compared, to assess the costs and benefits of this form of service delivery. This may create difficulties in evaluating and comparing third party delivery performance between third party deliverers and between the deliverers and ABC due to the lack of information and due to the inability to adjust for external and environmental differences between organizations. ABC will need to gain a more complete understanding of the operational and environmental issues of each third party delivery organization and any unique attributes that affect operations as a reasonable basis of comparison. In addition to comparisons between third party deliverers, few formal analyses have been made to determine if ABC’s third party delivery arrangements are viable and are providing value for money.

Recommendation #1: ABC should revise its performance measures to include qualitative measures in order to provide a more fulsome evaluation of third party delivery performance. Such measures should be developed with input from the third party deliverers and should form part of ABC’s management control and accountability framework.

Recommendation #2: ABC should develop standard benchmarks with detailed guidelines to enable periodic comparisons among the third party delivery arrangements to assist in assessing the ongoing viability and cost/benefits of individual organizations. Where appropriate, these guidelines should outline the adjustments required to the benchmarks to reflect regional differences to improve comparability.

4.3 Monitoring and Reporting

ASD agreements currently require the filing of quarterly reports to ABC that provide information on projects funded, marketing and promotion activities conducted, and other relevant performance information. Annual financial statements and audits are also required under the contribution agreements. Guidelines with respect to monitoring are not formally documented.

Issue #1 – Lack of clarity of reporting requirements

Quarterly reports typically provide details on the number of projects funded and related cash flow information against performance targets, but generally lack in-depth qualitative information. The format and content of quarterly reporting has been largely left to the discretion of the ASD organization, which has resulted in inconsistencies in the quality and format of these reports. Although audited financial statements are provided to ABC, there is little documented evidence on file demonstrating that any review or analysis of this information has been undertaken by ABC. In addition, a lack of clear reporting expectations may lead to duplication of efforts and/or inconsistencies in reporting formats and reduces management's ability to monitor performance on a timely basis. Reporting that lacks sufficient detail makes the determination of actual results and the assessment of performance difficult.

The determination of the optimal formats and content for reports may be addressed by holding a forum with both representatives of ABC and the third party organizations to discuss the specific reporting requirements and related reporting formats. This will help to achieve consistency, determine leading practices, and minimize the reporting burden of third party organizations by ensuring that requested information is value-added and will be used for decision making purposes.

Issue #2 – Lack of consistent monitoring

Under ABC's decentralized approach to monitoring, monitoring of third party delivery arrangements has been inconsistent and the frequency and nature of monitoring activities is often a decision of the Regional Manager. A lack of understanding and appreciation of reporting may result in monitoring that is ineffective or non-existent, leading to insufficient documentation on tracking performance results, issues and opportunities, analysis undertaken, follow-up, or lack of an audit trail for quality assurance reviews.

While Regional Managers have responsibility for monitoring individual agreements at the operational level, there is no formal overall responsibility within ABC for the monitoring of agreements, i.e. overall monitoring of the third party delivery initiative across the entire organization. Leading practices in the monitoring of third party delivery arrangements include a detailed review of the third party deliverer's annual financial statements, performance to date against plan, an analysis of the continued relevance of the performance indicators, frequent discussions with the external delivery officer, and the existence of sufficient, appropriate documentation to support the review of the monitoring activity. While some elements of these leading practices currently exist, such as ongoing communication and reviews of third party delivery performance reports, there is a lack of consistency in how and when these activities are conducted across the country and there is no formal process for consolidating and analyzing the results and performance of all third party arrangements across ABC. The monitoring process should be formally communicated to the third party delivery organizations and the Development Officer assigned to monitor the arrangement, to ensure a common understanding among both parties on the requirements expected.

Issues #3 – Lack of sufficient data capture

Currently, information on the number of projects ultimately funded, the related dollar value of these projects, and other pertinent details related to ABC's third party delivery arrangements is not sufficiently captured to assist ABC in assessing total impacts and outcomes of its funding to third party delivery organizations. While ABC's systems do track XDO funded projects, funding related to ASD arrangements is currently shown as one project in the amount of the contribution agreement. This fails to capture the number and value of the end projects ultimately funded by these organizations that may create difficulties in assessing the total impacts and outcomes of ABC's program delivery.

Recommendation #1: ABC should clarify its reporting expectations and communication guidelines that will form part of the accountability framework, and develop consistent reporting formats to assist with the effective operation of the monitoring process.

Recommendation #2: ABC should clarify its monitoring expectations and clearly communicate responsibilities for both operational and program-wide monitoring of its third party delivery arrangements.

Recommendation #3: ABC's data gathering and reporting systems should be modified to capture all program delivery performance information and should include an early warning system to indicate when performance results may not meet expectations.

Appendix A – Audit Criteria

The high-level criteria for the life-cycle stages of the third party delivery arrangement are as follows:

Decision Stage:

The Decision Stage consists of the initial strategic analysis and the analysis of opportunities to enter into third party delivery arrangements. Although the examination of audit evidence for this stage was based upon ABC's historical decision making processes, opportunities for improvement may be identified that will improve future strategic decision making in other areas.

Criteria for the decision stage were designed to determine whether the need for third party delivery arrangements has been appropriately defined, to assess the effectiveness of ABC's risk assessment process and to assess whether management has conducted a sufficient analysis of opportunities and options. Specific criteria examined under this objective included:

Strategic Analysis:

- ABC's services have been appropriately defined and described;
- Key stakeholders and clients have been consulted;
- Strategic objectives, critical success factors in service delivery and significant business risks have been analyzed and communicated; and
- A rationale for the type of service to be considered for third party delivery has been defined and communicated.

Analysis of Opportunities:

- Third party delivery opportunities have been identified and communicated;
- A risk/benefit analysis of third party delivery opportunities has been adequately assessed; and
- A ranking and prioritization of third party delivery opportunities has been completed.

Development and Approval Stage

The Development and Approval Stage consists of the selection of the third party deliverer and involves two key management processes: business case analysis and the selection of the ASD provider. The examination of ABC's processes and controls over the selection of third party deliverers was most significant to this audit, and included planning the selection process through to candidate selection. Criteria in

this stage focused on assessing whether the selection of XDO's/ASD's represented organizations that best met the key criteria used to select third party deliverers.

Business Case Analysis:

- A detailed business case was performed that encompassed factors such as the purpose, description of services to be delivered by third parties, human resource issues, assumptions and constraints, and accountability requirements.

Selection of the Third Party Service Delivery Provider:

- Request for Proposal ("RFP") evaluation team included individuals who are independent to the process;
- The proposal team has discussed and documented preliminary evaluation criteria, impacts and cost/benefit analysis;
- The RFP includes specific criteria that are critical to ABC's business needs;
- Appropriate technical and performance specification were developed for bidders to clearly demonstrate their abilities and experience;
- The proposal evaluation or scoring system has been adequately developed and is relevant to the important criteria outlined in the RFP, and has been communicated to ensure consistency in the proposal evaluation process; and
- Bids were appropriately ranked according to the specifications outlined in the RFP.

Operational Stage

The Operational Stage consists of the negotiating of ASD/XDO agreements and accountability accords and the monitoring and evaluation of third party delivery performance. This stage is the most significant at this point in ABC's third party delivery life-cycle, as the effectiveness of ABC's procedures and practices in establishing effective contracts and in monitoring third party delivery performance throughout the term of the contract should help identify and manage risks, assist in future decision making and aid in reporting on results.

The audit assessed the completeness and fairness of the contract negotiation process, evaluated the effectiveness of ABC's monitoring process, and evaluated the effectiveness of the ongoing XDO/ASD management. Specific criteria examined under this objective included:

Contract Negotiation:

- Agreements and accords clearly define terms, service levels, and performance targets; and

- A valid contract exists, due diligence has been conducted, and appropriate legal and higher body advice has been obtained prior to final contract signing.

Performance Monitoring and Evaluation:

- XDOs/ASDs deliver services in accordance with ABC and Industry Canada policies and procedures;
- Processes exist for an evaluation of achieved results against intended performance;
- Appropriate arrangements for ongoing and regular monitoring and centralized reporting of performance and actual results has been established;
- Periodic reviews are conducted in a timely manner;
- Effective remedial action is taken on the XDO/ASD as necessary; and
- Mechanisms are in place to reward high performance and penalize poor performance.

Appendix B – ABC’s Third Party Delivery Organizations

THIRD PARTY DELIVERY ORGANIZATION	ABC PROVINCIAL OFFICE SERVICED
<i>Alternative Service Delivery (ASD) Providers:</i>	
Nu-chah-nulth Economic Development Corp.	BC/Yukon
Waubetek Business Development Corp.	Ontario
Corporation de Developpement Economique Montagnaise (CDEM)	Quebec/Nunavut
Nunavut CEDO	Quebec/Nunavut
 <i>External Delivery Providers:</i>	
Dana Naye Ventures	BC/Yukon
Tribal Resources Investment Corp. (TriCorp)	BC/Yukon
All Nations Development Corp. (ANDEVCO)	BC/Yukon
Apeetogosan Metis Development Inc.	Alberta/NWT
Metis Dene Development Fund *	Alberta/NWT
SIEF/SNEDCO Development Corp.	Saskatchewan
Pwi-Di-Goo-Zing-Neyaa-Zhing Advisory Services	Manitoba/NW Ontario
North Central Community Futures Development Corp.	Manitoba/NW Ontario
Nishnawbe Aski Development Fund	Ontario
Societe de Credit Commercial Autochtone (SOCCA)	Quebec/Nunavut
Labrador Friendship Centre	Quebec/Nunavut

* The contract was cancelled in April 2003.

Appendix D – Management Response

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICER	TIMEFRAME
<p><i>Section 4.1 - Management Control Framework</i></p> <p>Recommendation #1: ABC should document and implement a formal management control and accountability framework to guide the management and operations of its third- party delivery arrangements. The framework should address the following elements:</p> <ul style="list-style-type: none"> • the roles and responsibilities of internal and external individuals involved in third- party delivery arrangements, including designation and communication of the individual tasked with the overall management of third-party delivery; • the reporting relationship of these individuals; • clear expectations of performance outlining the basic operating principles and rules to follow and easily measurable performance indicators; and, • clear statement of the requirement for on-going review and evaluations to assist in program improvement. 	<p>ABC will research and develop a framework to:</p> <ul style="list-style-type: none"> • establish a clear set of reporting and monitoring guidelines to ensure the efficient transfer of information between the parties, and investigate the need for central contact/management point; • identify and define the roles and responsibilities of each party/individuals, reporting schedules and report formats; • identify and define the required performance measures and service standard benchmarks, operating principles and guidelines, including a standardized reporting template; and, • produce a schedule of program reviews and evaluations for third-party delivery arrangements. 	<p>Manager Services Program</p>	<p>March 31, 2004.</p>

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICER	TIMEFRAME
<p>Recommendation #2: ABC should continue to investigate and implement initiatives that encourage more frequent and on-going dialogue between ABC and third-party delivery providers to discuss opportunities, concerns, and sharing leading practices.</p>	<p>ABC will host an annual training conference to encourage regular contact between XDO, ASD and ABC officers to improve communications, share information and share best practices.</p> <p>ABC will also investigate how current and future information technology can encourage more and better communications between the parties.</p>	<p>Manager Program Services</p>	<p>ABC will schedule a training conference by June 30, 2004.</p> <p>September 30, 2004</p>
<p>Recommendation #3: ABC should revise its hiring guidelines for third-party delivery organizations to reflect a risk-based approach to that identifies minimum qualifications required and considers the difference between the employment pools in remote areas and large urban centres. ABC should implement the appropriate monitoring activities of new staff hires and require related hiring and staffing approaches to be addressed, with related risks and controls, in the organization's business plan submitted annually to ABC.</p>	<p>ABC will identify and develop a set of standardized qualifications for third-party officers as well as identify networks/approaches for recruiting qualified staff, and outline guidelines for the level of involvement by ABC in the hiring process, to be reviewed and updated regularly.</p> <p>ABC will identify and develop an approach to mentor new third-party hires and develop a process to assess the training needs and quality of performance by new third-party officers.</p>	<p>Manager Program Services</p>	<p>June 30, 2004.</p>
<p>Section 4.2: Performance Measures</p> <p>Recommendation #1: ABC should revise its performance measures to include qualitative measures in order to provide a more fulsome evaluation of third-party delivery performance. Such measures should be developed with input from third-party deliverers and should form part of ABC's management control and accountability framework.</p>	<p>ABC will identify and define the required additional performance measures, including qualitative measures to evaluate program impacts and third-party delivery performance.</p> <p>ABC will consult with third-parties on the development of performance measures and guidelines for inclusion in the management control framework.</p>	<p>Manager Program Services</p>	<p>March 31, 2004.</p>
<p>Recommendation #2: ABC should develop standard benchmarks with detailed guidelines to enable periodic comparisons among third-party delivery arrangements to assist in assessing the on-going viability and cost/benefits of individual organizations.</p>	<p>ABC will identify and define detailed service benchmarks that are standardized across the country and develop guidelines to enable comparisons between third parties and ABC, for inclusion in the management control framework.</p>	<p>Manager Program Services</p>	<p>March 31, 2004.</p> <p>Cost-benefit study: March 31, 2004.</p>

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICER	TIMEFRAME
Where appropriate, these guidelines should outline the adjustments required to the benchmarks to reflect regional differences to improve comparability.	ABC will undertake to identify common data collection requirements and templates for XDOs, ASDs and ABC to permit a cost benefit and viability analysis of ASDs. The analysis will be completed by March 31, 2006.		Cost-benefit and viability analysis: March 31, 2006.
<p>Section 4.3: Monitoring and Reporting</p> <p>Recommendation #1: ABC should clarify its reporting expectations and communications guidelines that will form part of the accountability framework, and develop consistent reporting formats to assist in the effective operation of the monitoring process.</p>	ABC will improve its current reporting process by establishing a clear set of communications and reporting guidelines, including standardized reporting templates, to facilitate the efficient transfer of information between parties as well as assist with effective monitoring of third-party arrangements. These guidelines will be included in the management control framework.	Manager Program Services	March 31, 2004.
<p>Recommendation #2: ABC should clarify its monitoring expectations and clearly communicate responsibilities for both operational and program-wide monitoring of its third-party delivery arrangements.</p>	ABC will improve its current monitoring approach by implementing a clearer set of guidelines and standardized reporting templates for the monitoring of operational and program-wide performance.	Manager Program Services	March 31, 2004.
<p>Recommendation #3: ABC's data gathering and reporting systems should be modified to capture all program delivery performance information and should include an early warning system to indicate when performance results may not meet expectations.</p>	ABC will improve the current process by establishing and implementing a clear set of guidelines and processes for data gathering and reporting of program performance and impacts, and act as an early warning system, when results do not meet expectations.	Manager Program Services	March 31, 2004.