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# **SMART COMMUNITIES PROGRAM MANAGEMENT AND FINANCIAL CONTROL AUDIT**

**Final Report**

**Audit and Evaluation Branch**

**June 2003**

**Canada**

**SMART COMMUNITIES PROGRAM  
MANAGEMENT AND FINANCIAL CONTROL AUDIT**

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## **EXECUTIVE SUMMARY**

### **Background**

The Smart Communities Program (SCP) is one of the six pillars of the connectedness agenda established by the federal government to make Canada the most connected nation in the world.

In June of 1999 the Minister of Industry announced the opening of a competition to fund twelve Smart Community Demonstration Projects, one in each province, one in the North and one in an Aboriginal Community. A national selection committee met throughout late 1999 and early 2000 to review 128 letters of intent and business plans submitted to Industry Canada by 46 organizations.

The final allocated funding totaled \$ 55 million for the twelve demonstration projects and \$ 5 million was allocated from O & M funds to the funding of three complementary programs and program administration costs.

### **Objectives of the Audit**

The focus of the audit of the SCP was on the management and financial control of the program. The objectives were to determine that:

- Management has reasonable assurance that the program is well managed and has been implemented in a timely manner; and
- Proper financial controls exist for the program.

### **Methodology and Approach**

Interviews were conducted with the staff responsible for the program and those responsible for providing and controlling the financial assistance to the individual projects. The audit team reviewed business plans, project summaries, contribution agreements and modifications, as well as the web sites for all twelve projects. Specific samples were selected from all twelve projects for in-depth reviews of monthly claims, quarterly and annual reports, and evidence of regional monitoring.

## Conclusions

- Management has reasonable assurance that the program is well managed and has been implemented in a timely manner.

Quarterly and annual reports have been submitted by all demonstration projects. Although reports were submitted late in the first year of the program or projects, the timing and the quality of the submissions have improved over the past year. The Smart Communities Program Directorate (SCPD) is receiving sufficient information to track the financial progress and results of individual demonstration projects on a regular basis.

Although certain performance measurement results have been communicated in the quarterly and annual reports that have been submitted by the Demonstration Projects, performance measurement reports have been submitted for only seven of the twelve projects. The SCPD should ensure that performance measurement results are reported by all of the projects so that it has sufficient information to track the performance of the program as a whole.

- There appears to be proper financial controls in place for the program. Claims are generally submitted and reviewed promptly by the SCPD providing pertinent and timely information to management. Due diligence has been exercised in the spending of the funds and the funds have been used for the purposes intended.

Based upon our limited review of certain claims for all the projects there have been some expenses paid, though not of a material nature, where eligibility of the expense is questionable. The Smart Communities Demonstration Projects are generally managing the projects in accordance with the terms and conditions of the contribution agreements.

Details of various costs are not submitted by the recipients as required by the monitoring guidelines for either actual supported costs or in-kind contributions. This has precluded SCPD officials from having the information to possibly challenge or question more elements of submitted claims.

## 1.0 BACKGROUND

In June of 1998 the Prime Minister announced the creation of a panel on Smart Communities as part of the federal government's Connecting Canadians initiative to make Canada the most connected nation in the world. This panel was mandated to provide advice to the Minister of Industry on the need and opportunity to integrate information and communication technologies to better serve the citizens of Canadian communities. The panel was also mandated to design a program that would create at least one world class Smart Community in each province, one in the North and one in an Aboriginal Community, all by the year 2000. The panel's report was dated November 1998 and was released in February 1999.

The Smart Communities Program was approved for the total funding of \$ 60 million that was to be disbursed between the 1999-2000 government fiscal year and the 2001-2002 fiscal year. The Minister announced the opening of the competition for applicants to the 12 demonstration projects in June of 1999. The deadline for submission of business plans was January 14, 2000.

A national selection committee composed of 24 members from a wide range of fields reviewed 46 business plans that were submitted and made a recommendation of the 12 selected communities after having reviewed all of the plans. Plans were reviewed with the assistance of external reviewers who provided a confidential consensus report on the technical and feasibility aspects of each submission. The final recommendations for the selection of the 12 Smart Community Demonstration projects were made in March 2000.

The goal of the SCP is to help establish world-class Smart Communities across the country so that Canadians can fully realize the benefits that information and communication technologies have to offer. The program objectives are:

- To assist communities in developing and implementing sustaining Smart Communities strategies;
- To create opportunities for learning through the sharing among communities of Smart activities, experiences and lessons learned; and
- To provide new business opportunities, domestically and internationally, for Canadian companies developing and delivering information and communication technology applications and services.

The period of time elapsed between the announcement of the program and the selection of the 12 demonstration projects was almost two years. Due to this length of time the establishment of the various projects was delayed by one to two years. The funding of the projects will continue through to the end of the 2004 fiscal year, whereas the original planned completion date was the end of 2002.

The final allocated funding totaled \$ 55 million for the twelve demonstration projects. In addition \$ 5 million was allocated to the funding of three complementary programs and program administration costs. This was to be covered by O & M funds. The three complimentary programs were:

- Smart Communities Resource Exchange;
- Smart Communities Tool Kit and Skills Development Program;
- Smart Communities Recognition Program.

As of the time of this audit in November-December 2002 cumulative disbursements for the twelve demonstration projects totaled \$ 32,053,455. The \$ 5,000,000 O & M funding of the complimentary programs and the program administration costs had been fully disbursed.

## **2.0 OBJECTIVES OF THE AUDIT**

The focus of the audit was on the management and financial control of the program.

The objectives of the audit were to determine:

- Whether management has reasonable assurance that the program is well managed and has been implemented in a timely manner by:
  - Reviewing the systems that are in place to track the performance of the program;
  - Determining that management has implemented a system for maintaining the program and that corrective action is taken when necessary.
- Whether proper financial controls exist for the program by reviewing that:
  - Actual expenditures are monitored and controlled effectively;
  - A reporting mechanism exists which provides pertinent and timely information to management for decision-making;
  - Due diligence is being exercised in the spending of the funds;
  - Funding is used for the purposes intended;
  - The Smart Communities Demonstration Projects are managing the projects in accordance with the terms and conditions of the contribution agreements;

- Project and program performance problems are resolved quickly; and
- Overpayments owed to the Department are collected promptly, where applicable.

### **3.0 METHODOLOGY AND APPROACH**

Interviews were conducted at the beginning of the audit with staff from the Smart Communities Program Directorate (SCPD) responsible for the program and for providing, controlling and approving the financial assistance. These interviews included the following SCPD personnel:

- Director, Smart Communities Program;
- Manager, Smart Communities Program;
- Three project officers responsible for the 12 demonstration projects; and
- Program officer responsible for reviewing project claims.

The audit team reviewed the business plans, project summaries and the contribution agreements and modifications, and the web sites for all twelve-demonstration projects.

Certain samples were selected for review from all twelve projects for monthly claims, quarterly and annual reports (including annual audited financial statements), and regional monitoring reports.

Discussions were held with the Manager of the Smart Communities Program to determine the nature and amount of funding to date relating to the three complementary programs referred to in the background of this report.

## **4.0 AUDIT FINDINGS AND RECOMMENDATIONS**

### **4.1 Smart Communities Demonstration Projects**

#### **4.1a Contribution Agreements and Amendments**

- Business plans were submitted by all SCDP's and were available on file at the Smart Communities Program offices. The project summaries formed the basis for the preparation of the final contribution agreements.
- The Smart Communities Program Directorate had adequate documentation on file to support the non-profit status of the project sponsoring organizations.
- In most cases project amendments were made to authorize amendments to annual disbursement limits since the program and the various demonstration projects started later than originally anticipated.
- The reasons for amendments were not always clearly documented. In one instance the annual disbursement limit was exceeded and in several others the excess disbursement was approved after the disbursement occurred.

#### **RECOMMENDATIONS**

- *Management should ensure that reasons for amendments to contribution agreements are clearly documented in writing.*
- *Amendments to contribution agreements for the reallocation of annual disbursement limits should be approved prior to the disbursement of the funds.*

#### **4.1b Claims Processing**

- The requirements for processing claims are outlined in the document entitled "*Smart Communities Program Directorate Guidelines for Monitoring and Reporting.*" The guidelines require that claims be accompanied by details for all costs being claimed, that copies of invoices for amounts over \$ 25,000 that are included in a claim, and that all original receipts for travel and meals are included with the claims.



- Travel and meal receipts are regularly submitted by all of the demonstration projects.
- Details of various costs are not submitted by the recipients for either actual supported costs incurred or in-kind contributions during the claims process. Invoices for items greater than \$ 25,000 are submitted and retained on file. However, since details of the various expense categories are not supplied it is not possible to determine that all of these invoices were submitted.
- During our review we determined that life insurance had been purchased with the cost of airline tickets and that Directors' liability insurance for Board members of demonstration projects was claimed and paid. Costing memorandum Schedule "B" (that forms part of the contribution agreements) identifies general non-eligible costs as including life insurance premiums where the proceeds accrue to the recipient. It is not clear that the preceding expenses claimed are eligible expenses under the terms of the contribution agreements and the spirit of the program.

## RECOMMENDATIONS

- *Claims that are submitted by recipients should be accompanied by details such as the detailed general ledger history of expenses being claimed, in order to facilitate the matching of expenses to invoices and other documentation. These details are required by the guidelines established in the Smart Communities Program monitoring and reporting document.*
- *The Smart Communities Program Directorate should seek advice to clarify whether life insurance purchased as part of air travel and Director's liability insurance are eligible program expenses.*

### 4.1c Monitoring

- Quarterly and annual reports were submitted late in several instances in the first year of the program and/or demonstration projects. The timing of the submission of these reports has improved over the last year.
- Certain of the demonstration projects are not following the recommended format or contents for these reports, particularly as these relate to the details of in-kind contributions incurred during the quarter.

- The regional monitoring of each project by Industry Canada representatives has not been performed consistently for all projects. On-site visits have not always been carried out.
- There is no evidence on file that the annual audited financial statements submitted by the sponsoring organizations are reviewed in the monitoring process, or are compared to the claims that have been paid.
- The Smart Communities Program Guidelines for Monitoring and Reporting include a framework for developing a project performance measurement plan. The findings of the performance measurement reports were to be used as inputs into the quarterly, annual and final project reports submitted to Industry Canada and were also to form the basis for any formal evaluation of the projects. The Manager of the Program has informed us that only 7 of the 12 demonstration projects have submitted performance measurement reports, and that any projects that do not submit these reports will not receive the 10 % holdback on program funding. Performance measurement reporting is not only vital to the final reports and evaluation of the individual projects but also to the on-going evaluation of projects and to the program's progress and effectiveness.

## RECOMMENDATIONS

- *Management should ensure that the quarterly and annual reports are submitted within the prescribed delays and that these reports conform to the format as required in the Program Guidelines for Monitoring and Reporting.*
- *Commentary should be received in writing from all regional monitors on all quarterly and annual reports submitted by the demonstration projects.*
- *Written documentation should be retained on file by program personnel as evidence of the review of annual audited financial statements submitted by the project sponsoring organizations. This documentation would support any questions that may be asked during this review as well as the disposition of such questions.*
- *The SCPD should insist that all demonstration projects complete the implementation of their performance measurement plans and the reporting of the results.*

## 4.2 Complementary programs

The three complementary programs were put into place to demonstrate the federal government's leadership in the Smart Communities movement as part of the connecting Canadians agenda. These complementary programs in addition to program administration costs were to be funded out of O & M and were not to exceed \$ 5 million. Based on discussions with the Smart Communities Program Manager, the \$ 5 million has been spent. The funds were spent on the Smart Communities Resource Exchange and the Smart Communities Tool Kit and Skills Development Program in addition to the creation of the selection committee, promoting the program, public relations, developing the Smart Communities web site, developing an electronic voting system, and the sub-contracting of the work related to the programs and salaries for Smart Communities Directorate.

The implementation date for the Smart Communities Recognition Program is targeted for April 2003. Any expenses incurred will be funded from future operating budgets.

## 5.0 CONCLUSIONS

- Management has reasonable assurance that the program is well managed and has been implemented in a timely manner.

Quarterly and annual reports have been submitted by all demonstration projects. Although reports were submitted late in the first year of the program or projects, the timing and the quality of the submissions have improved over the past year. The Smart Communities Program Directorate (SCPD) is receiving sufficient information to track the financial progress and results of individual demonstration projects on a regular basis.

Although certain performance measurement results have been communicated in the quarterly and annual reports that have been submitted by the Demonstration Projects, performance measurement reports have been submitted for only seven of the twelve projects. The SCPD should ensure that performance measurement results are reported by all of the projects so that it has sufficient information to track the performance of the program as a whole.

- There appears to be proper financial controls in place for the program. Claims are generally submitted and reviewed promptly by the SCPD

providing pertinent and timely information to management. Due diligence has been exercised in the spending of the funds and the funds have been used for the purposes intended.

Based upon our limited review of certain claims for all the projects there have been some expenses paid, though not of a material nature, where eligibility of the expense is questionable. The Smart Communities Demonstration Projects are generally managing the projects in accordance with the terms and conditions of the contribution agreements.

Details of various costs are not submitted by the recipients as required by the monitoring guidelines for either actual supported costs or in-kind contributions. This has precluded SCPD officials from having the information to possibly challenge or question more elements of submitted claims.

## ANNEX A

### Management and Financial Control Audit of the Smart Communities Program Management Response

#### GENERAL COMMENTS

The findings of the audit were positive overall and reinforced that the program is being well managed and that proper financial controls exist. Due diligence has been exercised in the spending of funds, and the timing and quality of quarterly and annual reports submitted by the Demonstration Projects has improved over the past year, providing sufficient information for SCP to track the financial progress and results of the projects. The Demonstration Projects are generally being managed in accordance with the terms and conditions of the contribution agreements.

Recommendations were made regarding the Smart Communities Demonstration Projects only.

#### RECOMMENDATIONS

##### **Contribution Agreements and Amendments (See section 4.1a)**

*1. Management should ensure that reasons for amendments to contribution agreements are clearly documented in writing.*

**Management Response:** Agree

**Follow-up Action:** Management will ensure that reasons for amendments are clearly documented in writing and inserted into the project files.

**Timeframe:** On-going

*2. Amendments to contribution agreements for the reallocation of annual disbursement limits should be approved prior to the disbursement of the funds.*

**Management Response:** Agree

**Follow-up Action:** Management will work with the project leaders to ensure that year-end cash flow issues are addressed as early as possible and are approved prior to the disbursement of funds.

**Timeframe:** On-going

### **Claims Processing (See section 4.1b)**

***3. Claims that are submitted by recipients should be accompanied by details such as the detailed general ledger history of expenses being claimed, in order to facilitate the matching of expenses to invoices and other documentation. These details are required by the guidelines established in the Smart Communities Program monitoring and reporting document.***

**Management Response:** Agree

**Follow-up Action:** Management will immediately reinforce to recipients that, in line with existing program guidelines, claims should be accompanied by better supporting documentation, including a detailed ledger.

**Timeframe:** On-going

***4. The Smart Communities Program Directorate should seek advice to clarify whether life insurance purchased as part of air travel and Director's liability insurance are eligible program expenses.***

**Management Response:** Agree

**Follow-up Action:** Management has sought advice on the above issues.

**Timeframe:** Done

### **Monitoring (See section 4.1c)**

***5. Management should ensure that the quarterly and annual reports are submitted within the prescribed delays and that these reports conform to the format as required in the Program Guidelines for Monitoring and Reporting.***

**Management Response:** Agree

**Follow-up Action:** Management and regional monitors will work more closely with project leaders to ensure that project reports are submitted on time and in the proper format.

**Timeframe:** On-going

***6. Commentary should be received in writing from all regional monitors on all quarterly and annual reports submitted by the demonstration projects.***

**Management Response:** Agree

**Follow-up Action:** Management will follow up more closely with regional monitors through monthly teleconference calls to ensure that commentary will be provided in writing on all quarterly and annual reports reviewed.

**Timeframe:** On-going

*7. Written documentation should be retained on file by program personnel as evidence of the review of annual audited financial statements submitted by the project sponsoring organizations. This documentation would support any questions that may be asked during this review as well as the disposition of such questions.*

**Management Response:** Agree

**Follow-up Action:** Written evidence of the review of annual financial statements against claims forms will be initialled by the program manager and included in the files.

**Timeframe:** On-going

*8. The SCPD should insist that all demonstration projects complete the implementation of their performance measurement plans and the reporting of the results.*

**Management Response:** Agree in principle.

**Follow-up Action:** The SCPD engaged a consultant to assist the project leaders with their performance measurement and sustainability plans. Even though SCPD agrees that this is a good management practice, these documents are not legally required as part of the contribution agreement.

**Timeframe:** All plans due by the end of September 2003.

### **Management Accountability**

These program-related recommendations will be addressed within operational plans and delivery strategies to be undertaken by the Innovation and Inclusion Directorate, which is responsible for the Smart Communities Program, in 2003-2004.

Leadership in implementing these recommendations is to be provided by Information Highway Applications Branch in cooperation with partner organizations, and is to be overseen by the Associate Assistant Deputy Minister of the Spectrum, Technology and Telecommunications Sector (SITT), Industry Canada.

