



Human Resources Development Canada
Internal Audit Bureau

Développement des ressources humaines Canada
Bureau de vérification interne

FINAL REPORT

Program Integrity / Grants & Contributions

Project No.: 429/98

Project Team

Director General: J.K. Martin

Audit Director: G. Duclos

Auditors: P. Albert

S. Auguste

A. Chan-Kouan

D. Collins

N. Farley

M. Larose

G. Morin

J. Oligny

B. Sliter

APPROVAL:

Original copy signed by:

DIRECTOR:

Gilles Duclos

DIRECTOR GENERAL:

James K. Martin

January 2000



TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY	1
2.0 INTRODUCTION.....	3
3.0 OBJECTIVES OF THE REVIEW	5
4.0 SCOPE AND METHODOLOGY.....	6
5.0 FINDINGS.....	7
6.0 RECOMMENDATIONS.....	12

APPENDICES

APPENDIX A – Audit Universe

APPENDIX B1 – Audit Universe Contribution Expenditures for Fiscal Year 1998-99

APPENDIX B2 – Contribution Expenditures by Percentage and Month for 1998

APPENDIX C – General Description of Programs

1.0 EXECUTIVE SUMMARY

This review was conducted from January to August 1999 and covers all Grants and Contribution (G&C) programs delivered by Human Resources Development Canada (HRDC), with the exception of the Fishery Restructuring and Adjustment (FRA), which will be covered at a later date.

The review was based on the analysis of 73 grants and 386 contributions agreement files chosen at random within seven Programs, 63 visits to sponsors in all ten Regions, corporate data analysis and financial risk assessment. File analysis covered the four fundamental steps in G&C program delivery, selection and approval, contracting¹, overseeing and disbursement.

The overall management of HRDC's grants and contributions programs in the areas of selection and approval, contracting, overseeing projects, monitoring and payments must be improved. Adherence to Treasury Board Policies on advances payments and carry over need to be improved. Certain aspects of financial controls need to be strengthened. The Management Response included in the report comprehensively addresses these issues.

Issues were found in the following areas. Details are presented in the body of the report.

Selection and Approval

This is the first, and possibly the most important step in good program management, as any problem or omission will likely have an impact on the entire project.

- A number of issues were identified relating to missing or incomplete documentation and failure to carry-on certain consultation or verification activities.

Contracting

Clear and complete agreements are essential to properly exercise the rights and responsibilities of both parties, and they are the basis of effective financial and operational monitoring.

- The contracting process needs to be strengthened to improve the quality of Contribution Agreements.

¹ Throughout this report, contracting refers to the engaging in a formal agreement with a sponsor or client.

Overseeing Projects

Contribution projects are often complex and generally involve significant amounts of money. Effective administrative supervision and project monitoring are important at all stages in the life of a contribution project.

- Programs would benefit from more and better project monitoring;
- HRDC's program officers would benefit from greater oversight by their supervisors.

Disbursements

Amounts claimed by sponsors or clients represent several billion dollars every year. Effective financial controls must be applied to all G&C disbursements.

- Controls can be made more effective.

Advances and Year-end Spending

Treasury Board and Departmental policies put limitations on issuance of advance payments to sponsors and carry over between fiscal years.

- Situations of non-compliance were identified.

Access Privileges to Financial Systems

Access to G&C funds by HRDC employees must be limited to those requiring it to exercise their function and proper segregation of duties is an essential element of effective financial controls and proper risk management.

- A number of security concerns came to light during the review.

Recommendations covering all aspects of G&C program delivery and financial integrity are presented in this report. They will require the involvement of Human Resources Investment Branch (HRIB), Labour, Human Resources Services (HRS), Finance, Systems and Security.

The management responses to these observations and recommendations are included in this document. These responses address all the issues identified during the review.

2.0 INTRODUCTION

Goal of the Review of Grants and Contribution Programs

Human Resources Development Canada (HRDC) is committed to enabling Canadians to participate fully in the workplace and in their communities. The approach the Department is taking to achieve this broad objective is described in *Making a Difference in Human Development: A Vision for HRDC*. This Vision commits the Department, *inter alia*, to strive to:

- enable Canadians to manage the transition in their lives by encouraging them to be self-reliant, invest in themselves and become more adaptable;
- focus on preventative measures, such as life-long learning and improved knowledge of social, economic and labour market information; and
- build the capacity of communities – whether local communities or communities of those with special needs – to help fellow citizens and themselves.

Grants and Contribution (G&C) programs are a necessary part of the Department's toolkit for achieving its Mission and Vision. Good management practices and a modern approach to program administration are critical to the Department's success in providing services to Canadians. The goal of the Review of G&C programs is to help the Department in this regard.

The New Context for Program Administration

The 1994-95 government-wide Program Review led to significant changes in most HRDC programs, a major downsizing of the HRDC workforce, and implementation of new modes of service delivery. The 1996 EI Act resulted in the negotiation of Labour Market Development Agreements with provincial and territorial governments.

These changes have considerably modified the context for the administration of all of the department's programs, but especially for the Human Resource Investment Grants and Contributions programs.

While NHQ, the Regions and Local Offices were facing the challenge to adapt to this new situation and developing the necessary new approaches to the administration of G&C programs, the reduction in staff resulted in a disproportionate loss of those with experience who left as a result of the Work Force Adjustment Incentives put in place by the Treasury Board.

Both the involvement of provincial and territorial governments in program planning and administration and the introduction of new types of programs have made program administration and delivery more demanding. These partnerships have nevertheless enhanced program delivery by increasing understanding of various audiences while bringing additional expertise, broader perspectives and flexibility to projects.

The 1998-99 Audit Plan included a series of projects assessing the basic management and financial controls in all of HRDC's main program areas. Conscious of the risk created by the increased complexity in the program delivery, the changes to the environment and the impact of declining resources, HRDC management asked that the review of grant and contribution programs be given a higher priority.

Grant and Contribution Programs

The bulk of HRDC's expenditures on grants and contributions are for the programs² of the Labour Branch and the following Directorates in the Human Resources Investment Branch (see Appendix A):

- Labour Market
- Social Development
- Learning & Literacy
- Human Resources Partnerships
- Youth Employment
- Aboriginal Relations

A brief general description of these programs is found in Appendix C.

² It was agreed to review Fishery Restructuring and Adjustment (FRA) at a later date because it had not been active long enough.

3.0 OBJECTIVES OF THE REVIEW

The objectives of this specific review were to assess the management and delivery of grants and contributions programs within HRDC and provide managers and staff with practical, result-oriented recommendations on ways to improve project management, reduce risk, and develop a better accountability framework.

To achieve this objective, the review has focused on whether:

- a) grants and contributions are allocated and used in compliance with applicable objectives, policies, rules and procedures, and with due regard to the principles of accountability, effectiveness, efficiency and economy;
- b) grants and contributions funds are adequately protected from errors, misappropriation, misuse and abuse, within and outside HRDC, and provide an estimate of the magnitude of the loss, if any.

This report provides information that can serve as a baseline for measuring future improvements in the administration of grants and contributions programs.

4.0 SCOPE AND METHODOLOGY

The approach to the review had four inter-related parts:

File review

- A total of 73 grants and 386 contribution agreements chosen at random within seven Programs were reviewed between January and August 1999. The breakdown by Program and Region is given in Appendix A.
- The review of contribution agreements focused on these four key stages: project selection and approval, contracting, oversight and disbursements. The review of grants files covered project selection and approval.

Field Visits

- Field visits complemented the review of contribution files. A representative but non-random sub-sample of 63 agreements was drawn from the file review and sponsors were either visited or contacted. At least one-week notice was given to any sponsor prior to the visit. Project officers and program managers were also visited in NHQ and in four Regions.

Data Review

- Data reviewed was a download from the corporate financial database and covered all grants and contributions programs. The data was analyzed using a new sub-system of the Corporate Management System (CMS) called Decision Support System (DSS). The purpose was to review the spending pattern for each program. The data was also reviewed for specific contribution agreements to be used in conjunction with field visits.

Financial Integrity Assessment

- This segment of the review was completed through facilitated risk assessment sessions with regional and NHQ program officers, and through an analysis of access privileges to G&C financial accounts.

5.0 FINDINGS

The following are the most significant findings from all four parts of this review. The files examined relate to the period prior to June 1999. The findings are categorized below according to the step in the approval and administration process of projects.

In response to these findings, HRDC has already started to work to improve the administration of G&C programs as indicated in the attached management response.

Re Selection and Approval

- Of the 459 project files reviewed, 15% did not contain an application from the sponsor.
 - Of the remaining applications the following elements were missing:
 - cash flow forecast 72%;
 - anticipated number of participants 46%;
 - a description of the activities to be supported 25%;
 - the characteristics of participants/audience 25%;
 - a budget proposal 11%; and
 - a description of expected results 11%.
- There was no documentation on internal or external consultations in seven out of every ten project files reviewed.
 - Consultations were observed almost exclusively in project files where it was a mandatory program condition.
 - File review indicates that, in most cases where there was no consultation, project officers alone selected and recommended projects.
- Two thirds of the files reviewed did not contain an analysis and/or a rationale for recommending or accepting the project.
- In 97% of the files reviewed, there was no evidence on file that sponsors had been checked for outstanding debt to HRDC prior to project acceptance.
 - At the time of the review, outstanding debts of sponsors to HRDC could only be verified on corporate files through the applicant's telephone number instead of its name; this limited the effectiveness of verifications.
 - There were no examples found of files where documented attempts were made to identify debts outside of HRDC.
- In one hundred and twelve instances required signatures were missing on the project approval, the agreement or on at least one of the claims for the project.

- An examination of 13 signatures selected during the file review revealed that:
 - in three cases the delegation instrument (signature card) for the signing officer could not be produced; and
 - in six cases the delegation was only valid upon notification of acting and for a limited period of time, and no such notification had been received for the period the document was signed.
- As part of the review, an attempt was made to determine whether an environmental assessment (EA) was done for those cases where it was required. The current guidelines still require a judgment call as to whether an EA is required or not. According to the files and assessment of EA requirements, we found that less than one quarter of the files showed evidence of an EA.

Re Contracting

- In four contribution agreements out of every ten reviewed, irrelevant clauses in standard agreements were not crossed out or “blanks” were not filled in to specify conditions such as the periodicity for the submission of claims or the period of notification if it were necessary for HRDC to terminate the project before completion.
- The original dollar value of the agreement was amended in one third of the projects reviewed, upward in most cases.
 - In 36% of these cases, the reason for the amendment was not documented.

Re Overseeing Projects

- Eight files out of every ten reviewed did not show evidence of financial monitoring.
 - For all contribution program areas, it was observed that when conducted, the financial monitoring was insufficient to ensure that monies were used for their intended purpose.
 - In all contribution programs areas, where a contribution agreement indicated that sponsors were to contribute a share of the expenses to the project, there was no indication that financial monitoring looked for evidence that they had done so.
 - Absence of monitoring notes or reports in the file does not necessarily mean that no monitoring was conducted. During field visits, some project officers stated that they were in fact monitoring projects but not documenting their monitoring activities.
 - Some program officers expressed the opinion that financial monitoring was not required if the results were achieved within the agreed budget.

- Three out of four contribution projects had no indication of monitoring for achievement of expected results.
- Almost 87% of the project files reviewed did not contain any indication of supervisory oversight of the project officer's handling of the dossier.

Re Disbursements for Expense Claims

- Sponsors have the contractual obligation to keep substantiating evidence of their expenses but are generally not required to produce them with their expense claims. Seventy nine percent of the reviewed project files did not contain invoices or payroll records supporting the expenses claimed by the sponsor.
- During field visits to sponsors, auditors verified claims totaling some \$5 million. Of this amount, 3% was clearly not allowed as per the terms and conditions of the agreement. There was a further 13% of claimed expenses for which the sponsors were unable to provide supporting evidence.
 - It was not possible during the short field visits to establish formally an overpayment but program officers of the individual cases have been notified of the specific cases; there will be a follow-up to determine the outcomes.
 - In several cases, expenses claimed were questionable, but could not be declared as illegitimate because of the vagueness of the contribution Agreement (for example, purchasing of gifts, bonuses to employees, unnecessary travel and expensive meals).

Re Management of the Program Budget

- Treasury Board policies for the financial administration of grants and contributions allow for advance payments for a period of up to one month from previous year funds in exceptional circumstances.
 - The review has found that across all 1998-99 contribution programs examined some \$261 million, or 26.3% of all project expenses was paid-out after March 1st. This is 19.6% above the average monthly April through February disbursement (Appendix B1/B2).
 - File reviews and sponsor visits showed that these expenditures are typically advances for the coming fiscal year, to avoid lapsing funds at the end of the year.

- There is no consistency in the way regions, program areas at NHQ, nor even Local Offices within a Region, code G&C transactions in the financial system.
 - Some regions have advised their staff to code advance payments as expenditures, not advances.
 - We observed some offices coding G&C expenditures as advance payments.
 - Some offices give a detailed breakdown of program expenditures by line object; others code expenditures against the single largest line object in a claim; others give no breakdown at all.

- As a result, it is difficult to get from the corporate financial system an accurate picture of the level of advance payments or the pattern of expenses claimed; this makes accurate expenditure forecasting difficult and increases the risk of improper financial management in the following ways:
 - Managers and project officers who do not use advance coding increase the level of financial risk.
 - Project officers cannot use the financial system to determine the overall financial status of projects for which they are responsible.
 - Project officers cannot check to see whether maxima for individual expenditure categories for a project have been exceeded.

Re Financial Integrity

- Two of the most important practices to ensure financial integrity are segregation of duties and restricted access to financial systems.

- Segregation of duties has been reduced by staff reductions and by the concomitant and necessary move to streamline administrative processes.
 - This has resulted in many project officers handling and controlling a grant or contribution project from application to termination with little or no involvement from managers or fellow project officers.

- As a crucial element of segregation of duty, there is a rule that a person who has the capacity to initiate a payment (update/input) in the financial system must not have the capacity to approve issuing a cheque (approval), except under exceptional circumstances.
 - Instances where employees have active input and approval capacity for the same responsibility centre without justification have been identified.

- A new or modified UserID giving an employee access to HRDC's financial (or other mainframe) systems is allocated by security employees having a special access code known as "KP" or "JP". The number of employees having this access should be strictly limited and its use should be closely monitored.
 - In May 1999 there were 193 active UserIDs with "KP" or "JP" access. Of these, 32 were allocated more than once to one person, and 40 were generic and not allocated to any specific individual which means they could be used anonymously by any persons knowing the password to provide unauthorized accesses to existing or virtual employees.

- To control who has access to what in financial systems, a report (ED72) provides a list and description of user access. This report is neither understood correctly nor used by most responsible financial officers.
 - Lists of users with multiple UserIDs, with JP/KP access, and with both input and approval capability in the financial system were provided to the relevant IT security or financial services officer for review and corrective action.

6.0 RECOMMENDATIONS

Management Response to the report: General Comments

Human Resources Development Canada has reviewed the report produced by the Internal Audit Bureau on the Audit of Grants and Contributions Programs and agrees with the findings. Management believes that this report is comprehensive and would like to thank IAB for their efforts in this regard.

The scope and nature of HRDC's Grants and Contributions Programs are wide and complex and must satisfy the many different needs of Canadians across the country. In addition, the environment in which these programs are administered has and continues to change as HRDC has increasingly entered into collaborative arrangements with other jurisdictions, and the private and voluntary sectors to administer these programs. This has also occurred at a time when HRDC, like many other federal institutions, experienced significant resource reductions. Nonetheless, HRDC staff has shown a willingness and ability to adapt to these new and evolving operating realities in their mission to assist Canadians in managing transition in their lives and enable them to participate fully in the workplace and community. We are pleased that the Audit report acknowledges and recognizes these factors.

HRDC management recognizes that the report raises a number of important points and concerns related to the management and monitoring of its Grants and Contributions Programs. Management believes that the recommendations of the Audit report are an essential step in the continued evolution and improvement of our services to Canadians. To reinforce program integrity and ensure that an appropriate balance between results and accountability is maintained, HRDC has undertaken a multi-faceted Grants and Contributions Initiative that comprises a number of significant actions. Under the direction of our Grants and Contributions Working Group as well as a Steering Committee comprised of Senior Management representing HRDC's extensive program areas and regions, management is pleased to report that significant progress has been made with respect to each of the recommendations.

The positive and valuable lessons learned from the Audit have already been integrated into a Comprehensive Grants and Contributions Action Plan. In support of the comprehensive department wide plan, each of HRDC's branches, regions and program areas is developing their own action plans, and will be responsible for reporting on progress to the Steering Committee on a monthly basis. Our Grants and Contributions Working Group has established 5 sub committees in the areas of Policy; Tools and Training; Systems, Supporting People and Aboriginal Programs. These groups will ensure both a flexible and focused implementation of the audit recommendations and action plans across program areas and regions, and will measure and report on progress on an ongoing basis.

HRDC management has established the National Grants and Contributions Performance Tracking Group. Complementing the department's ongoing monitoring activities, this permanent group, through its enhanced monitoring and audits of grants and contribution agreements and through its submission of regular performance reports to Senior Management, will provide ongoing assurance that HRDC's grants and contributions funds are being managed and expended prudently and in accordance with program terms and conditions. In addition to tracking improvements in the performance of HRDC's Grants and Contributions program administration, the Performance Tracking Group will also highlight key areas of risk and provide advice and support to HRDC managers on ways to mitigate risk.

Management believes that this Audit report, together with our action plans and department wide initiatives provides a comprehensive strategy and framework to reinforce program integrity throughout HRDC while improving our services to Canadians. To demonstrate our commitment and progress, we have included specific responses for each of the report's recommendations. Management is confident that this approach will contribute to clarity and focus in dealing with each of the recommendations, and serve as a useful benchmark against which to measure and achieve progress.

Program Management

1. We recommend that senior HRDC management ensure a common understanding among staff and stakeholders regarding the following fundamental issues:
 - the fundamental differences between grants and contributions and their global objectives;
 - the nature of the relationship between HRDC and recipients of contributions;
 - the importance of good administrative practices; and
 - the lapsing of G&C funds.

Management Response

The department has already undertaken a number of actions to raise awareness and understanding surrounding the issue:

- *Communications in July and September 1999 from the Deputy and Assistant Deputies;*
- *Establishing a National Grants and Contributions Working Group and Steering Committee in July 1999 and five national sub committees in October 1999;*
- *Conducting a national workshop on Program Integrity in July 1999 and the development and implementation of Departmental Action Plans;*
- *Hosting an Advisory Session with Academics of Public Administration on Program Development and Delivery on August 24, 1999;*

- *Obtaining ongoing feedback, validation of achievements, plans and commitments from key national bodies – Service Delivery Steering Committee, National Management Board, Human Resources Investment Committee;*
- *Launch of the Grants and Contributions Performance Tracking Group in September 1999;*
- *Delivering Legal Services BTV training sessions on contracting/contribution agreement management on November 17 and 23, 1999*

Sustained understanding and awareness during and beyond the 1999-2000 fiscal year will be achieved through:

- *Developing communications products, program tools and supporting strategies as well as training modules aimed at staff and partners/sponsors beginning in January, 2000;*
 - *Developing and maintaining a Grants and Contributions website that will provide front line staff with a single window of reference to obtain procedures, guidelines, definitions, checklists, risk assessment information and tools, which will be available in January 2000;*
 - *The Working Group's Policy Sub Committee, in cooperation with HRIB and FAS will determine what changes to Treasury Board Policy on lapsing of funds would help program management. This determination will begin in January 2000 with a business case presented to Treasury Board Secretariat in March 2000;*
 - *Delivering a Grants and Contributions BTV session in January 2000.*
2. We recommend that HRIB, FAS and Systems develop tools to improve the reliability and flexibility of financial forecasts for G&C programs at the local, regional and national levels to prevent undue expenditure slippage while complying with TB policies on advance payments from previous year funds.

Management Response

As part of its Departmental Grants and Contributions Action Plan, the Tools and Training, and Systems Sub Committees will conduct an inventory and gap analysis of current financial forecasting tools beginning in December 1999. The Sub Committees, in cooperation with functional areas of responsibility, (HRIB, FAS and Systems) will develop tools and supporting training strategies and modules to ensure that staff have the proper resources and training to improve reliability and flexibility in financial forecasting, while complying with TB policies. The timeframe for the development of tools will be contingent upon the outcome of the inventory/gap analysis. The Systems Sub Committee has identified the Corporate Client Information Services project as a key corporate initiative that will contribute to the development of tools to improve the reliability and flexibility of financial forecasts. The Sub Committee is currently examining which aspects of this three year project can be immediately adapted to address the requirements of this recommendation. As of April 2000, the budget module of CMS will have the capacity to undertake transactions (commitment and expenditures), to maintain daily transaction information and to provide access to this information through the DSS module of CMS.

3. We recommend that FAS clarify departmental policy regarding the appropriate financial coding of contribution transactions and ensure that advances and expenses are coded as such.

Management Response

As part of its Departmental Grants and Contributions Action Plan, the Policy Sub Committee, in conjunction with FAS, will initiate a review of departmental policy on financial coding beginning in November 1999. The committee, in cooperation with functional areas of responsibility such as FAS Policy and Systems, will consider approaches to ensure that coding is consistently applied. This approach will clarify departmental policy and ensure its consistent application across program areas and regions. Financial coding will be verified and monitored on an ongoing basis through the Rejuvenation of the Post Audit Function project, which is currently being pilot tested and will be implemented in April 2000. Scheduled for launch in April 2000 and once fully operational in November 2000, the DSS module of CMS will have the capacity to record advances properly and reconcile expenses against advances.

4. We recommend that Financial Officers monitor G&C accounts for outstanding commitments and unsupported payments on a regular basis.

Management Response

As part of its Departmental Grants and Contributions Action Plans, the Working Group has held discussions with FAS on revitalizing its post audit function. FAS has initiated a national project, rejuvenating the Post Audit Function, which will verify payments and provide management with assurance regarding the validity of payments and systems integrity. As part of the initiative, Financial Services is working with FAS Policy and Systems, Accounting Operations and Regions to revise policy and develop tools to facilitate transaction sampling, review and reporting of errors for all expenditure transactions including Grants and Contributions Payments. This will be implemented by April 1 2000. This issue will also be examined by the Systems Sub Committee to consider relevant systems solutions that will enable program officers to access the necessary files/information to determine past and current sponsor obligations to HRDC and the Crown. Enhanced monitoring of G&C accounts will result from improvements made through the Corporate Client Information Services project.

5. We recommend that controls be put in place to ensure that the limitations set by Treasury Board³ on:
 - advance of Program funds to sponsors; and,
 - payments made out of the previous fiscal year but covering expenses, which will be incurred in the new year.

We further recommend that HRDC again approach the Treasury Board to amend their policies to better fit Programs needs.

Management Response

As part of its Departmental Grants and Contributions Action Plan, the Policy Sub Committee will hold discussions with HRIB and FAS beginning in January 2000 to examine the current controls and practices in place to ensure compliance with TB policies as well as the program implications of current policies. HRDC will also hold additional discussions with Treasury Board Secretariat as required based on this examination. From this examination, the appropriate modifications and, as required, new controls will be developed and implemented as they are approved. Such modifications will be supported by communications and staff training/awareness. The ongoing activities and reporting of the National Grants and Contributions Performance Tracking Group will provide Senior Management with information on improvements of compliance with current controls and policies, as well as any new ones that may be developed.

³ TB Standard Policies for the Financial Administration of Grants and Contributions Projects, Section 4.5 allows for an advance of a maximum of one month from previous year.

6. We recommend that local, regional and national offices incorporate systematic risk management⁴ into G&C strategic planning, as well as into day-to-day operational decisions on project selection, management and monitoring.

Management Response

This has been identified as a strategic and management priority through HRDC executive performance commitments and HRIB's Integrated Business Planning Process. Local, regional and national offices will be required to report on this through the business planning process for which Directors General and Regional Executive Heads will be held accountable for the results. HRDC has secured funding from the Treasury Board's Comptrollership Innovations Fund, which will accelerate the development of integrated processes for assessing and managing risks on an ongoing basis. Risk analysis tools and processes will be developed and implemented by April 1, 2000. The Tools and Training Sub Committee will ensure that the tool kits are developed in cooperation with other training initiatives. The Supporting People Sub Committee will assess the level of competencies that are required in local, regional and national offices to ensure systematic risk assessment can be effectively incorporated. The ongoing activities and regular reporting of the Grants and Contributions Performance Tracking Group will contribute to improving risk management tools used by HRDC managers and staff, highlighting key areas of risk and providing advice and guidance on mitigating risk. Risk assessment information will also be available on the Grants and Contributions Website. From the Advisory Session held on August 24, 1999, management is currently studying recommendations that could involve the community in project selection and monitoring of high risk projects and identifying up front what percentage of funds may be dedicated to such projects.

⁴ During 1999-2000 and 2000-2001, HRDC will be receiving \$825,000 from the Modernization of Comptrollership Innovations Fund to assist in this across all HRDC business lines.

7. We recommend that HRIB and Regional Offices review required competencies and current levels of training of staff, and take appropriate action to ensure that staff have the tools to cope with the demands of administering increasingly complex G&C programs.

Management Response

As part of its Departmental Grants and Contributions Action Plans, the Supporting People Sub Committee is developing a Program Management Resource Model, which will include an examination and review of issues of staff levels and competencies. In cooperation with the Tools and Training Sub Committee, the sub-committee will also review tools and training throughout program areas and regions. This assessment will be conducted in relation to HRDC's current Service Delivery Model, the current activities of the Service Delivery Sub Committee on Human Resources, the Human Resources Branch, regions and program delivery areas. An Inventory and Gap analysis will be undertaken beginning in December 1999, and once completed, the appropriate tools will be developed and posted on the Grants and Contributions Website. Training will be implemented beginning in April 2000.

Re Selection and approval

8. We recommend that a standard, easy-to-complete application form with associated checklist be provided to prospective sponsors for each contribution program that will cover at least the following:
 - expected results and/or output;
 - budget proposal/cash flow forecast;
 - description of activities; and
 - number and characteristics of targeted participants.

Management Response

As part of its Departmental Grants and Contributions Action Plans, the Tools and Training Sub Committee, is developing a combined communications and training initiative targeted at staff and sponsors. These communications products will involve the development of brochures and checklists that communicate clearly and accurately both sponsor and departmental obligations. As well, training will be provided to staff on approaches on informing sponsors and responding to their inquiries. Development of these products will begin in January 2000.

9. We recommend that:
- a transparent selection process involving at least two persons be used for new contribution agreements or their renewal; and
 - a short written rationale for recommending or rejecting a new project or the renewal of an existing project be signed by the officers who participated in the selection process.

Management Response

As part of its Departmental Grants and Contributions Action Plans, memoranda from the Deputy and Assistant Deputy Ministers have been circulated throughout the department advising staff on the importance and principles of good file management throughout the entire project management cycle and requesting immediate action on these issues. How best to ensure transparent selection processes, along with a documented rationale for recommending and approving projects, will be examined as part of the Tools and Training Sub Committee activities beginning in January 2000. Modifications to existing training programs began in October. Requirements for new training for management on program administration is currently being studied for which a new course (if required) would be developed for delivery in the new fiscal year. Complementing the department's regular monitoring and audit activities, the National Grants and Contributions Performance Tracking Group will provide Senior Management with information on improvements in the selection processes for grants and contributions projects.

10. We recommend (in conjunction with recommendation 20) that approval procedures be modified to ensure prospective sponsors are checked for:
- outstanding debts to HRDC; and
 - current and past projects with HRDC locally, regionally and nationally (the Decision Support System being developed will allow reliable checks).

Management Response

As part of the Corporate Management System, the Decision Support System is being pilot tested, which will allow for reliable checks. This system will be operational by November 2000. As part of HRDC's Action Plans, the Systems Sub Committee will report on progress with respect to this progress to the Steering Committee. Verifying sponsor history is also a key focus of the Grants and Contributions Systems Sub Committee as it will report to the Steering Committee on 2 multi year corporate systems projects – Corporate Client Information Services and Integrated Employment System – each of which are scheduled to begin in January/February 2000.

11. We recommend that measures be taken to ensure that HRDC fulfills its obligations under the Canadian Environment Assessment (CEA) Act.

Management Response

As part of its Departmental Grants and Contributions Action Plans, the Tools and Training Sub Committee is developing a combined communications and training initiative targeted at staff to ensure that they meet the requirements of the Canadian Environmental Assessment Act in the project selection and approval phase. Tools such as project selection and approval checklists will be developed beginning in January 2000 and implemented in association with other training initiatives commencing in February 2000. Project selection and approval checklists will be maintained on HRDC's Grants and Contributions Website which will be developed beginning in December 1999 and is scheduled for launch in January 2000. Use of project selection and approval checklists by staff will be monitored through the National Grants and Contributions Performance Tracking Group's regular reporting on improvements in administration to HRDC's National Management Board.

Re Contracting

12. We recommend that a single generic contract form with appropriate standard clauses and "appendices" mirroring the standard application form be developed and used for all contribution programs other than international contributions.

Management Response

Management has identified this as a training priority for which Legal Services has developed an interactive training and learning strategy which will cover the effective and appropriate use of template agreements including the use of checklists, clauses and appendices. This first training sessions have already been delivered through BTV sessions on November 17 and 23 1999. These checklists will be maintained as a reference and training guide on HRDC's Grants and Contributions Website, which is scheduled for launch in January 2000. The Tools and Training Sub Committee will ensure this training becomes a standard part of the project officer-training course in cooperation with the Learning Development Unit of Labour Market programs in HRIB.

13. We recommend that FAS, HRIB and regions review current communication and management practices to ensure that staff is aware of and respect delegated authority levels.
- particular attention should be paid to the requirement that any proposed increase in the funding of a project leading to a contribution agreement that in total exceeded an individual's delegated approval limit is to be approved by the appropriate higher authority.

Management Response

The delegated authorities for HRIB Grants and Contributions programs are available through two corporate intranet sites managed by FAS. As part of the Departmental Grants and Contributions Action Plans, the Tools and Training Sub Committee in cooperation with FAS, will review communications practices to ensure that staff are aware of the location and availability of delegated authorities information. Respect and adherence to delegated authority levels will be monitored as part of the performance improvement information collected and reported by the National Grants and Contributions Performance Tracking Group.

Re Overseeing Projects

14. We recommend that HRIB develop improved coordination mechanisms across its program areas to address questions such as the extent to which:
- common procedures, guidelines, risk assessment tools, and forms can be used across the breadth of grant and contribution programs to reduce program specific knowledge requirements for regional/local program officers; and
 - common core training and training materials for all HRIB programs can reduce the burden on regional/local program officers.

Management Response

As part of the Departmental Grants and Contributions Action Plan, the Tools and Training Sub Committee is examining the training and tools requirements that will enable HRIB to develop, in cooperation with other areas of functional responsibility, common procedures and training approaches across regional and program areas. This examination will include consideration of developing standardized forms and supporting training for their use. As part of its approach to provide staff with a single window of reference to obtain procedures, guidelines, checklists, risk assessment information and tools, HRIB/Corporate Initiatives will develop, promote and maintain a Grants and Contributions Management website. Preliminary site design, planning, architecture and content development will begin in December 1999 and a launch scheduled for January 2000.

HRDC has secured funding from the Treasury Board's Comptrollership Innovations Fund to develop risk analysis tools and processes. These will be developed for use by all program areas and regions by April 1, 2000. Management is also examining the recommendations made by the Services/Operations Working Groups. Data and information on risks will be accumulated by the Grants and Contributions Performance Tracking Group, which will improve HRDC's ability to update risk management tools used by managers and staff. The work of the Group will also highlight key areas of risk requiring further management attention.

15. We recommend that HRIB and Regional Offices investigate how best to address the need for an appropriate segregation of duties in the management of project dossiers, especially in small Responsibility Centers.

Management Response

Segregation of duties in the management of project dossiers will be examined as part of the development of a Program Management Resource Model by the Supporting People Sub Committee. This will ensure that program officers with the appropriate levels, tools and competencies are assigned the appropriate scope and responsibility for the management of project dossiers. Development of this model will begin in January 2000 and be reinforced by other training initiatives associated with Departmental Grants and Contributions Action Plans. Compliance with decisions made and policies and models developed with respect to segregation of duties in the management of project dossiers will be assessed and reported on by the National Grants and Contributions Performance Tracking Group. The first of the Group's quarterly reports to HRDC's National Management Board is scheduled for January 2000.

16. We recommend that the nature, purpose, extent and expected output of project monitoring be reviewed and clearly defined.

Management Response

As part of the Departmental Grants and Contributions Action Plans, the Tools and Training Sub Committee is examining how the nature and purpose of project monitoring can be best defined, communicated and reinforced across program and regional areas. A key message will be that ongoing financial and project monitoring performed by project officers remains a critical activity in the administration of grants and contributions programs. The Post Audit Function and the newly created Performance Tracking Group have been instituted as key complementary activities for this work and will not function as substitutions for ongoing financial and project monitoring. Assessments of current information and training materials and initiatives will begin in November 1999 with modified and new strategies being developed in January-March 2000, and implemented in September 2000. Information that explains and defines the nature, purpose, extent

and expected outcomes of project monitoring will be maintained on HRDC's Grants and Contributions Website. The adequacy of project monitoring will be a focus of project assessments conducted by the National Grants and Contributions Performance Tracking Group. The Group's quarterly reports to HRDC's National Management Board will reinforce and define project monitoring in a corporate context and ensure that the nature, purpose and output of project monitoring remains a fundamental focus in the ongoing administration of HRDC's grants and contributions programs.

17. Consideration should be given to creating monitoring teams at NHQ and in regions that combine financial and program expertise to deal with complex or sensitive projects that cannot be dealt with through the regular monitoring activities referred to in Section 16.

Management Response

Consideration of creating monitoring teams at NHQ and in the regions that combine financial and program expertise will be examined as part of the development of the Program Management Resource Model by the Supporting People Sub Committee. Creation of monitoring teams will also be examined by the Tools and Training Sub Committee to determine the extent and nature of training required to combine this expertise in monitoring teams. This will ensure that program officers with the appropriate authority levels, tools, competencies and expertise are able to monitor complex or sensitive projects. Development of the model will begin in January 2000.

18. We recommend that HRIB and Regional Offices investigate how best to ensure that:
 - project monitoring is based in part on impartial risk assessment (rather than just at the discretion of the responsible project officer) and in part on random selection to ensure that any project has a chance to be selected; and
 - some of the monitoring visits are conducted by an employee who was not directly involved in the approval or the management of the project, at the discretion of the responsible program manager.

Management Response

In addition to its activities in Recommendation 16, the Tools and Training and Supporting People Sub Committees, will investigate how project monitoring can be based on impartial risk assessment and how some monitoring is carried out by staff not directly involved in the project approval or management. These groups will examine current policies and training pertaining to project monitoring. The degree to which project monitoring can be shown to be based on impartial risk assessment and undertaken by employees not involved in project approval or management will be assessed by the National Grants and Contributions Performance Tracking Group. FAS, through its Rejuvenation of the Post Audit Function project will address the use of impartial risk assessment and random

selection in establishing samples for auditing. The methodology developed can also be shared and utilized, in part, for project monitoring. Management will also ensure that processes to determine whether and when a project is monitored is based on impartial risk assessment and that these processes are designed to ensure that all projects have a probability of being monitored. As a result of the complementary work of the Post Audit Function and the National Grants and Contributions Performance Tracking Group, all HRDC projects will be subject to the possibility of some level of independent review regardless of risk or value.

19. We recommend that HRDC consider creating a quality control mechanism to measure progress in the way G&C programs are administered and to provide assistance in identifying on-going risks.

Management Response

As part of the Departmental Grants and Contributions Action Plan, HRDC's Internal Audit Bureau has already established a National Grants and Contributions Performance Tracking Group. The Group will report to HRDC's National Management Board on a quarterly basis, advising management on trends, issues, progress and developments regarding the management of Grants and Contributions Programs throughout the department. Through regular reporting on improvements in the administration of Grants and Contribution programs, this permanent group will provide ongoing assurance that HRDC's grants and contributions funds are being managed and expended prudently and in accordance with program terms and conditions. The Performance Tracking Group will also highlight key areas of risk requiring the attention of HRDC management and staff.

20. We recommend that FAS, HRIB and Systems determine priorities for improving the availability of timely, reliable performance information, both financial and non-financial, for managers of contribution programs. Some possibilities include better:
- information exchange between corporate information systems;
 - information on prospect sponsors (possibly through access to new features in the DSS module of CMS);
 - information on the financial status of individual projects; and
 - information on the financial status of an office's portfolio of projects (e.g. level of total advances).

Management Response

As part of its Departmental Grants and Contributions Action Plans, the Systems Sub Committee the Sub Committee has identified two multi –year corporate systems projects - Corporate Client Information Service and Integrated Employment Systems as the primary initiatives through which to improve the availability of timely, reliable performance information to officers. The Sub Committee is examining key elements and aspects of these projects to immediately address the requirements of this recommendation with work on these projects scheduled to begin in January/February 2000. The DSS module of CMS which is currently being pilot tested and will be launched in April 2000; subsequent modifications to the module will render it fully operational by November 2000. The Sub Committee will report to the Steering Committee on progress and suitability for this project to address this recommendation. Management is giving additional consideration to developing mechanisms that will enable secure reporting of sensitive files and cases that cover instances where there is an ongoing investigation by either departmental or external agency personnel for occurrences of fraud, or substantial overpayments. An examination will also be undertaken with respect to listing Grants and Contributions on a website with a brief project description. This would contribute to both transparency and enhanced monitoring.

Re Disbursements

21. We recommend that:
- contractual obligations for the sponsor to maintain and to produce on request appropriate documentation to provide supporting evidence for claims (such as invoices, payrolls, returned cheques...etc), and the consequences of failing to do so be spelled out more clearly in Agreements; and
 - disbursement policies and agreement wording be modified to require sponsors to submit copies of such evidence with their current claim, at least periodically.

Management Response

As part of the Departmental Grants and Contributions Action Plan, the Tools and Training Sub Committee is examining approaches to informing sponsors of their

obligations. This approach will involve the examination of strategies that will inform sponsors who are in receipt of grants and contributions funds of their legal responsibilities. This approach and examination will incorporate communications/awareness, training and legal considerations that will result in the development of communications products aimed at sponsors. These products will ensure that sponsor obligations are communicated in a clear, accurate and consistent manner. Development of these communications products will begin in January 2000.

22. We recommend that HRIB develop a policy regarding when to require sponsors to engage independent third parties to audit their expenditures and possibly other obligations.

Management Response

As part of the Departmental Grants and Contributions Action Plan, the Policy Sub Committee has identified this as an issue that encompasses policy and legal review/development, communications/awareness, and training. HRIB, in cooperation with the Policy Sub Committee will develop a policy in consultation with legal services, program areas, regions and FAS. Upon completion, communications products that promote the policy to staff, advise sponsors of their contractual obligations in a clear, accurate and consistent manner will be developed. Staff will be advised and trained on administering the new policy and explaining it to sponsors. Work on the policy, supporting communications products and training activities will begin in January 2000. Compliance with any new policy (ies) requiring sponsors to engage third parties to audit their expenditures will be assessed and reported on by the National Grants and Contributions Performance Tracking Group.

Re Financial integrity⁵

23. We recommend quick removal of duplicate, unnecessary and expired access privileges to the HRDC financial system.

Management Response

In addition to IAB's follow up in October 1999, a plan that limits access privileges will be developed by the Grants and Contributions Sub Committee in December 1999 and communicated to program and regional staff immediately. The Systems Sub Committee met with HRDC IT Security on December 1, 1999 and will consult with them on an ongoing basis in the development of a plan and strategy to update access privileges to HRDC's financial systems. Progress on this will be presented to the Steering Committee on December 16, 1999.

24. We recommend that FAS, Systems and Regional Offices jointly review the current access control procedures and practices with the goals of ensuring that:
- access is limited to the appropriate individuals. This requires, among other things, the timely revocation of access privileges for staff who change duties or leave the department;
 - a consistent approach is used for the entry of user names;
 - form ED72, containing the list of access privileges to the financial system, be simplified and properly explained to staff; and
 - “privileged access” (JP/KP) in EasyLock, which permits the creation of new privileges for individuals or allows changes to existing access, be strictly restricted to security officers who need this access at that time to perform their functions; and that a list of these persons be kept up-to-date and controlled nationally.

Management Response

As part of the Departmental Grants and Contributions Action Plans, the Systems Sub Committee, in cooperation with IT Security has initiated a review of control procedures which is scheduled for completion in December 1999. Upon this review, the sub committee will develop recommendations for revised control procedures and practices in January 2000. The Systems Sub Committee has also initiated discussions with HRDC IT Security to include revised control/access procedures as part of a broader IT security awareness campaign, which is planned for the new fiscal year.

⁵ The Internal Audit Bureau has completed a Review of IT Security (ref. Project 99-442) which raised similar concerns to this report. In generating action plans to respond to recommendation 24 in particular, the results of that IT audit, which went beyond looking at the financial system, should be taken into account.

25. We recommend that consideration be given to providing information on access privileges to the appropriate officers through easy-to-use databases, such as the DSS module of CMS.

Management Response

As part of the Departmental Grants and Contributions Action Plans, the Systems Sub Committee will report to the Steering Committee on progress regarding the DSS module of CMS. Upon completion of pilot testing, the DSS module of CMS will be launch in April 2000 and Subsequent modification will render it fully operational in November 2000. The Systems Sub Committee will also examine the potential of asking IAB to monitor access privileges.

APPENDIX A

Audit Universe

Directorates	NFLD	NS	PEI	NB	QUE	ONT	MAN	SASK	ALB	BC	NHQ	TOTAL
Labour Market Directorate												
Local Labour Market Partnerships	2	2	1	2		1	2	1				11
Transitional Job Funds	2	2	2	2	2	2	2	2	2	2		20
Opportunities Funds	2	2	2	2	1	1	2	2	2	2		18
Targeted Wage Subsidies	2	2	2			2				2		10
Self Employment Assistance		2	2			1				2		7
Job Creation Partnerships	2	1	2			2				2		9
Enhanced FeePAYERS		2								1		3
Employment Assistance Services*	2	2	2			1				2		9
National Labour Market Innovations Program		2				1				1		4
Social Development Directorate												
Child Care Visions											25	25
Social Development Partnerships Program											25	25
Learning and Literacy												
Academic Mobility Program											15	15
Learning Initiatives Fund											8	8
Office of Learning Technology (6 programs)											40	40
Literacy (5 programs)											73	73
Human Resources Partnerships												
Human Resources Partnerships (6 programs)											44	44
Youth Employment Initiatives												
Youth Service Canada		1		1	2	8		1	1	1		15
Youth Internship Program-New Business	1	1		1	2	8	2		1	2		18
Youth Information		1			11	3						15
Youth Internship-International				3	3	5			1	2		14
Partners Promoting Summer Employment			2		2	4	2	1	4			15
Summer Career Placement		2	2		2	1		2	2	2		13
Aboriginal Relations Office												
Regional Bilateral Agreement											15	15
Urban Aboriginal Employment Initiative											2	2
Congress of Aboriginal Peoples											4	4
First Nations and Inuit Child Care											15	15
Labour												
Labour Market Partnerships Programs											12	12
Total	13	22	17	11	25	40	10	9	13	21	278	459

* The title "Employment Assist. for People With Disabilities" has been corrected to "Employment Assistance Services". (March 20th, 2000)

APPENDIX B-1

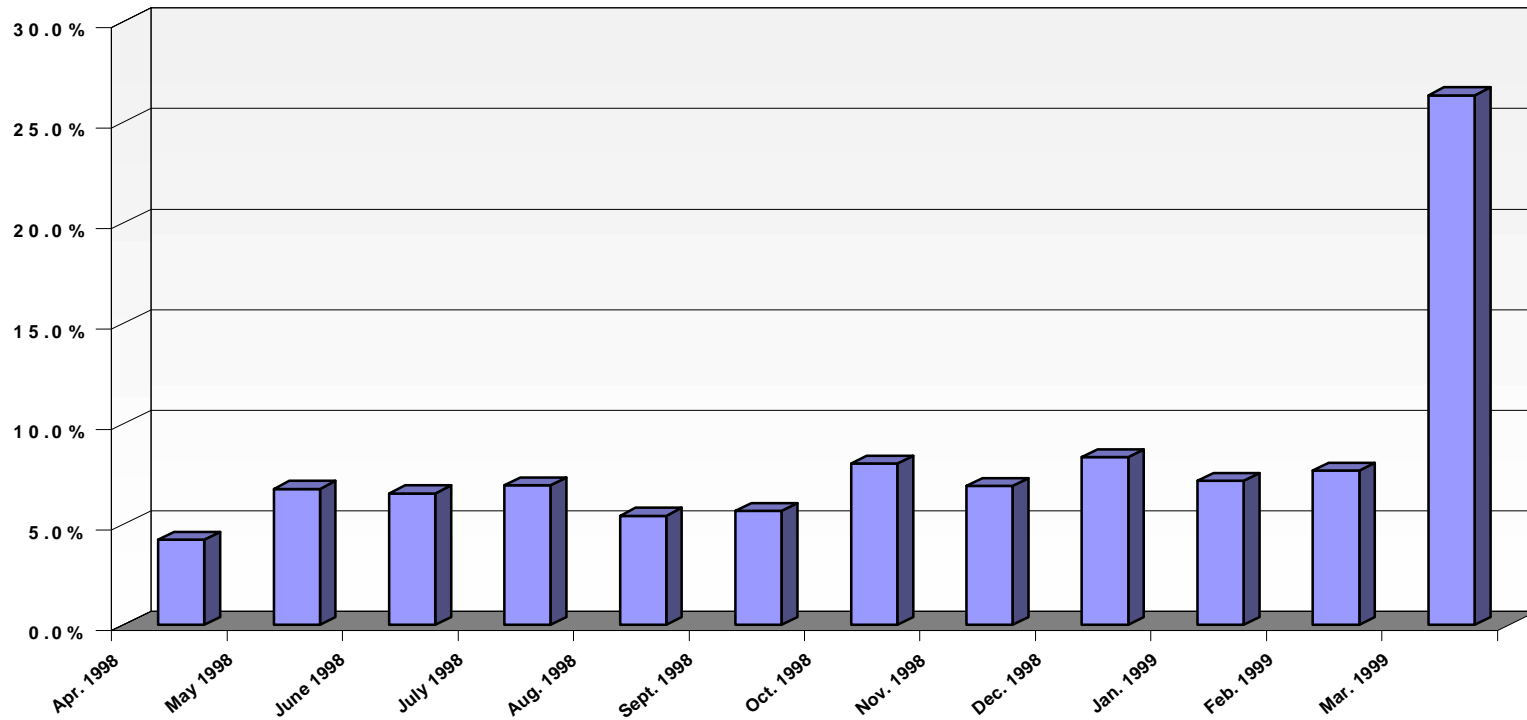
Audit Universe Contribution Expenditures for Fiscal Year 1998-99

Amount Ytd Expend	Youth Employment	Learning and Literacy	Labour Market	Human Resources Partnerships	Aboriginal Relations	Social Development	Labour	Total
1998/Apr	3,281,054.00	297,548.75	3,536,582.10	3,376,356.75	31,113,033.00	225,223.00	-	41,829,797.60
1998/May	15,175,504.00	122,127.95	8,703,966.26	2,904,259.13	39,979,920.50	138,558.00	-	67,024,335.84
1998/Jun	38,072,856.76	200,433.38	11,847,184.32	2,621,388.41	11,223,762.36	803,006.00	45,000.00	64,813,631.23
1998/Jul	19,450,217.08	1,502,329.67	15,613,585.53	3,799,320.36	27,535,936.09	817,237.00	21,500.00	68,740,125.73
1998/Aug	13,216,077.94	4,240,438.26	12,293,177.46	3,149,909.89	19,784,365.35	1,010,911.00	28,325.00	53,723,204.90
1998/Sep	30,116,738.60	399,461.11	13,485,643.02	2,854,712.75	8,808,921.50	367,224.00	21,843.72	56,054,544.70
1998/Oct	29,729,276.18	1,191,373.97	19,924,963.58	4,977,907.28	22,409,095.21	1,246,045.00	26,200.00	79,504,861.22
1998/Nov	19,247,099.57	1,340,279.37	24,057,921.24	2,094,988.81	19,342,095.68	2,117,189.00	95,835.29	68,295,408.96
1998/Dec	17,189,446.84	435,912.07	26,562,279.61	4,463,516.47	34,827,015.17	(958,246.00)	37,925.00	82,557,849.16
1999/Jan	13,871,961.13	1,048,272.63	31,894,264.17	5,423,907.69	17,672,703.00	1,023,576.00	89,500.00	71,024,184.62
1999/Feb	18,035,900.40	1,403,973.98	38,098,092.88	7,030,734.40	9,552,115.97	834,432.00	1,051,269.48	76,006,519.11
1999/Mar	59,442,868.53	11,596,717.85	126,868,993.19	14,826,110.91	39,833,555.85	7,397,948.00	924,411.52	260,890,605.85
1998/99	276,829,001.03	23,778,868.99	332,886,653.36	57,523,112.85	282,082,519.68	15,023,103.00	2,341,810.01	990,465,068.92

Note: March numbers include all expenditures and adjustments for March (P.12), April (P.13), May (P.14) and June (P.15) in fiscal year 1998-99.

APPENDIX B-2

Contribution Expenditures by Percentage and Month for 1998



APPENDIX C

General Description of Programs

LABOUR MARKET

The Labour Market Directorate designs labour market initiatives accountability policy, evaluation and follow-up requirements; assists regional and local offices with the implementation of Employment Benefits and Support Measures which include Targeted Wage Subsidies, Self Employment, Job Creation Partnerships, Skills Development, Employment Assistance Services, Labour Market Partnerships, Research and Innovation as well as co-ordinating the delivery of the Canada Jobs Fund, the Opportunities Fund and the Foreign Worker and Fishery Restructuring and Adjustment* (FRA) measures; designs and develops various information products, maintains the Labour Market Information system and co-ordinates the operations of the Labour Exchange ; and, supports the work of the department's Information Champions.

* It was agreed to review Fishery Restructuring and Adjustment (FRA) at a later date because it had not been active long enough.

SOCIAL DEVELOPMENT

The Social Development Directorate provides social development program policy focus in three core horizontal priorities (disability, children, and the voluntary sector) and in three transitional priorities (social union, community capacity building, and sunseting cost-shared programs through an array of initiatives and programs including cost-shared programs with the provinces/territories, and monitoring and compliance under the Canada Health and Social Transfer. Programs managed by the Social Development Directorate include Social Development Partnerships and Child Care Visions.

LEARNING & LITERACY

The Learning & Literacy Directorate plays a key role in the development and implementation of a broad range of federal learning-related policies and programs aimed at increasing awareness of the social and economic benefits of learning throughout one's life, universal access across the lifecycle and the development of individual and community capacity for learning. Some programs include the National Literacy Secretariat, the Office of Learning Technologies and the International Academic Mobility in Higher Education Program.

HUMAN RESOURCES PARTNERSHIPS

The Human Resources Partnerships (HRP) Directorate contributes to several of HRDC's priorities, including Partnerships, Learning, Information, Mobility and Youth. HRP helps the private sector, primarily the Sector Councils, to work with the education and training community to make the learning system more responsive to industry. HRP also works with Councils and broad-based partnerships to develop information products to help individuals make choices around careers and training. Sectoral Partnership Initiatives, Canada Labour Force Development Board, Youth Internship Science and Technology, Sectoral Youth Internships and Human Resources Partnerships Initiatives are programs managed by the HRP Directorate.

YOUTH EMPLOYMENT

Under Canada's Youth Employment Strategy, Youth Employment Directorate provides work experience, career and labour market information and access to learning opportunities to young Canadians to enable them to get the skills, knowledge and information they need to prepare for and participate in the world of work. Some programs include: Youth Internship Canada, Youth Information Initiative, Youth Services Canada and Student Summer Job Action.

ABORIGINAL RELATIONS

The Aboriginal Relations Office (ARO) oversees the implementation of HRDC's five-year Aboriginal Human Resource Development Strategy, which addresses the concerns of Aboriginal peoples and is characterised by comprehensive agreements. The various components of ARO include labour market, capacity building, child care, youth, persons with disabilities, with a specific urban/off-reserve component.

LABOUR PROGRAM (HRDC)

The Labour Program of HRDC promotes a fair, safe, healthy, stable, cooperative and productive work environment that contributes to the social and economic well-being of all Canadians. The Labour-Management Partnership Program (LMPP) provides funding and advice for pilot or demonstration projects that promote innovative labour-management solutions to critical workplace and labour relations issues. The Occupational Safety and Health Section encourages workers and managers to accept shared responsibility for workplace safety and health. The National Administrative Office is responsible for implementing the North American Agreement on Labour Cooperation.