

**Departmental Audit and Evaluation Branch
Corporate Services
Department of Indian Affairs and Northern Development**

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**Audit of Action on
Waste Program
Northwest Territories Region**

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Executive Summary

Purpose

The primary objective of this audit is to assess the extent to which the financial and management controls are in place for the Department of Indian Affairs and Northern Development's (DIAND's) ongoing contaminated sites clean-up program. With the sunseting of the Arctic Environment Strategy, a new Action on Waste Program has been set-up. The new program focusses on abandoned hazardous waste sites that are potential hazards to human health and safety or could be a violation of federal laws. A comprehensive audit of the Action on Waste Program will assist the Northern Affairs Program (NAP) in developing a more effective contaminated sites clean-up program.

Background

The Arctic Environment Strategy (AES) was a five-year initiative launched by the federal government in 1991 as part of the Green Plan. Its goal was to preserve the integrity, health, biodiversity and productivity of the Arctic ecosystem for the benefit of present and future generations, and to clean-up unsafe, hazardous and unsightly waste from Northern Crown lands. The AES consisted of Contaminants, Waste, Water and Environment/Economy Integration components and an overall communication function. This audit focussed on the waste component of the strategy and covered the Action on Waste Program in the Northwest Territories (N.W.T.) Region.

The sunseting of the AES and funding reductions required that DIAND focus its priorities on managing the priority risks associated with legal, health and safety issues, and land claims obligations. To meet these priorities, according to the Waste Management Presentation to Senior Policy Committee on July 5, 1995, it was proposed to spend \$145 million, or \$14.5 million a year, between 1997 and 2007. The program also proposed to involve First Nations and Inuit people and local businesses to the extent possible to maximize Northern employment, skills and economic development. For the year 1997-1998, the first year after AES, the N.W.T. Region has \$6.8 million of clean-up projects underway.

Objectives

The objectives of the audit were to assess:

- the efficiency and effectiveness of the financial and the management practices, procedures and controls related to a) the Action on Waste Program (the "Program") in the N.W.T. Region in achieving the goals and objectives of the Action on Waste component of the AES; and b) the utilization of additional resources from the Deputy Minister's reserve that were invested in the assessment and clean-up activities which in turn met other departmental objectives including meeting claims obligations and legal liabilities.
- the degree of compliance, by the Action on Waste Program in the N.W.T. Region with departmental and Central Agency policies and directives.

Scope

The audit terms of reference were to have addressed:

- all funding activities and management practices, (including funding from the Deputy Minister's reserve);
- the activities of Natural Resources and Environment Branch (NREB) at headquarters and the Northwest Territories Region; and
- the following activities for the fiscal period, from April 1, 1994 to March 31, 1997;
 - ▶ financial management, control and reporting;
 - ▶ project planning, management and control;
 - ▶ contracting practices;
 - ▶ control of material and equipment;
 - ▶ due regard for value-for-money;
 - ▶ prioritization and approval of projects; and
 - ▶ the management regime related to the Action for Waste Program.

The audit covered all aspects of the approved Scope and Objectives of the audit, except the following scope limitation:

- the audit scope called for the assessment of the fiscal period 1994-1995, 1995-1996 and 1996-1997. At the time of the audit, project financial information and documents for 1994-1995 and 1995-1996 were neither readily available nor easily retrievable for the audit. However, only the financial information was attainable in electronic form on the Departmental Resources Management System (DRMS). As a result, given the time constraints and difficulty in accessing the files, the audit, in consultation with the regional management, covered the fiscal years 1996-1997 and 1997-1998.

General Assessment

The audit identified the following four specific areas where the Action on Waste Program can be improved:

Workplans and Reporting

The audit reviewed the Action on Waste Program's project workplans and found that delays in preparing sufficiently detailed workplans led to the late release of project funds. The audit noted, however, that the responsibilities for these delays fall equally on both the N.W.T. Region in the adequate preparation and documentation of the plans, and headquarters in communicating the workplan requirements to the region.

In reviewing workplans for the fiscal year 1996-1997, the audit found that there was insufficient breakdown of the estimates of costs, of the planned specific activities, and of the expected results. As an example, one of the 1996-1997 projects reviewed did not have adequate breakdown of estimates exceeding \$1 million. Also, the audit observed that despite the large amounts involved in the program, the regional Financial Services were not involved in the work planning process either as a partner or as an independent challenge function.

At a meeting of headquarters and regional management held in early 1997, guidelines were set out regarding the preparation of the future workplans. Based on these guidelines, the 1997-1998 workplans were prepared with more detailed information on budgets and deliverables.

Procurement of Services for the Action on Waste Program

The audit reviewed the use of sole-source Contribution Agreements (CAs), as a mechanism for procuring program services. The audit found that CAs could be an acceptable mechanism for funding Action on Waste projects, however, there are issues arising from their use. For example, CAs do not give DIAND the same level of control as a contract would provide. Also, a sole-source CA does not provide full assurance that the department is receiving "value-for-money". In an isolated northern environment, the use of CAs has some advantages such as economic, training and employment benefits to local communities. However, there is no tracking system in place to quantify these incremental benefits. A competitive contracting process on the other hand, could provide a better price and more control for the department, and still achieve some incremental benefits.

Communication of the Action on Waste Policy

After the sunset of the AES, on July 5, 1995, a policy for the Action on Waste Program was approved by the Senior Policy Committee. The audit found that, between headquarters and the N.W.T. regional management, there were communications problems and a lack of consistency in the application of this policy. Moreover, the regional management expressed concern that the level of consultation with DIAND's Northern clients and Aboriginal organizations around the impacts of this policy was not sufficient to gain their understanding.

Resource Utilization for the Action on Waste Program

In 1997-1998, the program spent approximately \$8.2 million in the N.W.T., with two full time DIAND personnel assigned to deliver the program. The audit found that this level of staffing was insufficient, given the range and complexity of projects, as well as the skills and the experience of the assigned personnel. This in turn led to shortcomings in project planning, monitoring and control, assets management and control over an inventory of more than \$1 million of machinery, tools and equipment, and the assurance of value-for-money.

Recommendations

1. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region implement a reporting process by which the agreed-to workplan guidelines are followed and ensure that a regional financial officer reviews project workplans before they are submitted for final approval.
2. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region implement cost-effective methods of project delivery, such as competitive contracting, including the use of the Aboriginal Procurement Strategy; improve the planning process to allow funds to be released by headquarters in a more timely manner; and implement a mandatory sign-off by appropriate functional advisors before contracts, contribution agreements and specific service arrangements are finalized.
3. The Director, Renewable Resources and Environment, N.W.T. Region and the Director General, Natural Resources and Environment Branch, in consultation with Northern and Aboriginal organizations clarify and communicate departmental policy on the current waste program to all parties concerned.
4. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region review the workload of the Action on Waste Program staff to ensure that there are sufficient, trained resources to deliver the program efficiently and effectively; assign personnel to improving the administration of projects financial records; implement a planning and decision-making process that meets program needs and those of headquarters; and introduce a fixed assets management system and controls so that all equipment purchased by the program can be accounted for in formal inventory records.

Overall Management Response

The N.W.T. Region, headquarters and Yukon Region are collaborating effectively on shared issues including policy, work planning and major projects. We are complying with the key findings and recommendations of the audit, notably through the implementation of stronger financial management practices and assignment of additional trained professional staff to the office. Project-specific management committees are routinely established for all major projects. They include technical, scientific and administrative experts and ensure accountability of the project.

Section 1 - Introduction

Purpose

The primary objective of this audit is to assess the extent to which the financial and management controls are in place for Department of Indian Affairs and Northern Development's (DIAND's) ongoing contaminated sites clean-up program. With the sunsetting of the Arctic Environment Strategy, a new Action on Waste Program is being set-up. The latter program pertains to abandoned hazardous waste sites that are potential hazards to human health and safety or could be a violation of federal laws. A comprehensive audit of the Action on Waste Program will assist the NAP in developing a more effective contaminated sites clean-up program.

Background

The Arctic Environment Strategy

The Arctic Environment Strategy (AES) was a five-year initiative launched by the federal government in 1991 as part of the Green Plan. Its goal was to preserve the integrity, health, biodiversity and productivity of the Arctic ecosystem for the benefit of present and future generations.

The AES consisted of four specific action components and an overall communication function. The components were Contaminants, Waste, Water and Environment/Economy Integration.

The unique nature of each AES component led to the development of individual management and decision-making structures, which, from the beginning emphasized partnership creation. Although the AES was a DIAND initiative, the programs were implemented in cooperation with Aboriginal organizations, non-government organizations, the territorial governments and other concerned federal departments, i.e., the Department of the Environment, Health Canada and Fisheries and Oceans.

The AES had an original budget of \$100 million over five years to 1995-1996, of this, \$91.3 million was to be managed by DIAND. Because of cuts to the federal Green Plan, DIAND's share of the budget was reduced to \$86 million and the AES program time frame was extended from five years to six years to 1996-1997.

The Action on Waste Component

As stated in the DIAND Treasury Board submission for the AES, the purpose of the Action on Waste Component was to clean-up waste material abandoned on Northern Crown lands. The initiative was to be the start of a long-term commitment to clean-up the North. The original objective was to, “eliminate unsafe, hazardous and unsightly waste.”

The sunseting of the AES and funding reduction required that DIAND focus its priorities on its ability to manage the identified risks associated with legal, health and safety issues, as well as land claims obligations.

The following expenditure, summarized by the regional office of the Action on Waste Program on the Action on Waste Program component in the N.W.T. Region was incurred during the term of the Arctic Environment Strategy:

Expenditure, all sources, in Millions of Dollars						
1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	Total
2.2	2.9	8.1	10.5	7.2	8.2	39.1

The Waste Clean-up Program after AES

DIAND recognizes the need to continue the waste clean-up process after the sunseting of the AES. As noted, above, the department has modified its priorities toward clean-up, focussing on health and safety and legal obligations.

To meet these priorities, it was proposed in a presentation to Senior Management Committee, July 5, 1995, that the department needed to spend up to \$145 million (or \$14.5 million each year) between 1997 and 2007, subject to approval of the annual allocations by the Financial Management Committee. Funding options for waste clean-up will be considered, including, internal or government-wide re-allocation and through departmental revenue generation.

The department also will involve First Nations, Inuit and local businesses to the extent possible to maximize Northern employment, skills development and economic development. For the year 1997-1998, the first year after AES, the N.W.T. Region has \$6.8 million of clean-up projects underway.

Objectives

The objectives of the audit were to assess:

- the efficiency and effectiveness of the financial and the management practices, procedures and controls related to a) the Action on Waste Program in the N.W.T. Region in achieving the goals and objectives of the Action on Waste component of the AES; and b) the utilization of the additional resources from the Deputy Minister's reserve that were invested in the assessment and clean-up activities which in turn met other departmental objectives including meeting claims obligations and legal liabilities.
- the degree of compliance, by the Action on Waste Program in the N.W.T. Region with departmental and Central Agency policies and directives.

Scope

The audit was to address:

- all funding activities and management practices, (including funding from the Deputy Minister's reserves);
- the activities of Natural Resources and Environment Branch (NREB) at headquarters and the Northwest Territories Region; and
- the following activities for the fiscal period, from April 1, 1994 to March 31, 1997;
 - ▶ budgetary controls including commitment and cash controls,
 - ▶ financial reporting, analysis of variances and corrective actions,
 - ▶ financial forecasting and timing and recording of transactions,
 - ▶ delegation of financial signing authorities,
 - ▶ account verification and payment requisitions,
 - ▶ project planning, management and control over project identification, prioritization, selection and follow-up activities, (including scoping of work, analysis of options, justification of selected option and budgeting for selected option),
 - ▶ contract requisitioning and awarding processes and appropriateness of contracting practices,
 - ▶ control of materials and equipments purchased for the Action on Waste Program, by the department or by the contractor on behalf of the department,
 - ▶ due regard for value-for-money,
 - ▶ NREB's prioritization and approval of projects, funding of approved projects, allocation of financial resources to the region and monitoring of approved projects,
 - ▶ a management regime related to the Action for Waste Program including function and value of the "priorities committee" overseeing the Action on Waste Program, and other related issues.
 - ▶

Reporting Strategy

The audit covered all aspects of the approved Scope and Objectives of the audit, except the following scope limitation. For this report, we have included those issues of significance, to the management of the Action on Waste Program, in the Findings and Recommendations section of the report.

the audit scope called for the assessment of the fiscal period 1994-1995, 1995-1996 and 1996-1997. At the time of the audit, project financial information and documents for 1994-1995 and 1995-1996 were neither readily available nor easily retrievable for the audit. However, only the financial information was attainable in electronic form on the Departmental Resources Management System (DRMS). As a result, given the time constraints and difficulty in accessing the files, the audit, in consultation with the regional management, covered the fiscal years 1996-1997 and 1997-1998.

Section 2 - Detailed Findings and Recommendations

Workplans and Reporting

Delays in preparing acceptable workplans caused late release of funds to the Action on Waste Program in 1997-98.

Between 1991-1992, and 1996-1997, the Action on Waste Program of the Northwest Territories Region was funded through Arctic Environment Strategy supplemented by funds from the DM's reserve and other sources. With the sunsetting of the AES, in 1996-1997, the program funding for the Action on Waste Program became entirely dependent on DIAND's A Base.

In a presentation to Senior Policy Committee of July 5, 1995, an estimated \$145M, \$14.5M per year from 1997 to 2007, was proposed to enable DIAND to meet its legal, health and safety and land claim obligations at waste sites in the North.

Prior to 1997-1998, the Action on Waste Workplan Information Sheets for Waste Sites prepared by the N.W.T. were very general in nature. There was a brief description of the project and deliverables, an initial cost estimate, details of the contracting method and the name of the contractor, if known. The audit reviewed three 1996-1997 Information Sheets, as follows:

Site	Initial Cost	Contracting Method	Contractor
Resolution Island	\$580,000	Contribution SSA	Queen's, UBC RMC
Iqaluit Upper Base & North 40	\$2,500,000	Contribution	Iqaluit, Queen's
Sarcpa Lake	\$655,000	Contribution	Queen's
Total	\$3,735,000		

The audit noted that only a general description of the project consisting of two to three paragraphs was included in the Workplan Information Sheet. Moreover, from the sample review, the audit found that (a) the description did not breakdown the tasks to be performed into discrete outputs that could be aligned with financial compensation; and (b) only an estimate of the cost of the entire project was shown. There was no detailed breakdown of costs.

To complete the three projects, the Action on Waste Program set-up a series of Contribution Agreements and SSAs.

The Contribution Agreement with Queen’s University included work to be done at Sarcpa Lake, Iqaluit and Resolution Island. The total contribution was \$1,683,000. In the Statement of Work this amount was broken down, as follows:

Transportation: Personnel and cargo to and from Iqaluit, Resolution Island and Carcpa Lake, Twin Otter and Helicopter Charters, accommodation and food, and travel to meetings.	\$201,000
Salaries: Field teams, site supervision, laboratory personnel, report writing, office personnel and bear monitor	\$248,000
Equipment: Two ATVs and trailer, loader, generators, containers etc., for Sarcpa Lake and laboratory and plot scale equipment for Resolution Island study	\$145,000
Supplies: PCB test kits, laboratory supplies, barrel testing, office supplies and expenses	\$ 86,000
Subcontract for engineering design work and management	\$250,000
Concrete pad remediation work at Iqaluit	\$300,000
Disposal of DCC Tier 11 soils from Iqaluit	\$300,000
Overhead (10%)	<u>\$153,000</u>
Total	<u>\$1,683,000</u>

The above example of the financial information demonstrates, the aggregates are too broad to allow for an analysis of details to determine if estimates are appropriate and in line with the expected outcomes as well as any industry standards (e.g., wages paid). This approach, whereby only a broad aggregate is provided was also noted in the budgets in the Statement of Work for the Municipality of Iqaluit contribution agreement and Royal Military College SSA. The audit team found no evidence of further breakdown of costs in the files reviewed.

The audit found that, although headquarters management were sympathetic to the difficulty of preparing project budgets to a very fine level, the headquarters interviewees felt that the budgets being submitted were of too high an aggregation for them to be comfortable in releasing funds.

The audit supports this position. In fact, without more detailed breakdown of budgets, the program cannot ensure that the required funds are providing value-for-money to the Crown, and are in line with generally accepted industry costs (e.g., salaries and transportation costs).

The audit notes that at a meeting of headquarters and Regional management, held in Victoria on January 24, 1997, some guidelines were set out for the preparation of workplans. In particular, it was felt that the N.W.T. workplans information sheets were essentially executive summaries, and that they should be backed up with a detailed workplan, containing amongst other things, detailed budget requirements.

Based on these guidelines, the workplans prepared for the 1997-1998 projects were more detailed with more precise budgets and better defined deliverables. However, delays in preparing them and the consequent delays in approving them resulted in only partial approval of the funding requested in July 1997. This resulted in the program not attaining its original remediation objectives for the year.

The audit looked at the challenge function provided by the regional Corporate Services group to the program. During the period under review, there was no indication that regional financial management services had any direct role in the planning process. In view of the large amounts involved, absence of a challenge role by a financial officer is viewed as a significant weakness. This role is particularly important when the funding vehicles are usually contribution agreements and non-competitive specific service arrangements. Thus, the challenge of a financial officer who has no involvement in the delivery of the program would enhance the credibility of the budget planning process.

Recommendation

1. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region should implement a reporting process by which the agreed-to workplan guidelines are followed and ensure that a regional financial officer reviews project workplans before they are submitted for final approval.

Procurement of Services for the Action on Waste Program

Sole source Contribution Agreements have been an expedient project funding option for the Action on Waste Program, however, there are limitations attached to their use.

The Contribution Agreements have been used as the most expeditious arrangement for the Action on Waste Program for financing the project. The Treasury Board "Guide to Financial Arrangements and Funding Options" endorses the use of Contribution Agreements provided certain criteria are met, and from a review of the agreements entered into by the Action on Waste Program, it appears that they meet the criteria.

An important advantage of using Contribution Agreements versus the contracting option, is that it allows Northern and Aboriginal organizations to participate in the management of projects. Since these organizations do not always have experience in preparing tender documents, it is unlikely that they would have been successful bidders. Thus the use of Contribution Agreements achieves the goal of enhancing the capacity of Northern and Aboriginal organizations. Strictly speaking, this is not an objective of the Action on Waste Program. It is, however, an important positive consideration.

On the other hand, by using a sole-source Contribution Agreement, the Action on Waste Program was not able to exercise the same level of cost control over a project as would have been possible through using the competitive contracting process. For example, under a contract, staff would exercise the role of Project Authority and therefore, they would retain a degree of control over the on-site management of the project. In the case of a Contribution Agreement, the only measure of control retained by the program is to ensure that the terms and conditions of the Contribution Agreement have been met after the fact.

Another disadvantage in using Contribution Agreements is that the program cannot be certain that it is obtaining the best value-for-money. Without a competitive bidding process, management cannot be sure that it is getting the best price, methodology and qualified people for the project.

Some issues arising from the program's use of contribution agreements were noted, as follows:

- the same terms and conditions were in place for limited activities (such as \$1,000 bear monitoring) as for scientific research valued at over \$1,000,000. Both organizations, an Aboriginal association and Queen's University, were required to produce audited financial statements. For the university this may be a reasonable condition, but it is less reasonable for the Aboriginal association undertaking a small project;
- the program has not asked for audited financial statements from any contribution recipient;
- one condition is that the program may, itself, sanction an audit of a recipient. This has not been done;
- payments schedules are not based on performance, or deliverables, but on lapsed time, eg., at month end. This is a consequence of the inadequacy of project workplans which are not very specific about deliverables; and
- in some instances, after the amount of the Contribution is set, GST is added. This affects some, but not all, contributions to Aboriginal organizations. Since, by definition, the program receives neither goods or services from a contribution agreement, the addition of GST seems to be an anomaly. To add to this apparent anomaly, Aboriginal organizations are generally exempt from collecting or remitting GST.

Although the delivery of the program is the responsibility of the program officers, there is opportunity for taking advantage of the skills and knowledge of functional advisors. The advice of regional financial officers could be used effectively in the preparation of workplans. Even more importantly, financial, materiel management and other functional experts could be used effectively in supporting program officers in the contracting process.

Recommendation

2. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region should implement cost-effective methods of project delivery, such as competitive contracting, including the use of the Aboriginal Procurement Strategy; improve the planning process to allow funds to be released by headquarters in a more timely manner; and implement a mandatory sign-off by appropriate functional advisors before contracts, contribution agreements and specific service arrangements are finalized.

Communicating the Action on Waste Policy

A defined and agreed to policy for the Action on Waste Program has not been developed and communicated to the satisfaction of the N.W.T. regional office. However, efforts are underway to clarify the approved policy and provide opportunities for consultations.

Under the Arctic Environment Strategy, the objective of the Action on Waste Program was, to eliminate unsafe, hazardous and unsightly waste.

As a consequence of the sunseting of the Arctic Environmental Strategy and the loss of AES funding, the program management recognized that in a time of severe fiscal restraint, there was a need for it to refocus the clean-up program towards addressing the department's health, safety, legal and land claim obligations.

In a Submission to Senior Policy Committee, dated July 5, 1995, management of the Action on Waste Program "planned to minimize costs at sites for which it was responsible by changing its clean-up policy to deal only with hazards to the degree required to mitigate hazards to land users and to meet its legal obligations."

Accordingly, the Senior Policy Committee was asked to approve the following strategy for waste management:

1. endorse a policy shift which focuses remediation efforts on legal, health and safety obligations;
2. support the planning and priority setting processes for the waste program; and

3. allow DIAND to use its business planning process to investigate funding mechanisms for waste clean-up, such as internal or government-wide reallocation.

In a memorandum to the Assistant Deputy Minister, Northern Affairs Program, dated July 15, 1997 from the Director General, Natural Resources and Environment Branch, the policy, “that had input from both RDGs, was presented and approved by the Senior Policy Committee on July 5, 1995,” was articulated, as follows:

DIAND will effectively deal with the department’s legal, health and safety, and land claim obligations using its limited clean-up resources by:

- focussing expenditures on high priority sites as determined by the department’s risk assessment and site prioritization process;
- making an inventory and assessing hazardous sites so that potential violations are identified;
- obtaining and documenting sufficient data for communication to regulatory and other agencies for the department to show due diligence in dealing with its obligations; and
- investigating and applying the best technologies available to decrease remediation costs and improve performance.

In a memorandum to the Acting RDG, N.W.T., from the DG, Natural Resources and Environment Branch, dated August 14, 1997, the July 5, 1995 approved policy was stated as:

- a. that the department will address, as a priority, waste sites where risks to health and safety and legal obligations exist;
- b. site priorities will be established using the Northern Environmental Risk Assessment Strategy; and
- c. sites will be managed according to risk assessment/management principles.

Although all of these policy iterations have some common elements, the N.W.T. Region feels that there is a need for clarification. There is also some sense that neither the Region, its Northern clients or Aboriginal organizations were sufficiently involved in the formulation of the waste management policy.

The audit notes that under the AES Action on Waste Program, a N.W.T. Waste Priorities Advisory Committee was established to include representatives from several departments of the GNWT, the Dene and Metis Nations the Inuit Tapirisat of Canada (ITC), Environment Canada and DIAND. Interviewees for this audit (from DIAND) found some value in the Committee, however, they maintained that the ability of the committee to make decisions was limited by the available funds and DIAND's overriding objective to clean-up waste material abandoned on occupied northern Crown lands.

Nonetheless, this type of forum, with clearly defined scope and terms of reference was not used for the Action on Waste Program (after the AES program was completed).

Recommendation

3. The Director, Renewable Resources and Environment, N.W.T. Region and the Director General, Natural Resources and Environment Branch, in consultation with Northern and Aboriginal organizations should clarify and communicate departmental policy on the current waste program to all parties concerned.

Resource Utilization for the Action on Waste Program

The level of administrative and staff resources allocated to the Action on Waste Program in the N.W.T. Region is insufficient for efficient and effective management of the program.

The N.W.T. Region's Action on Waste Program lies within the Contaminated Sites Office of the Natural Resources and Environment Directorate. An operational head and an administrative coordinator manage the day-to-day operation of the program. The Manager, Contaminants, who was recently appointed, has overall management responsibility for the program besides managing the activities of two Water Resources technicians. At the time of the audit, the Manager, Contaminants had little involvement in the program's operations. In turn, the two employees of the Contaminated Sites Office were, necessarily, heavily engaged in managing the operational side of the program.

To put things into perspective, the Action on Waste Program, in 1996-1997, the last complete fiscal year, spent approximately \$8,200,000. This required managing seventeen contribution arrangements and three contracts. They ranged in value from \$1,000 to \$2,000,000. The audit noted that it is difficult to envision that anywhere else in the Federal Government so few people manage a program of such size and complexity, one being a middle level manager and, the other, a senior clerk.

The Contaminated Sites Office staffs are highly motivated toward the success of the Action on Waste Program, but despite their efforts, a lack of attention to administrative details diminishes the effectiveness of the program. In turn, an inadequacy of the program administration affects program delivery. This can be illustrated as follows:

Planning

In order to have funding approval early enough in the year to complete work in the short operating season (i.e., July to October), workplans have to be in the hands of the Northern Management Committee (NMC) for ratification by mid-February. This would enable funding to be in place by early April, allowing preliminary work on the projects to start in May. In fact, for fiscal year 1997-1998, the initial plans submitted by the Action on Waste Program were considered inadequate by headquarters, and funding was delayed until acceptable workplans were received in mid-June, 1997.

Value-for-Money

The parameters for assessing the value-for-money associated with a project are set during the planning stage of the project and are realized to a great extent during the contract tendering and negotiation processes with the contractor who will carry out the work.

The audit found that inadequate planning affected value-for-money in at least two ways in the program. Firstly, parameters are not established during the planning stage, and even if they were, the delay in receiving funding approval does not give sufficient time for the tendering process to be used. As time is of the essence, due to the short operating season, management has to forego the contract tendering option and fund each project by way of contribution agreements, whereby the recipient, aboriginal group, university or municipality, is provided funds to manage and complete the project, or by Specific Service Arrangements with other government departments, such as Public Works and Government Services or National Defence (Royal Roads Military College.)

From the necessity and time constraints standpoints, the program is justified to use the Contribution Agreement and Specific Service Arrangement options for carrying out its projects, and in some circumstances there is little choice. However, neither of these options easily lends itself to allow the assessment of value-for-money. This is due, firstly, to the lack of competitive bidding and, secondly, to the fact that neither type of agreement is set-up in such a way that allows performance to be measured. The following audit findings address the issue of the use of contribution agreements:

Project Control

Although the Head of the Contaminated Sites Office and the Administrative Coordinator appear to have a good working knowledge of how their projects are progressing, project records are not well maintained.

The original project files are at the Action on Waste Office. Although, the operational staff can provide requested documents when needed, there is no organized system in place to provide a management and an audit trail. The information is generally in the office, but, it is not easy to find. As a result, it was more productive to review the project files maintained by regional finance.

In order to get an accurate picture of where the money was spent, it was necessary to prepare a spreadsheet using the data contained in the project files maintained in regional finance. This, however, only held good for 1996-1997 and 1997-1998 as project files prior to 1996-1997 were not easily retrievable. Apparently, this was due to staff changes at regional management services, with the present staff not knowing where the old projects' records had been stored.

Also, it was difficult to ascertain the aggregate financial position of the projects for any particular year. Due to a misinterpretation of headquarters requirements, regional corporate services insisted that the Action on Waste Program report only on those projects which had originally been funded by headquarters. Based on a misinterpreted verbal communication of reporting requirements, quite meaningless variance reports were prepared and submitted to headquarters.

Fixed Asset Accountability

Since the inception of the Action on Waste Program, a substantial amount of heavy equipment and research equipment has been purchased through contribution agreements. Under these agreements, when the project is complete, the equipment belongs to the Crown. The audit found that there is little evidence that the Department has any record of the equipment. In fact, a visual inspection of a large piece of earthmoving equipment in the Action on Waste compound confirmed that it had not been 'tagged.' The operational management had a fair idea of where the equipment was located, though, these assets were neither tagged nor recorded in a formal assets management system.

None of the above should be considered a criticism of the incumbent staff of the Action on Waste Program, who are almost overwhelmed by the workload in the short operational season. Rather, the evidence points to weaknesses in the following areas:

- inadequate number and type of qualified staff required to manage and carry out such a substantial program; and
- the need for greater management oversight, direction, control and communications with program personnel. The audit notes that the recent hiring of the Manager, Contaminants will indeed provide a needed support for improvement in this area.

Recommendation

4. The Director, Renewable Resources and Environment, N.W.T. Region, in conjunction with the Director, Corporate Services, N.W.T. Region should review the workload of the Action on Waste Program staff to ensure that there are sufficient, trained resources to deliver the program efficiently and effectively; assign personnel to improving the administration of projects financial records; implement a planning and decision-making process that meets program needs and those of headquarters; and introduce a fixed assets management system and controls so that all equipment purchased by the program can be accounted for in formal inventory records.

TERMS OF REFERENCE

Terms of Reference

Audit of the Action on Waste Program in N.W.T. Region

Background:

The Arctic Environmental Strategy (AES), a federal initiative was launched in April 1991. Its goal was to preserve and enhance the integrity, health, biodiversity and productivity of the Arctic ecosystem for the benefit of present and future generations. The Strategy's components included Action on Contaminants, Action on Waste, Action on Water and Action on Environment/Economy Integration. The federal Department of Indian Affairs and Northern Development (DIAND), Fisheries Canada, Environment Canada, Health Canada and the Territorial Governments of Yukon and Northwest Territories and five aboriginal partners cooperated in the implementation of the AES.

An overall budget of \$100 million was provided for six years for AES to end (sunset) in 1996-1997. DIAND managed \$91.3 million of the total budget. Of this, \$28 million, plus additional funds (about \$36 million), e.g. from the Deputy Minister's reserve, were allocated to the Action on Waste component.

Prior to the AES - Action on Waste program, DIAND did not have a lot of information on the number of waste sites and the extent of waste at those sites. Before 1972, regulation governing the handling and disposal of wastes and abandonment of sites in the North was inadequate by today's standards. In instances where the responsible party for abandoned wastes could not be found, the responsibility for the clean up of Crown land rests with DIAND, as the responsible manager.

The *initial* overall objective of the Action on Waste Program was to eliminate unsafe, hazardous and unsightly waste on northern Crown lands. The work plan objectives of the program were: clean-up of known hazardous wastes; identification, assessment and remediation of suspected hazardous sites; clean-up of 21 abandoned DEW line sites; clean of waste near communities; and support of local waste management strategies. *These were subsequently adjusted to make the most efficient and effective use of funds in dealing with threats to human health and safety, and to meet legal and land claim obligations.*

Need: With the “sun setting” of the Action on Waste Program, there is a need to ensure that financial and related controls are in place for DIAND’s ongoing contaminated sites clean up program. The latter program pertains to abandoned hazardous waste sites that are a potential hazard to human health and safety or could be a violation of federal laws. A comprehensive audit of the Action on Waste Program will assist the NAP in developing a more effective contaminated sites clean-up program.

OBJECTIVES: The objectives of the audit are to assess:

- the efficiency and effectiveness of the financial and the management practices, procedures and controls related to: (a) the Action on Waste Program in the N.W.T. Region in achieving the goals and objectives of the Action on Waste component of the A.E.S.; and
(b) the utilization of the additional resources from the Deputy Minister’s reserve which were invested in the assessment and clean up activities which in turn met other departmental objectives including meeting claims obligations and legal liabilities; and
- the degree of compliance, by the Action on Waste Program in the N.W.T. Region, with departmental and Central Agency policies and directives.

SCOPE: The audit scope will address all funding activities and management practices (*including funding from the Deputy Minister’s reserve relating to other departmental objectives and meeting claims obligations and legal liabilities*). The scope will include the activities of Natural Resources and Environment Branch (NREB) at headquarters and the N.W.T. Region. It will cover the following activities for the fiscal period, from April 1, 1994 to March 31, 1997, as a minimum:

- budgetary controls including commitment and cash controls;
- financial reporting, analysis of variances and corrective actions;
- financial forecasting and timing of recording of transactions;
- delegation of financial signing authorities;
- account verification and payment requisitions;
- project planning, management and control over project identification, prioritization, selection and follow-up activities, (including scoping of work, analysis of options, justification of selected option and budgeting for selected option);

- contract requisitioning and awarding processes and appropriateness of contracting practices;
- control of materials and equipments purchased, for the Action on Waste Program, by the department or by the contractor on behalf of the department;
- due regard for value for money;
- *NREB's prioritization and approval of projects, funding of approved projects, allocation of financial resources to the region and monitoring of approved projects;*
- *management regime related to Action on Waste Program, including function and value of the "Priorities Committee" overseeing the Action on Waste Program;* and
- other related issues.

Approach: The audit will be conducted in the following three phases:

- preliminary survey and evaluation;
- fieldwork and analysis; and
- reporting.

Resources: The project will be implemented using contracted resources and will be managed by the Departmental Audit and Evaluation Branch (DAEB).

Cost: In addition to DAEB resources, it is estimated that the contracted resources will cost \$ 55,000.

Time frame: The audit planning will commence in April 1997.

Approved by:

James Moore
Assistant Deputy Minister
Northern Affairs Program
April 28, 1997

Warren Johnson
Regional Director General
N.W.T. Region

ACTION PLAN

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

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REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE: NWT Region

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<p>1. The Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region:</p> <p>a) implement a reporting process by which the agreed to work plan guidelines are followed; and</p> <p>b) ensure that a financial officer reviews Work plans before they are finalized.</p>	<p>7</p>	<p>General: Renewable Resources and Environment and Corporate Services Directorate, NWT Region will collaborate fully in addressing these recommendations. The Contaminated Sites Office (CSO) will directly engage the services of a Financial/Administrative Officer (F/A Officer) to ensure that all financial and administrative accountabilities of the CSO are met fully. The CSO F/A Officer will work closely with the Manager, Finance, NWT Region to meet the intent of these and other recommendations.</p> <p>a) The workplanning process agreed to by headquarters, NWT and the Yukon regions in early 1997 was fully and successfully implemented for fiscal year 1998-1999. Headquarters, NWT and Yukon regions workplans were jointly agreed upon and submitted to the Assistant Deputy Minister, Northern Affairs Program for approval prior to March 31, 1998. In the NWT, Corporate Services was advised as the plans progressed. Direct involvement by Corporate Services in the workplanning process was not deemed necessary. In future years, the CSO F/A Officer will be directly involved in workplan preparation and review.</p> <p>b) The CSO F/A will be directly involved in workplan preparation and will liaise closely with Corporate Services Directorate, NWT Region to ensure all accountabilities are met.</p>	<p>Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region</p>	<p>01-06-98</p> <p>Workplanning process fully implemented</p> <p>CSO F/A to be in place by 01-06-98</p>

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<p>2. The Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region:</p> <p>a) Implement cost effective methods of program delivery, such as competitive contracts are considered when the improved planning process allows funds to be released in a more timely manner; and</p> <p>b) Implement a mandatory sign-off by appropriate functional advisors before contracts, contribution agreements and specific service arrangements are finalized.</p>	<p>9</p>	<p>General: The use of contribution agreements does not preclude cost effective program delivery. In addition to ensuring that the contribution agreement meets accountability requirements, the CSO works closely with the contribution agreement recipients to ensure that any contracting by the latter is done in a competitive manner and the best value found. The use of contribution agreements in the NWT is consistent with the Aboriginal Procurement Strategy and land claims settlements, allows for flexibility as the project evolves and has resulted in cost savings on projects where contracts would not. In addition, contribution agreements have often been the only avenue available to the CSO to get the required work done, given the short field season and the chronically late delivery of funds from headquarters.</p> <p>a) The CSO uses and will continue to use competitive contracting procedures whenever feasible, taking into account the goal of ensuring maximum northern benefit from contaminated sites cleanup, the normally late arrival of project dollars and the limited number of qualified northern firms. The CSO will use the Yukon Region's Standing Offer List for remediation services, when feasible. Finally, project-specific committees are established to ensure sound project management, including cost effectiveness.</p> <p>– Headquarters, Yukon and NWT regions are currently discussing contracting procedures as a component of the Waste Management Policy outlined in recommendation 3.</p> <p>b) Mandatory sign-offs are in place. The CSO F/A Officer and Corporate Services will oversee a process mapping exercise and ensure financial accountabilities are met.</p>	<p>Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region</p>	<p>Implemented</p> <p>31-03-99</p>

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<p>3. The Director, Renewable Resources and Environment, NWT Region and the Director General, Natural Resources and Environment Branch in consultation with Northern and Aboriginal organizations clarify and communicate departmental policy, on the current waste program to all respective parties concerned.</p>	<p>11</p>	<p>In February 1998, Waste Program managers from headquarters, NWT and Yukon regions agreed on the approach to developing and communicating a waste management policy document. This included agreement on:</p> <ul style="list-style-type: none"> • the phrasing of a policy statement which clarifies the existing department policy; • the contents of a policy document which will include a framework for implementing the policy, a description of tools (NERAS, Risk Assessment, CCME guidelines, contracting mechanisms, etc) and the relationship to other national and departmental policies; and • the approach and timing of focussed consultations tailored to the respective regions, and the approach to achieving departmental approvals. 	<p>The Director, Renewable Resources and Environment, NWT Region and the Director General, Natural Resources and Environment Branch</p>	<p>31-03-99</p>

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<p>4. The Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region:</p> <p>a) Review the workload of the Action on Waste Program staff to ensure that there are sufficient, trained resources to deliver the program efficiently and effectively.</p> <p>b) Assign personnel to improving the administration of projects financial records;</p> <p>c) Implement a planning and decision-making process that meets Program needs and those of Headquarters; and</p> <p>d) Introduce fixed assets management system and controls so that all equipment purchased by the program are accounted for in the inventory records.</p>	<p>14</p>	<p>a) The workload of CSO staff has been reviewed and re-evaluated. The NWT Region, with the concurrence of Corporate Services, Headquarters and Yukon Region, will be hiring a Financial/Administration Officer to address Office record-keeping, administrative procedures and workplanning.</p> <p>b) The CSO F/A Officer will have primary responsibility for financial record keeping and will work closely with the Manager, Finance, NWT Region in developing an improved system.</p> <p>c) The planning and decision-making process developed in early 1997 by headquarters and regional personnel was fully and successfully implemented for fy 1998-1999.</p> <p>d) Corporate Services has developed a new fixed assets management system and will work with the CSO F/A Officer to implement the system for the CSO.</p>	<p>Director, Renewable Resources and Environment, NWT Region, in conjunction with the Director, Corporate Services, NWT Region</p>	<p>Staffing to be complete by 01-06-98</p> <p>31-03-99</p> <p>Implemented</p> <p>31-12-98</p>