



FINAL AUDIT REPORT

OF THE

**CANADIAN CENTRE FOR FOREIGN POLICY DEVELOPMENT
(CCFPD)**

June 2005

Department of Foreign Affairs and International Trade
Office of the Inspector General
Audit Division (ZIV)

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Executive Summary

Background

The Departmental Review and Evaluation Committee (DAEC) approved an audit of the Canadian Centre for Foreign Policy Development Division (CPC) to be undertaken in fiscal year 2004/05. Subsequent to this decision, the new ADM of the Strategic Policy Branch (MRH) and the new Director General of the Policy Planning Bureau requested in May 2003 that an audit be undertaken in fiscal year 2003/04. They requested that the assignment focus on the management control framework and the financial and human resource functions within CPC. SIV issued a draft Audit Report¹ in September 2003 describing the results of the assignment. The draft Audit Report identified a number of issues that both SIV and MRH agreed should be subject to further examination. This report documents the results of having carried out this further examination.

The Canadian Centre for Foreign Policy Development (CCFPD) was established in June 1996 as a quasi non-governmental organization. CCFPD's operations were housed within FAC which also provided financial and administrative support services to the organization. CCFPD administered a contribution program on behalf of FAC. The contribution agreements (CA) entered into were approved by officials of the Policy Planning Secretariat (CPD), or the equivalent of the day, and were to provide "clear and immediate benefit to the achievement of Canada's key foreign policy objectives". FAC was responsible for making all recipient payments which were called for under the CAs. These payments were made from a project fund, commonly referred to as the John Holmes (J.H.) Fund, which had an annual budget of approximately \$1M.

During the period of July 1996 to March 2001, CPD entered into CAs with recipients of J. H. Fund monies, the CCFPD and its staff. CAs with recipients of J. H. Fund monies provided citizens with an opportunity to contribute to the development of Canada's foreign policy. A grant and two separate CAs were entered into with the CCFPD providing for a total of \$165K in funding for "the development of a local network of Canadians interested in foreign policy." The monies were deposited into a bank account which had been opened under the name of the CCFPD. The CAs entered into with CCFPD staff covered the person's salary and provided, for certain individuals, a travel allowance.

CCFPD's operations were integrated within FAC effective April 1, 2001. This resulted in the creation of the Canadian Centre for Foreign Policy Development Division (CPC). CPC became responsible for delivering the J. H. Fund contribution program.

¹ Final Audit Report was issued on April 27, 2004.

Our audit approach focussed on reviewing Departmental documentation available in CPC and the Headquarters Financial Management Services (SMFH). It also included examining a manual register (i.e. black book) maintained and submitted by the former Director of CPC which provided further details and documentation of the transactions recorded in the CCFPD bank account from its inception. Interviews were conducted with the former Director of CPC, selected recipients of J. H. Fund project funding and selected former CCFPD staff who received contribution monies from FAC.

The scope of the audit excluded the J. H. Fund CAs entered into before April 2001 and CPC's 2002/03 and 2003/04 hospitality expenditures due to the immaterial amounts involved. Its focus was on the following five areas.

- ❑ CPC management of the J.H. Fund CAs in effect between April 1, 2001 and December 2003.
- ❑ Transactions recorded in the CCFPD bank account from July 1996 to January 2004.
- ❑ CPD management of CAs with selected CCFPD staff from 1997 to 2001.
- ❑ CPC management of overtime for fiscal years 2002/03 and 2003/04 (up to January 2004).
- ❑ Service contract expenditures associated with the Foreign Policy Dialogue, initiated by CPC during the 2002/03 and 2003/04 fiscal years.

The main findings related to these five areas are described below.

CPC Management of J.H. Fund Contribution Agreements

We found that CPC management for the period in question showed little regard for complying with the requirements of the Departmental Policy on Transfer Payments and for managing the J. H. Fund CAs in accordance with their terms and conditions. The audit identified 152 CAs totalling \$2.3M between April 2001 and December 2003, of which 18 were still in progress², and observed the following.

- ❑ Of the 152 Agreements subject to audit, a total of 142 were found by reviewing SMFH financial files and CPC's program files. However, CPC's program files contained only 60 Agreements. Since the field work was completed, CPC has reconstructed its files and in the process located an additional 82 program files increasing this number from 60 to 142. There were also 10 CAs³, with total payments valued at \$191,000, that couldn't be found in either SMFH's financial files or CPC's program files.

² Since the finalization of our audit work in this area, these 18 CAs have reached their planned completion date. Our findings do not reflect any activities related to these 18 CAs since January 2004.

³ Since the finalization of our audit work in this area, 5 of the 10 CAs have been located with total payment value of \$102,592.

- ❑ Of the 134 completed CAs, 43 final deliverables (i.e. usually a report) were not found. CPC advised the Audit Team (the Team) that most reports were available electronically (i.e. CPC web site or public folders). However, because of the disorganized state of the files inherited by the new management team, CPC was not able to provide the Team with information that linked the soft copy reports (i.e. electronic version) with the applicable CA. Therefore, the Team could not verify the accuracy of CPC's assertion at the time of the audit visit ⁴.
- ❑ 14 CAs specified an unreasonable time frame for the preparation of the deliverable. These CAs were signed during the last week of the 2003 fiscal year and called for the event to occur and the report to be delivered by March 31st; that is, within a week.
- ❑ Of the 134 completed CAs with an associated total payment value of \$1.5M, 99⁵ recipients have not provided detailed financial statements accounting for the funds received as required by the CAs.

The CCFPD Bank Account

A bank account was established in 1996 by the CCFPD for the deposits and disbursements associated with the CAs it entered into with FAC. The bank account remained active when the CCFPD became CPC in April 2001.

The Team concludes that past management of the CCFPD used the CA funding with little regard given to complying with the relevant terms and conditions. We attribute this situation to the absence of effective program and financial management controls within the CCFPD and the Department (as they relate to the activities of the CCFPD).

The Team observed the following.

- ❑ Between 1996 and 1998, the CCFPD entered into a grant and two CAs with FAC that provided \$165,000 in operational funding. The Team found that there was insufficient documentation to support expenditures in an amount of \$52,974 that CCFPD reported as having been incurred for legitimate program purposes. The related cheques issued by the CCFPD could not be linked to the detailed expenditure plans accompanying the requests for payment it submitted to FAC.

⁴ As a result of ongoing cleanup within CPC over the past year, all reports from 2003-04 are linked electronically to the appropriate CA. For 2001-02 and 2002-03, 209 reports are now linked, with approximately 27 (by CPC files) still missing as of October 2004.

⁵ Since the field work was completed CPC has reconstructed its files and in the process located 68 missing financial statements reducing this number from 99 to 31.

The former Executive Director of the CCFPD was unable to describe the linkage when asked to do so during interviews with the Team.

- ❑ A refund of \$15,489 from a J. H. Fund recipient was deposited in the CCFPD bank account in 1999 instead of being deposited into the Consolidated Revenue Fund of the Government of Canada. The refund was used by the Executive Director of the CCFPD to pay supplier debts and to make payments to himself for restaurant, taxi and other items totalling \$10,246.
- ❑ The Executive Director issued cheques totalling \$42,782 from the CCFPD bank account during the period of 1997/98 to 2000/01 for purposes other than those specified in the CAs with FAC. These payments related to advances to third parties as well as bonuses and advances provided to CCFPD staff. They also related to expenses claimed by the Executive Director and an "emergency" advance he had made to himself. A total of \$19,359 of the funds advanced were recovered by the Executive Director and subsequently deposited in the CCFPD bank account. However, the Team found that there was insufficient documentation to support that the balance of \$23,423 had been incurred for legitimate program purposes.
- ❑ In April 2001, when the CCFPD became a Departmental Division (i.e. CPC), the bank account continued to be used as a non-governmental bank account for deposits and payments, in contravention of the requirements of the Financial Administration Act. A total of 21 transactions were processed through this account from April 2001 to January 2004. The transactions comprised eight deposits totalling \$19,731⁶ and thirteen payments totalling \$17,770. The transactions were not recorded in FAC's financial system.

CPD Management of CCFPD Staff Contribution Agreements

The Team concludes that the Director General in CPD, at the time, did not effectively manage the CAs it entered into with CCFPD staff. It observed the following:

- ❑ During the 1997/98 and 1998/99 fiscal years, FAC made a total of \$71,458 in travel allowance payments to four CCFPD staff members. The CAs for the 1998/99 fiscal year covering \$32,958.37 of this amount (i.e. \$71,458) have not been found. We cannot, therefore, confirm whether the payments were made in accordance with the terms and conditions of the CAs. The CAs for the 1997/98 fiscal year were found and a total of \$38,500 was claimed and paid. These payments, however, were made without having received a travel claim from the recipient in accordance with the terms and conditions of the CA.

⁶ Deposits of \$19,731 and payments in the amount of \$17,770 include interest earned and service charges respectively.

- ❑ Four staff members received a signing bonus ranging from \$500 to \$1000 upon entering into their final CA. Although the signing bonus payment was within the total value of the approved CA, the expenditure was not specified in its terms and conditions.
- ❑ The former Executive Director of CCFPD entered into a CA with FAC in March 2000. He stated that the description of the project contained in the CA did not accurately reflect how the monies were to be used. That is, payments under the CA were to be used by him as a means of funding a \$5,000 raise he had negotiated for himself with the Director General in CPD, at the time. To this end, he submitted an invoice detailing expenses that had not actually been incurred. The former Executive Director also implicated the involvement of two former Directors General (DG) in the above situation. These two DGs do not agree with the former Executive Director's recollection of the facts.

CPC Management of Overtime

CPC's overtime budget was not managed in a fair and transparent manner in accordance with the "people values" set out in the Treasury Board's Values and Ethics Code for the Public Service. The actions taken by the division's Director to ensure that his overtime was paid out in full by the end of the 2002/03 fiscal year, while advising staff that there was no overtime budget available, adversely affected staff morale. In addition, most of the overtime charges were not properly authorized as approvals were given in a retroactive manner.

CPC Dialogue Service Contract Expenditures

The Team examined the 20 service contracts (\$316,246.48) and 21 confirming orders (\$105,192.53) issued between April 2002 and March 2004 in the context of the Foreign Policy Dialogue initiative. The following observations were noted.

- ❑ Of the 20 service contracts reviewed, only three (15%) of the associated CPC contract files contained a proposal from the contractor.
- ❑ Not one of the service contract files contained evidence that the CPC contracting authority assessed the quality of the deliverable.
- ❑ Only three (33%) of the nine contracts with an amendment contained a supporting justification in the CPC contract file.
- ❑ A requirement was addressed by awarding eight separate contracts, valued at \$213,161.61, on a sole source basis (i.e. contract splitting).

- ❑ A total of 21 confirming orders were issued by CPC in 2003/04 as services had been rendered and invoiced by the contractor in the absence of a duly executed contract.

The Team concludes that the former Director of CPC showed little regard for complying with the Departmental and Treasury Board contracting policies and guidelines. As a result, this exposes the Department to potential criticism that the contracting process associated with the Foreign Policy Dialogue initiative expenditures was not fair, open or transparent, nor ensured the achievement of best value. This exposure is particularly prevalent in 2003/04 given that CPC's former Director entered into oral agreements between himself and the contractors for 21 of 28 external professional service requirements, thereby, avoiding internal oversight mechanisms.

Recommendation Status

A total of four audit recommendations are raised in the report; three are addressed to CPC and one is addressed to CPD. Management has responded to each recommendation indicating action already taken or decisions made, as well as future action. Of the four recommendations, management has stated that all recommendations have been implemented.

1.0 Background

1.1.1 The Canadian Centre for Foreign Policy Development (CCFPD) was established in June 1996 as a quasi non-governmental organization. CCFPD's operations were housed within FAC which also provided financial and administrative support services to the organization. CCFPD's mandate was to "help citizens contribute to the on-going development of Canada's foreign policy". To this end, CCFPD administered a contribution program on behalf of FAC. The contribution agreements (CA) entered into were approved by officials of the Policy Planning Secretariat (CPD), or the equivalent of the day, and were to provide "clear and immediate benefit to the achievement of Canada's key foreign policy objectives". FAC was responsible for making all recipient payments which were called for under the CAs. These payments were made from a project fund, commonly referred to as the John Holmes (J.H.) Fund, which had an annual budget of approximately \$1M.

1.1.2 During the period of July 1996 to March 2001, CPD entered into CAs with recipients of J.H. Fund monies, the CCFPD and its staff. CAs with recipients of J. H. Fund monies provided citizens with an opportunity to contribute to the development of Canada's foreign policy. A grant and two separate CAs were entered into with the CCFPD providing for a total of \$165K in funding for "the development of a local network of Canadians interested in foreign policy." The monies were deposited into a bank account which had been opened under the name of the CCFPD. The CAs entered into with CCFPD staff covered the person's salary and provided, for certain individuals, a travel allowance.

1.1.3 Discussions during the period of 1998 to 2000 led to a decision to integrate CCFPD's activities within FAC. The decision was based on legal and financial considerations and a desire to integrate the objectives and mandate of the CCFPD with those of the Department. It resulted in the creation of the Canadian Centre for Foreign Policy Development Division (CPC).

1.1.4 CPC, as of April 1, 2001, began to issue CAs related to the J. H. Fund. The CAs were authorized by the Division's Director who was previously the CCFPD's Executive Director. It also issued CAs and contracts for associated activities such as Roundtables, the Dialogue Program and other services of direct benefit to CPC.

1.1.5 Exhibit I, outlines the key milestones in the evolution of the CCFPD from a quasi non-governmental organization (NGO) to a Division within FAC. It also highlights the various program fund recipients (i.e. the CCFPD, CCFPD staff, JH Fund recipients) during the period of 1996 to January 2004.

JH Fund Contributions & the CCFPD Bank Account		
1996	2001	2004
CCFPD (Centre)		Note 1
Staff of CCFPD		Note 2
Recipients - JH Fund		Note 3
		Note 4
CCFPD Bank Account - Note 5		

Notes

1. CPD signed a grant and two CAs with the CCFPD from 1996 to 1998 providing for a total of \$165K in funding.
2. CPD signed CAs with various CCFPD staff members from 1996 to 2001, for salary and travel, totalling approximately \$1.3M.
3. CPD signed CAs with various recipients for J. H. Fund projects totalling approximately \$5.4M.
4. CPC signed CAs with various recipients for J. H. Fund projects. The Team examined 152 CAs totalling \$2.3M.
5. CCFPD bank account was active from July 1996 to January 2004.

2.0 Audit Objectives, Scope, Approach and Timing

2.1 Audit Objectives

2.1.1 The objectives of the audit were to:

- Assess the extent to which the CAs issued against the J.H. Fund since the creation of CPC (i.e. April 1, 2001 through to December 2003) complied with relevant departmental and TB policies and guidelines.
- Determine the nature, purpose and appropriateness of the transactions recorded in the CCFPD bank account.
- Determine whether the Director General in CPD, at the time, effectively managed the CAs it entered into with CCFPD staff.

- ❑ Determine whether CPC's former management effectively managed overtime expenditures during the 2002/03 and 2003/04 fiscal years.
- ❑ Determine the extent to which CPC complied with Departmental and Treasury Board contracting policies and guidelines when incurring professional service expenditures associated with the Foreign Policy Dialogue initiative.

2.2 Audit Scope

2.2.1 The scope of the audit included the following:

- ❑ 152 CAs issued against the J. H. Fund since April 1, 2001.
- ❑ A grant and 2 CAs entered into between the CPD and the CCFPD during the period of 1996 and 1998.
- ❑ CAs entered into between the CPD and staff of the CCFPD during the period of 1996 and March 31, 2001.
- ❑ Deposit and disbursement transactions recorded in the CCFPD bank account during the period of July 1996 to January 2004.
- ❑ CPC overtime expenditures associated with the 2002/03 and 2003/04 (up to July 2003) fiscal years.
- ❑ Service contract expenditures associated with the Foreign Policy Dialogue, initiated by CPC during the 2002/03 and 2003/04 fiscal years.

2.2.2 The scope of the audit excluded the following:

- ❑ J. H. Fund CAs entered into prior to April 1, 2001.
- ❑ CPC hospitality expenditures incurred during the 2002/03 and 2003/04 fiscal years due to low materiality of the amounts involved (i.e. total of \$13,809).
- ❑ Service contract expenditures associated with the Foreign Policy Dialogue initiative originating from sources other than CPC.

2.3 Audit Approach and Timing

2.3.1. The internal audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

2.3.2 A tailored audit approach was developed for the two main areas of audit testing; CAs and transactions recorded in the CCFPD bank account. CAs issued against the J.H. Fund were assessed against 46 criteria in order to determine the degree of compliance with relevant departmental and TB policies and guidelines. This involved reviewing documentation maintained by SMFH and CPC supporting the payments made against the CAs. Bank account transactions were traced to supporting documentation and a source and disposition of funds analysis undertaken. Our work also included examining a manual register (i.e. black book) maintained and submitted by the former Director of CPC which provided further details and documentation of the transactions recorded in the CCFPD bank account from its inception. CPC overtime records for the 2002/03 and 2003/04 fiscal years were examined.

2.3.3 A separate audit approach was also developed for "Foreign Policy Dialogue" service contract expenditures. Contracts and confirming orders issued against the CPC operating fund were assessed against 27 criteria to determine their compliance with relevant departmental and TB policies and guidelines. This involved reviewing contract administration documentation maintained by SMFH and CPC.

2.3.4 Formal interviews were conducted with the former Director of CPC, selected recipients of J. H. Fund project funding and selected former CCFPD staff who received contribution monies from FAC. The audit work was carried out during the period of November 2003 to August 2004.

2.3.5 The audit findings and conclusions are based on the state of departmental program files as of August 2004. In the meantime, CPC has been undertaking an extensive cleanup of its program files. As a result, CPC has located a significant number of missing contribution agreements, financial and policy reports. CPC is now contacting approximately 71 recipients, in connection with 85 Contribution Agreements, to obtain missing documentation and will take additional steps if such documentation cannot be obtained. The results of this cleanup, as of February 18, 2005, are reflected in the report by way of footnotes.

3.0 Summary Observations and Recommendations

3.1 CPC Management of John Holmes (J. H.) Fund Contribution Agreements

3.1.1 The audit assessed 152 J. H. Fund CAs against 46 audit criteria to determine the extent to which the CPC, under its former management, complied with the requirements of the departmental guidelines for Grants and Contributions, the TB Transfer Payment Policy and the Financial Administration Act.

3.1.2 Not one CA met all 46 audit criteria. The compliance results, for individual agreements ranged from 14% to 90%. The audit criteria that obtained a high compliance rate dealt with routine elements for administering a CA program. These elements included, for example, the use of standard Agreement clauses, adherence to delegated financial signing authorities and the establishment of a payment schedule. However, there was a low compliance rate for criteria that addressed key financial management (26%) and agreement deliverable requirements (24%). The following is a description of some of the more significant deviations from the departmental requirements for a well managed contribution program.

- ❑ **Missing CAs.** CPC did not maintain a data base which could list the CAs issued against the J. H. Fund. The Team, therefore, developed its own list of 152 CAs by reference to payments recorded in IMS against the J. H. Fund. Of the 152 Agreements subject to audit, a total of 142 were found by reviewing SMFH financial files and CPC's program files. However, CPC's program files contained only 60⁷ Agreements. There were 10 CAs⁸, with total payments valued at \$191,000, that could not be found in either SMFH's financial files or CPC's program files.
- ❑ **Lack of proof of performance.** Of the 152 CAs examined, 18 had a completion date subsequent to the end of the audit field work.⁹ As a result, the Team expected to find evidence that CPC had received the final deliverable (normally a report) for 134 CAs (i.e. 152-18). However, CPC's records did not contain evidence of "proof of performance" (i.e. hard copy of report) for 43 or 34% of the CAs examined.

⁷ Since the field work was completed, CPC has reconstructed its files and in the process located an additional 82 program files increasing this number from 60 to 142.

⁸ Since the finalization of our audit work in this area, 5 of the 10 CAs have been located with total payment value of \$102,592.

⁹ Since the finalization of our audit work in this area, these 18 CAs have reached their planned completion date. Our findings do not reflect any activities related to these 18 CAs since January 2004.

CPC staff stated that most of the missing reports were available electronically. It could not, however, provide the Team with a document which links the electronic version of the reports to the applicable CA due to the disorganized filing system left behind by previous CPC management. Therefore, the Team could not verify the accuracy of CPC's assertion at the time of the audit visit ¹⁰. Moreover, the Team is of the view that posting reports on the web does not replace the requirement of maintaining adequate evidence in the program files of having received, reviewed and accepted the deliverables associated with a CA.

- ❑ **Unrealistic Expectations of Project Deliverables.** The Team is of the opinion that, in some cases, the recipient could not have completed the CA deliverables between the date the Agreement was signed, or the start date, and the specified completion date. There were 14 CAs that specified an unreasonable time frame for the preparation of the deliverable. Most (i.e. 11) of these CAs were signed during the last week of the 2002/03 fiscal year and called for the event to occur and the report to be delivered by March 31st.
- ❑ **Absence of Contributions by Recipients.** Many recipients did not identify what contribution, if any, they were making to the cost of the event or deliverable. While the contribution program's terms and conditions allow for this on an exception basis, the audit found this to be the norm. Only 37 Agreements (24%) included information specifying the contribution made by the recipient.
- ❑ **Limited Financial Accounting by Recipients for Funds Received.** The CAs examined stipulated that the recipient's final payment request was to be accompanied by a financial statement accounting for the use of the funds claimed. The Team found that of the 134 completed CAs:
 - 29 recipients did not provide a set of financial statements;
 - 41 recipients provided financial statements that either contained budgeted amounts or a mix of actuals and estimates that added up to the funds received, and;
 - 64 recipients provided financial statements disclosing the actual costs incurred. These recipients accounted for approximately half of the total \$2.14M paid out of the J.H. Fund during the period of April 2001 to December 2003;

¹⁰ As a result of ongoing cleanup within CPC over the past year, all reports from 2003-04 are linked electronically to the appropriate CA. For 2001-02 and 2002-03, 209 reports are now linked, with approximately 27 (by CPC files) still missing as of October 2004.

- Overall, 70 CA's have not been properly accounted for by recipient financial statements detailing the actual costs incurred, which represented a total payment value of \$1.067M.

- **Mismanaged Payables at Year-End.** CPC recorded a \$603,000 payable at year-end (PAYE) in 2002/03 against the J. H. Fund which related to 51 CAs. Our audit found that the amount of the PAYE was not appropriate and its subsequent management inadequate as evidenced by the following:
 - Four payments totalling \$55,000 were made in 2002/03 and were incorrectly included in the PAYE figure established at year-end;
 - Payments totalling \$122,000 were charged against CPC's 2003/04 budget as the events occurred during that fiscal year. However, the amounts were also recorded as PAYEs at the end of the 2002/03 fiscal year;
 - Five payments totalling \$73,000 were made in 2003/04 reducing the PAYE balance even though the associated CAs were not on the 2002/03 PAYE list;
 - Nine CAs appear on the PAYE list and account for \$37,875 of the 2002/03 year end figure. However, the recipients had not yet requested the final payment as of December 2003, even though the Agreement completion date was March 31, 2003; and,
 - Seven CAs appear on the PAYE list and account for \$74,290 of the 2002/03 year end figure. However, the recipients have not yet requested a single payment for the project.

- **Other non-compliance findings.** In addition to the above observations, the following are other non-compliance issues noted during the audit:
 - Eleven CAs where the final payment was made prior to the event occurring or receipt of the deliverable;
 - Seven CAs where payments were made to institutions rather than the person (i.e. recipient) who signed the Agreement; and,
 - Thirty-eight CAs where the Agreement was signed after the project had occurred (i.e. retroactive authorization).

3.1.3 In summary, the Team observed significant weaknesses in CPC's past financial management and program delivery practices. These weaknesses indicate that there was a breakdown in CPC's management control framework during the period of April 2001 to Summer 2003. The severity of the breakdown in controls under past CPC management is such that current CPC management is unable to assert, with a reasonable degree of certainty, whether recipients of J. H. Fund monies used the resources for intended purposes and whether all deliverables due to the Crown have in fact been received. As a result, the Team concludes that past CPC management did not operate with appropriate due regard for achieving value-for-money.

Recommendations for CPC

3.1.4 Implement an effective Management Control Framework (MCF) that addresses the CA administration and control deficiencies noted during the audit, including but not restricted to:

- **An administrative mechanism that identifies all CAs issued against the J. H. Fund;**
- **A structured filing system that maintains all the documentation related to each CA, including checklists to ensure all procedural and approval steps have been adhered to;**
- **A project application process that provides the recipient with a realistic time frame to provide the agreed upon deliverables;**
- **The requirement for recipients to identify their cash or equivalent contributions to the project or to provide documentation rationalizing their exemption. This documentation should be approved by the Program Officer and be placed on file;**
- **An effective monitoring system that identifies when deliverables and financial statements are due, received and approved; and,**
- **Appropriate program administrative procedures to identify legitimate PAYEs and to ensure their appropriate disposition.**

Management Action and Time Frame

3.1.4 a) A tracking sheet and an interim filing system was developed for all 2003/04 CAs, beginning in June 2003. This interim filing system was replaced by a more comprehensive filing system, developed by CAM, in January 2004 once files from fiscal year 2002/03 were properly assembled and organised. Files from 2001/02 are now being integrated

into this system, which encompasses all elements of the Centre's Contribution Agreements.

A database for all new projects was launched in February 2004. By March 30, 2004, it contained information on all recipients who received Contribution Agreements in Fiscal Years 2002/03 and 2003/04. Work is now underway to do the same for all recipients of CAs from Fiscal Year 2001/02. This database is being regularly updated with detailed information as a routine part of the project management process.

An on-line application form was developed in January-February 2004 to ensure consistency in administrative processes and to provide the foundation for the database into the future.

- 3.1.4 b) The tracking sheet developed in June 2003 provides a standard checklist for all CAs. A comprehensive filing system was developed in January 2004 that includes the detailed checklist for each agreement. This checklist is also maintained electronically within CPC's database.**
- 3.1.4 c) The Fund, through its Project Review Committee, began approving new projects in October 2003, with reasonable deadlines in place.**
- 3.1.4 d) In effect as of January 2004, in preparation for the re-opening of the J.H. Fund for funding applications (had been closed in November 2003).**
- 3.1.4 e) In effect via the database and tracking sheet noted above (see a).**
- 3.1.4 f) Resolved all improper PAYEs from Fiscal Year 2002/03. CPC worked with CAM and SMFH to ensure PAYEs in Fiscal Year 2003/04 (4) were used legitimately and appropriately.**
- 3.1.4 g) In addition, all staff responsible for managing the John Holmes Fund have been provided with training in grants and contributions programs to ensure effective management of the Fund.**

3.2 CCFPD Bank Account Transactions - July 1996 to March 2001

3.2.1 During the period of July 1996 to March 2001, contribution payments totalling \$165,000¹¹, related to a grant and two CAs, were made to CCFPD by FAC (via CPD). In addition, a variety of other receipts¹² totalling to \$41,593 were received by CCFPD providing for an overall cash inflow of \$206,593. These monies were deposited into a bank account that had been opened in the name of the CCFPD by its Executive Director. Disbursements from the CCFPD bank account during the period amounted to \$203,242 leaving a net balance of \$3,351 as of March 31, 2001. The Executive Director signed for the deposits to, and disbursements from, the bank account.

3.2.2 The Team examined the transactions recorded in the CCFPD bank account during the period of July 1996 to March 2001. A number of observations were noted that indicate that CCFPD did not comply with the terms and conditions of the CAs it had entered into with FAC. They also suggest that weaknesses existed in CPD's program delivery practices with respect to CAs issued against the J.H. Fund. These observations are described below:

- ❑ **Unaccounted for FAC Contribution Payments to CCFPD.** FAC issued payments to CCFPD providing \$165,000 in operational funding. The Team found that there was insufficient documentation to support expenditures in an amount of \$52,974. The related cheques issued by CCFPD could not be linked to the detailed expenditure plans accompanying the requests for payment it submitted to FAC. The former Executive Director of the CCFPD was unable to describe the linkage when asked to do so during interviews with the Team.

The terms and conditions of the CAs required the CCFPD to provide FAC with three reports accounting for the use of the monies received. CAM officials confirmed that the CCFPD provided FAC with only a single report detailing how the first \$100K in CA funding was utilized. The Team discussed this statement of accounting with the former Executive Director of the CCFPD who could not provide support indicating that \$15,000 in expenditures had been incurred in accordance with the terms and conditions of the CA. Reports providing an accounting of how the second CA in the amount of \$60K was utilized could not be found in either CCFPD or FAC files.

¹¹ Funding relates to a grant (\$5K) and two CAs (\$160K).

¹² Other receipts consist of advance repayments, redirected CA funds, unknown bank deposits, and bank interest.

The former Executive Director stated that he believed that all reporting requirements of the CAs were met through the issuance of the CCFPD's annual report. The Team examined the 96/97 and 98/99 annual reports but could not, however, identify an accounting of the CA funding provided to the CCFPD.

- ❑ **Lump Sum payments to Network Providers.** CCFPD made lump sum payments totalling \$105,412 to various persons across the country to establish Networks. The former Executive Director of the CCFPD advised the Team that these individuals were required to submit to him a report describing how they utilized the funds received. He provided the Team with a sample of letters that had been issued to Network providers in support of his comment. However, no evidence of financial accounting by Network providers has been found in CPC files, nor was any presented by the former Executive Director. Furthermore, CAM officials stated that they have not seen any accounting statements from the Network providers.

- ❑ **Redirected Government Funds.** CPD, of the day, entered into a CA with a recipient on December 29, 1998 for an event scheduled to take place in January 1999. The CA called for a \$10,000 advance upon signing and a second \$10,000 payment to be issued after the event was completed and a report submitted to CPD. FAC issued a payment on January 19, 1999 to the recipient for the full value (i.e. \$20,000) of the CA. This payment was contrary to the CA's terms and conditions and was made four days after the event had been cancelled.

The recipient issued a cheque payable to the CCFPD in an amount of \$15,489 representing the portion of the contribution monies that had not been used. The recipient provided an accounting for \$4,511 in expenses incurred of which \$4,000 related to the "organizer's fees" that was not identified in the event's budget included in the CA.

The CCFPD's Executive Director deposited the cheque into the organization's bank account in March 1999. The recipient's refund, however, should have been endorsed over to the Crown and deposited into the Consolidated Revenue Fund. The CCFPD's Executive Director used the deposited monies to pay supplier debts and to make payments to himself (over the period of 1999 to 2001) to cover restaurant, taxi and other charges totalling \$10,246 that he had allegedly incurred for program purposes during the period of 1996 to 2001.

The former Executive Director stated that a CAM officer gave him approval to use the CCFPD bank account to reimburse himself for hospitality expenses incurred. However, the CAM officer stated that he did not give, and could not

have given, this approval as he arrived in CAM one year after the Executive Director had made the first hospitality payment to himself.

- ❑ **Unauthorized Pay and Travel Advances and Other Expenditures from the CCFPD Bank Account.** Monies in the CCFPD bank account were provided, for the most part, from the contribution funding received from FAC. Accordingly, the funds were to be used in accordance with the terms and conditions of the applicable CAs. This was not always the case.

The Executive Director inappropriately issued cheques totalling \$39,782 from the CCFPD bank account. These payments related to advances provided to CCFPD staff and third parties. They also related to expenses claimed by the Executive Director and a VISA advance he had made to himself. A total of \$19,359 of the funds advanced were recovered by the Executive Director and subsequently deposited in the CCFPD bank account. However, the Team found that there was insufficient documentation to support that the balance of \$20,423 had been incurred for legitimate program purposes, including \$7,529¹³ of expenses claimed by the Executive Director.

In addition, the Executive Director also withdrew \$3,005¹⁴ in March 2001, the month before the operations of the CCFPD ceased and the CPC division created. He stated that the funds were to be used for "emergency" purposes. The amount was refunded and deposited into the CCFPD bank account by the former Executive Director in January 2004. This coincided with the approximate time he became aware of the extent of our audit procedures vis-a-vis the CCFPD bank account.

- ❑ **Bonuses paid to Staff.** The Team noted two instances where CCFPD staff members were paid a bonus from the bank account during the period 1998 to 2000, for \$2,500 and \$500 respectively. There was no authority provided in the CAs with CCFPD to pay such bonuses. The former Executive Director advised the Team that the bonus payments were made as the staff had worked overtime.

¹³ Includes a payment the Executive Director made to himself in the amount of \$649 which was supported by the ticket stub for Grad Student tickets totalling \$642. However, a payment had been previously made directly to the institution in the amount of \$642 for the same Grad Student tickets.

¹⁴ The \$3,005 is contained in the \$20,423 of expenses incurred in non-compliance with the terms and conditions of the CAs.

- ❑ **Unexplained Deposits to the CCFPD Bank Account.** There were four deposits totalling \$6,572 from 1998 to 2001 for which there is no documentation accounting for the amounts involved. The former Executive Director could not recall what these deposits were for.

3.2.3 In summary, our analysis indicates that the CCFPD did not fully comply with the terms and conditions of the CAs entered into with FAC. The CCFPD's Executive Director used, at times, the contribution funds received for purposes other than those specified in the CAs. This in turn indicates that CPD's past program delivery practices, particularly its monitoring procedures, were inadequate. Accordingly, with the noted breakdown in controls, CPD management has a reduced level of comfort that the \$165K in funding provided to the CCFPD was used for legitimate program purposes.

3.3 CCFPD Bank Account Transactions - April 2001 to January 2004

3.3.1 CCFPD's bank account was not closed when it was converted to a FAC Division (CPC) in April 2001. It continued to be used by the Director of CPC, the former Executive Director of the CCFPD, who was the sole signatory to the account. There were eight deposits totalling \$19,731¹⁵ and 13 payments totalling \$17,770¹⁶.

3.3.2 The Team observed that all the transactions contravened not only the requirements of the FAA, but also other departmental and central agency policies and procedures. This is illustrated by the following brief description of the transactions that took place post April 1, 2001.

- ❑ **Roundtable.** In June 2001, a CA recipient transferred \$6,676 to the Director of CPC who deposited the funds in the CCFPD bank account. The funds were to be used to cover the costs incurred by four Canadian academics while attending a Roundtable that month. The Director issued cheques totalling \$6,685 to the four Canadian academics shortly after the funds were deposited in the CCFPD bank account. It was also during June 2001 that CPC sent \$25,200 (via bank transfer) to the recipient which was charged against the J. H. Fund budget.

¹⁵ Deposits of \$19,731 and payments in the amount of \$17,770 include interest earned and service charges respectively.

¹⁶The Team was advised by CPD that the existence of the CCFPD bank account was unknown to MRH/CPD until October 2003, at which time immediate steps were taken to freeze its activity and bring it to the attention of the Team.

Neither CPC, CAM nor SMFH representatives could locate the supporting CA¹⁷ when the fieldwork in this area was conducted during the period of November 2003 to February 2004. Further, there is no evidence that the recipient provided CPC with a report accounting for the use of the funds provided. The former director of CPC confirmed the accuracy of the above facts during a meeting with the Team.

- ❑ **Contribution payment re-directed.** A J.H. Fund CA called for a payment of \$10,000 and \$5,000 to be made to an institution for the preparation of a paper on foreign policy by one of its employees. The first payment of \$10,000 CAD was cancelled shortly after being issued as a \$6,250 USD cheque. The second payment of \$5,000 CAD, paid as \$3,125 USD, was issued in April 2002 and cashed by the institution. The executive assistant of the employee indicated in an e-mail sent to CPC on August 13, 2003 that he preferred having remaining payments transferred to his personal bank account. As a result, the institution issued a \$3,125 USD refund cheque in the name of the CCFPD in June 2002. The CPC Director deposited the cheque in the CCFPD bank account in June 2002 instead of the Consolidated Revenue Fund. In July 2003, the Director of CPC issued a cheque from the CCFPD bank account in the amount of \$5,000 CAD to the employee.

The former CPC Director confirmed the accuracy of the above facts stating that he asked the institution, through others, to send the refund cheque to him on the understanding that he would then proceed to issue a payment directly to the employee.

- ❑ **Reimbursement of expenses.** The Director of CPC issued a cheque from the CCFPD bank account payable to himself in the amount of \$1,080 in September 2001. The cheque reimbursed the Director for "Cyprus related" and hospitality expenses incurred during the 1998/99 and 2000/01 fiscal years. Documentation exists that substantiates the amount of the payment. However, there is no evidence indicating that the Director had obtained pre-authorization for the hospitality expenses, which was the established business practice during these fiscal years. In addition, given that the monies in the CCFPD bank account related for the most part to deposits of contribution dollars received from FAC, the use of the funds for hospitality purposes is in non-compliance with the terms and conditions of the associated CAs.

¹⁷ The Team found a copy of the CA in CPC files while researching the status of recipient project reports in May 2004. The CA did not include a provision for a return of funds to the CCFPD so that it could pay for travel costs. Also, only partial budget details were included in the CA.

The former CPC Director confirmed that the \$1,080 payment was his last recovery of hospitality and other expenses incurred prior to CCFPD becoming CPC. He also stated that the reference to "pre Cyprus" indicated that the expenses were incurred before the Cyprus project trip, the first major event for CPC.

- ❑ **Emergency funds repayment.** In March 2001, just prior to CCFPD being converted to a FAC division (CPC), the Executive Director withdrew \$3,005 from the organization's bank account (see section 3.2.2), placed it in an envelope and put it into his personal safety deposit box. This anomaly was noted by the former Director of CPC in early January 2004 which coincided with the approximate time he was advised of the audit of the CCFPD bank account transactions. He subsequently deposited \$3,000 into the CCFPD bank account in January 2004. The former Director of CPC confirmed the accuracy of the above facts during a meeting with the Team.

- ❑ **Advance to a CPC employee.** The Director of CPC issued a cheque from the CCFPD bank account in an amount of \$1,500 to a new employee of the division in February 2002. The payment served as a pay advance to the employee. The individual repaid the advance which was, according to the Director of CPC, inadvertently deposited into his personal account in May 2002. This anomaly was noted by the Director in early January 2004 which coincided with the approximate time he was advised of the audit of the CCFPD bank account transactions. He subsequently deposited the \$1,500 into the CCFPD bank account in January 2004.

- ❑ **Other inappropriate transactions.** The following are the other transactions that inappropriately occurred through the CCFPD bank account.
 - The deposit of \$1,000 received from the foreign embassy and the issuance of cheques to three winners of a writing contest. The transactions occurred in the 2001/02 fiscal year. The former CPC Director stated that he was not aware of FAC's Specified Purpose Accounts policy and procedures.

 - An advance in the amount of \$1,750 made in April 2001 to an individual on contract with the CPD. The contractor repaid the advance by way of endorsing a Government of Canada cheque over to the CCFPD which was subsequently deposited by the Director of CPC into the bank account in May 2001. The former CPC Director confirmed the accuracy of the above facts.

- A cheque in the amount of \$392 issued in July 2001 to an individual for accommodation costs incurred. Departmental records indicate that the individual received a series of contracts beginning shortly after the July 2001 payment up until January 2003 at which point he became a FAC employee. There is no evidence indicating that the \$392 has been recovered from the individual. The former CPC Director confirmed that the person was taken on staff and that he paid the hotel room for the week before the person started.
- A \$213 cheque issued for a staff retreat in September 2001. There is no evidence indicating that the Director of CPC had this expenditure pre-authorized by his superior. The former CPC Director stated that the payment was for the rental of a boardroom. He also stated that his Director General (DG) would have known about the staff retreat but has no recollection of having sought the DG's pre-authorization of the expenditure.
- Deposits in the amount of \$600 and \$490 were made in the 2002/03 fiscal year. A review of IMS data indicated that contribution payments had been made to two recipients prior to 2003. There is no documentation available, however, explaining the rationale for these deposits. The former CPC Director stated that one recipient was refunding the unused balance of the CA, while he could not recall why the second recipient had refunded monies to the CCFPD.

3.3.3 In summary, the Team concludes that all of the above transactions were conducted in contravention of a variety of TB and departmental policies and procedures.

Recommendation for CPD

3.3.4 Close the CCFPD bank account and deposit the remaining funds into the Consolidated Revenue Fund.

Management Action and Time Frame

3.3.4 MRH/CPD froze the CCFPD bank account in October 2003 when its existence became known and brought it to the attention of the Team. The account was formally closed in May 2004. A letter was sent from CPD to the Royal Bank on 12 May 2004 to close the account with all remaining funds to be made payable to the Receiver General of the Government of Canada. These funds were received on June 25, 2004.

3.4 CPD Management of CCFPD Staff Contribution Agreements

3.4.1 From the inception of the CCFPD, staff were in receipt of contribution monies as they had individually entered into CAs with FAC (via CPD) to fund their salary and to provide travel allowances, where applicable.

3.4.2 The terms and conditions of the CAs with CCFPD staff members allowed for payments to cover salaries and travel expenses. The CAs stated that "payment, to a maximum of \$X¹⁸, shall be paid for travel and living expenses in accordance with Treasury Board (TB) Travel Directives subject to prior approval of the Departmental Representative". The directive stipulates that a travel claim must be submitted by the traveller detailing the purpose and costs associated with the travel undertaken. The following observations are raised regarding the management of these CAs.

- ❑ **CCFPD Staff Contribution Agreement Travel Funds Not Accounted For.** During the 1997/98 and 1998/99 fiscal years, FAC made a total of \$71,458 in travel allowance payments to four CCFPD staff members. The CAs for the 1998/99 fiscal year covering \$32,958.37 of this amount (i.e. \$71,458) have not been found. We cannot, therefore, confirm whether the payments were made in accordance with the terms and conditions of the CAs. The CAs for the 1997/98 fiscal year were found and a total of \$38,500¹⁹ was claimed and paid. These payments, however, were made without having received a travel claim from the recipients in accordance with the terms and conditions of the CA.
- ❑ **CCFPD Executive Director's Contribution Agreement (CA) dated March 1/00 - \$5K.** The former Executive Director of CCFPD entered into a CA in March 2000 to undertake a series of meetings with NGO's, academics and others and to establish a network to be involved in foreign policy discussions. He subsequently submitted an invoice dated March 31, 2000 for travel (\$1K), rooms (\$1K), hospitality (\$2K) and other expenditures (\$1K).

The former Executive Director advised the Team that the description of the project contained in the CA did not accurately reflect how the monies were to be used. That is, payments under the CA were to be used by him as a means of funding a \$5,000 raise he had negotiated for himself with CPD. To this end, he

¹⁸ Amount varied according to the negotiated CAs.

¹⁹ This amount includes payments totalling \$20,000 made to the former Executive Director.

submitted an invoice detailing expenses that had not actually been incurred. The former Executive Director claimed he had the support of two former Directors General (DG) in the above situation. These two DGs do not agree with the former Executive Director's recollection of the facts.

- ❑ **Signing Bonuses Paid by FAC.** The Team noted four instances where CCFPD staff members, including the Executive Director, received a "signing bonus" (as indicated on the IMS input document) upon entering into their final CA with FAC at the beginning of the 2000/01 fiscal year. The amounts ranged from \$500 to \$1,000. Although the signing bonus payment was within the total value of the approved CA, the expenditure was not specified in its terms and conditions.

3.4.3 In summary, our analysis indicates that CPD did not in the past effectively manage the CAs issued to CCFPD staff, particularly as it pertained to the issuance and accounting for travel allowances and the unusual signing bonuses paid without stipulation in the CAs.

3.5 CPC Management of Overtime

3.5.1 The Salary Management System (SMS) indicates that the former Director of the CPC earned a total of \$17,503 in overtime during the period of September 2002 to March 2003. The overtime was authorized by the Director's superior anywhere from one to four months after the overtime had occurred. The amount of overtime due to the Director was paid in full by the end of the 2002/03 fiscal year. To this end, \$17,003 was transferred from the division's Salary budget to Fund N011 (Overtime Non-Rotational Staff) which had only a \$500 budget for the fiscal year.

3.5.2 CPC staff advised the Team that the Director was receiving overtime payments during the latter half of 2002/03 even though he had advised them that there was no overtime budget available for the fiscal year. This created some tension within the division as staff believed that they were not being fairly treated.

3.5.3 CPC staff began to record their overtime in February 2003 once they became aware that the Director had received an overtime payment. They earned a total of \$19,032 in overtime during the period of February to July 2003. The Deputy Director's overtime for February, March and April 2003 was approved by the Director in April 2003. For all other CPC staff, their overtime was approved in June or July by another staff member who had been delegated signing authority during the absence of the Director. This individual was advised in writing by the Director to process the overtime claims submitted by staff. She was not, however, provided with any details from the

Director as to who would be submitting an overtime claim and for how many hours. In our opinion, this information should have been provided by the Director prior to his departure on annual leave as the individual who authorized the overtime claims in his absence had just returned from a leave without pay on June 1, 2003 and had no knowledge of the actual amount of overtime that had been worked.

3.5.4 In summary, the former Director's management of the division's overtime budget was not handled in a fair and transparent manner in accordance with the "people values" set out in the Treasury Board's Values and Ethics Code for the Public Service. The actions taken by this Director to ensure that his overtime was paid out in full by year end, while advising staff that there was no overtime budget available, adversely affected staff morale. In addition, overtime was not properly authorized as approvals were given in a retroactive manner.

Recommendation for CPC

3.5.5 Staff overtime should be approved in advance and paid in time or cash according to the appropriate employee collective agreement(s) and the TB Terms and Conditions of Employment.

Management Action and Time Frame

3.5.5 All overtime is now approved in advance and provided in a timely fashion and in accordance with the appropriate collective agreements and TB Terms and Conditions of Employment.

3.6 CPC Foreign Policy Dialogue Service Contract Expenditures

3.6.1 The Team examined the expenditures charged against the Foreign Policy Dialogue operating fund. It identified 20 service contracts and 21 confirming orders issued between April 2002 and March 2004, totalling \$316,246.48 and \$105,192.53 respectively. The service contracts and confirming orders were assessed against 27 criteria.

3.6.2 The compliance results for individual contracts ranged from 38% to 77%. The audit criteria that obtained a high compliance rate dealt with routine elements for administering a contract for services. These elements included the use of standard Agreement clauses, adherence to delegated contracting authorities and the appropriate section 34 signature located on supplier invoices. However, there was a low

compliance rate for criteria that addressed key stewardship responsibilities. The following is a description of some of the more significant deviations from the Departmental requirements for managing service contracts:

- ❑ **Limited evidence of maximizing value-for-money.** Of the 20 service contracts audited, only three (15%) of CPC's associated contract files contained a written proposal. The Team believes that it would have been difficult for the CPC contracting authority to assess the extent to which a contractor's price represents value-for-money in the absence of a proposal detailing the contractor's understanding of the requirement and describing the proposed approach, team member(s) experience/skills and schedule. Further, not one of the service contract files contained evidence that the CPC contracting authority assessed the quality of the deliverable.

- ❑ **Contract amendments not properly justified.** Only three of the nine contracts (33%) with an amendment contained a supporting justification in the CPC contract file.

- ❑ **Contract splitting.** Documentation contained in the CPC contract files indicate that a requirement for "expert video material in foreign policy education and dialogue packages for web site access and use" was addressed by awarding eight separate contracts, valued at \$213,161.61, on a sole source basis. This practice is commonly referred to as contract splitting and is in contravention to Departmental and Treasury Board contracting direction.

- ❑ **Confirming orders.** The former Director of CPC did not always comply with internal oversight mechanisms set in place by CAM in 2003/04 to monitor and ensure CPC's compliance with Departmental and Treasury Board government contracting policies and guidelines. The Director entered into oral agreements between himself and the contractor for 21 of 28 external professional service requirements, thereby, avoiding the internal oversight mechanism. As a result, CPC had to prepare a total of 21 confirming orders during the 2003/04 fiscal year as services had been rendered and invoiced by the contractor in the absence of a duly executed contract.

3.6.3 In summary, the Centre's contracting practices showed little regard for complying with departmental and Treasury Board contracting policies and guidelines. Some of this resulted from the fast-paced and frequently changing schedule for the Dialogue process. This schedule required the organization of meetings and town halls with very little notice, as well as payments after the fact for meetings held without prior notification of the Centre. However, this non-compliance with proper contracting

practices also stemmed from managerial decisions and behaviour of the former Director of the Centre. As a result, this exposes the Department to potential criticism that the contracting process associated with the Foreign Policy Dialogue initiative expenditures was not fair, open or transparent nor ensured the achievement of best value. This exposure is particularly prevalent in 2003/04 given that past contracting policies required that CPC prepare 21 confirming orders, 75% of their external professional service requirements.

Recommendation for CPC

3.6.4 Contracting practices should be strengthened in order to ensure compliance with applicable Departmental and Treasury Board policies and guidelines.

Management Action and Time Frame

- 3.6.4**
- **Branch-wide contracting processes, developed in 2003-2004 to put in place proper contracting procedures, are now fully adhered to.**
 - **All CPC contracts are now reviewed by the branch Contract Review Board established by CAM. This ensures that contracts are carried out in full compliance with Treasury Board rules and regulations.**