



**AUDIT OF THE
GRANTS AND CONTRIBUTIONS
INTERNAL MANAGEMENT FRAMEWORK**

January 2003

Audit Division (SIV)

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EXECUTIVE SUMMARY

The Internal Audit Division (SIV) conducted an audit of the management framework associated with the delivery of the Department's grants and contributions programs. The Department manages over 80 grants and contributions programs totalling approximately \$377 million. The audit focussed on how the Department is providing support to grants and contributions Program Managers.

Over the past few years, the Department has taken a number of initiatives to improve its management of grants and contributions. Guidance material on the responsibilities of program management has been distributed and a department-wide training program to educate officers on the management and administration of grants and contributions has been provided. This audit of the management and administration of grants and contributions programs highlights areas where further improvement is required. Three recommendations are being raised:

- Improve governance of the department-wide grants and contributions activities to strengthen the leadership and synergy of an activity that is now widely dispersed;
- Regroup the many different grants and contributions programs into fewer umbrella authorities to reduce workload and to increase managerial flexibility; and,
- Update and upgrade the tools that support managers of grants and contributions programs.

These recommendations address shortcomings identified during the audit, including the lack of corporate-level oversight; the tendency to silo-manage each program; and the uneven support offered to managers by various branches or bureaux.

AUDIT OBJECTIVES, SCOPE AND APPROACH

1.1.1 The audit objective was to assess how the Department is providing support to Program Managers of grants and contributions programs and to provide a basis upon which any deficiencies in the structure may be addressed.

1.1.2 The audit of the grants and contributions internal management framework was conducted in July and August 2001. The audit was part of SIV's review of Department's grants and contributions programs. The scope of audit covered the overall internal management framework supporting program managers of grants and contributions including:

- the interface between the grants and contributions programs and various functional bureaux; and,
- the interface between the grants and contributions managers and the recipients.

1.1.3 The audit approach comprised:

- Developing interview guides to review processes used in the grants and contributions management by the Program Managers, Area Management Officers and Corporate Staff;
- Interviewing Program Managers, Area Management Officers and Corporate staff, including line staff;
- Utilizing the recently completed and stand-alone audits of recipients and contribution programs to ensure that Program Managers make appropriate choices in the administration of contributions programs, including taking corrective action, when necessary, on a timely basis; and,
- Reviewing management processes used in grants and contributions management.

BACKGROUND

2.1.1 The Department's reference levels include 80 grants and contributions programs totalling approximately \$377M for fiscal 2000-2001. Most programming activity originates in Headquarters. Missions manage grants and contributions funds provided by both DFAIT and other government departments for specific programs.

2.1.2 Within this envelope, these programs are classified into four categories:

- Non-discretionary assessed contributions represent contributions payable by the Government of Canada to international organizations based on a political commitment or engagement;
- Statutory/quasi statutory grants represent payments which are required due to acts of parliament;
- Discretionary grants; and,
- Discretionary non-assessed contributions represent those programs which are initiated and managed by the Department.

2.1.3 The Treasury Board Policy on Transfer Payments, introduced in June 2000, directs departments to establish policies and procedures for the purposes of ensuring, overall, that capacity exists to deliver and administer effectively transfer payment programs. This capacity focuses on the needs of Program Managers to deliver and administer a transfer payment program, inclusive of the support received from corporate services. Indicators for capacity include not only an appropriate program design and planning for appropriate personnel, but policy guidance, program management processes, and tools to support program management, including training.

2.1.4 This audit was undertaken one year after the implementation of the Transfer Payment Policy, and after the introduction of "Results for Canadians", the management framework for the Government of Canada. This framework has since been supported by new directions such as the "Modern Comptrollership Initiative", the "Integrated Risk Management Framework", and the revised Treasury Board "Policy on Transfer Payments". The Treasury Board "Policy on Active Monitoring" came into effect two months prior to the start of this audit. Combined, these initiatives and policies direct the integration of modern management practices into public sector operations, of which grants and contributions management is an integral part.

DETAILED OBSERVATIONS AND RECOMMENDATIONS

3.1 Governance and Leadership

3.1.1 The Department's spending authority in grants and contributions programs for 2000-2001 represented approximately \$377M, or 23% of the Department's total budgetary authority. This level of budgetary authority is on par with that seen in departmental business lines, such as Corporate Services and International Business Development. Grants and contributions funding is reported and monitored as a separate spending authority (vote 10) for purposes of financial information. Actual grants and contributions activity takes place across the Department through most, if not all, business lines.

3.1.2 Grants and contributions programs are generally managed at a relatively low level of responsibility in the Departmental organizational structure, that of a program officer, relative to the spending authorities received. Because of this, exposure of the needs of these programs to Departmental Senior Management review and discussion has been limited.

3.1.3 Consistency in approach across the Department is required, given the material level of spending authority and the public interest in the nature of the activity. Audit findings reveal that there is the appearance of silo management in branch operations, limiting integration of corporate and program knowledge on grants and contributions practices across the Department. A key operational area involved in grants and contributions policy implementation is the Area Management Office (AMO). Headquarters based, the AMOs act as the administrative services hubs for Branch operations. As such, they have the opportunity to support program management in the day-to-day management and administration of grants and contributions. Audit findings reveal that there is inconsistency across the Department in the level of support provided to program management by the AMO, primarily due to two factors: 1) varied level of expertise and knowledge provided by the AMO staff; and 2) confusion of the roles and responsibilities between services of the AMO and Corporate Financial Services. Other key areas providing support are the functional bureaux. Corporate Financial Services provides policy support through SMS, Treasury Board Submission support through SMP, and payment support for all contribution agreements and oversight support for non-assessed contribution agreements through SMF. Human Resources provides training support through CFSI. Program management support is widely dispersed and there is no centre of expertise recognized as a Departmental gatekeeper for the grants and contributions portfolio. Such a centre would provide leadership to the sectoral activity, providing a strategic platform for the introduction of consistent Departmental processes such as corporate operating policies, guidelines, procedures, continuous improvement in program management and bench-marking to best government practices.

3.1.4 There are a significant number of Program Managers involved in managing various grants and contributions programs in the Department. This has resulted in many different management structures and styles across the Department. The absence of a centre has resulted in limited development of strategies for purposes of targeting continuous improvement in day-to-day grants and contributions management. Program Management indicated it assumed responsibilities for grants and contributions programs without hand-over briefings from either their AMOs, predecessors or Corporate Services. Most Program Managers interviewed described this process as representative of the Departmental culture, in that they are expected to learn on the job. When asked what assistance was provided or authoritative expertise was available to them, most were not sure.

3.1.5 In summary, the Department's commitment to the Government of Canada's new management control framework, as it relates to the grants and contributions programs, needs strengthening. The Department would benefit from the establishment of a governance structure for grants and contributions that oversees and guides all grants and contributions activities, whether within the operational or functional bureaux. This governance structure could take the form of a centre of expertise dedicated to oversight and representing key players in grants and contributions activities.

Recommendation for SMD

3.1.6 Create a governance structure to oversee and guide all grants and contributions activities.

SMD Response

3.1.6 Currently, all non-assessed contributions are reviewed by SMFH prior to signature and upon request the same section provides advice and assistance on all grants and contributions. SMF is currently examining the mechanics of establishing a departmental centre of expertise for grants and contributions.

3.2 Regrouping Grants and Contributions into Themes

3.2.1 The Department has eighty grants and contributions programs, each requiring distinct and separate accountabilities and authorities and coordination with the Treasury Board for renewal of terms and conditions. Significant staff and financial resources are required to meet the Department's needs in responding to the new Transfer Payment policy. With modern management initiatives underway, the Department has assessed that the operational requirements, for the extensive number of grants and contributions programs, are greater than the benefits received. SIE and SIV have been assisting with the preparation of Result Based Management and

Accountability Frameworks (RMAFs) and Risk Based Audit Frameworks (RBAFs) for a number of grants and contributions programs. Treasury Board has stipulated that by March 2005 all grants and contributions programs will have to be renewed, a process which will include the preparation of RMAFs and RBAFs. RMAFs and RBAFs contain commitments by DFAIT programs on all the tracking and reporting they intend to put in place to monitor and report on results achieved over the life of the concerned program, as well as the audits and evaluations they intend to complete over the next five years.

3.2.2 Each RMAF and RBAF is being prepared within individual divisions without a general strategy having been developed at a bureau or business line level. Generally, SIE and SIV are approached when the division has two months or less available to develop its Treasury Board submission. The focus then is on avoiding any delays in obtaining approval for the submission and the resultant flow of funds.

3.2.3 When providing support to the preparation of RMAFs and RBAFs, we noted almost all divisions have significant gaps in the administration of grants and contributions. Intended results have not been fully defined, tracking and reporting measures are not systematic, insufficient audits and evaluations have been carried-out in recent years, records and support systems are often inadequate and with rotationality, staff are sometimes not very knowledgeable about program details.

3.2.4 Within the context of a Departmental assessment of plans and priorities, streamlining the number of grants and contributions themes used across the Department is being considered. If the Department adopted a corporate approach to the grants and contributions challenge, it could likely identify ways of simplifying the work, for example, by regrouping certain grants and contributions programs within themes and proposing to the Treasury Board the preparation of fewer submissions, RBAFs and RMAFs. This would result in the workload reduction associated with these activities. Through the regrouping or alignment of multiple grants and contributions authorities into themes or portfolios, the Department could increase the flexibility in operational requirements, in addition to decreasing the management and administrative burden on programs Department-wide.

3.2.5 Corporate Finance, Planning and Systems (SMD) staff indicated that discussion related to grants and contributions has occurred in a general context, within the assessment of Departmental priorities and in the planning towards integrating modern management practices under the Modern Comptrollership initiative. Consideration is being given to aligning the multiple grants and contributions authorities into branch portfolios, representative of Departmental business lines. Plans are in the discussion stages only, and the operational mechanisms have not yet been conceived.

Recommendation for MKM

- 3.2.6 MKM, in consultation with stakeholders (i.e. ADMs and SMD), should assess the implications, develop a strategy and plan the implementation of changes required to group the multiple grants and contributions programs into a few umbrella authorities.**

MKM Response

- 3.2.6 Agree. SMD will investigate the feasibility of implementing this consolidation.**

3.3 Self Help Tools

3.3.1 The Departmental grants and contributions policy is available on the SMD Intranet site as well as implementation tools for Program Managers (i.e. a program management responsibilities list and checklists for grants and contributions program management) providing direction regarding the tasks that must be undertaken from the conception stage to the program evaluation and audit stage. In addition, the SIX Intranet site provides support to managers on the preparation of RMAF and RBAF that accompany all grants and contributions Treasury Board submissions.

3.3.2 The Audit Team reviewed the Intranet sites and concludes that they provide Program Managers a basic introduction to the grants and contributions policy and provide useful tools to guide them through the life cycle of the grants and contributions program.

3.3.3 Our review of the relevancy of the contact numbers contained in the Departmental grants and contributions policy found that less than 50% were directed to the appropriate personnel, illustrating the need for revision and update. In addition, the "help line" has not been publicized to grants and contributions Program Officers nor is it referred to in the Departmental grants and contributions policy.

Recommendation for SMD

- 3.3.4 SMD should take the necessary steps to ensure that self help tools produced to support grants and contributions program management are updated as required and contain all elements required by program management to comply with the current TB policy.**

SMD Response

- 3.3.4 SMD is establishing a Grants and Contributions Centre of Expertise. Included in its mandate will be the maintenance of complete and current self-help tools. It will be completed by April 2003.**