

2007



Report of the
**Auditor General
of Canada**
to the House of Commons

OCTOBER

Chapter 2
Management and Control Practices
in Three Small Entities



Office of the Auditor General of Canada

The October 2007 Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 7, Appendices, and seven chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2007
Cat. No. FA1-2007/3-2E
ISBN 978-0-662-46983-4



Chapter

2

Management and Control Practices
in Three Small Entities

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Table of Contents

Main Points	1
Introduction	3
Significance of small entities within the federal government	3
Challenges and risks facing small entities	3
Entities selected for examination	4
Focus of the audit	4
Observations and Recommendations	6
Use of acquisition cards	6
The use of acquisition cards is properly controlled	7
Procurement contracting practices	8
Controls for procurement contracts are not rigorously applied	9
Executive travel	10
Effective control procedures for executive travel are in place	11
Hospitality	11
Hospitality expenses are properly certified and supported	12
Executive compensation	12
Executive compensation and benefits are managed in compliance with relevant authorities	13
Human resources management	13
The Canadian Forces Grievance Board has a human resources plan	14
Human resources planning is lacking in two of the entities	15
The performance pay management process lacks rigour in two of the entities	16
Frameworks are in place to manage labour relations	18
Conclusion	19
About the Audit	21
Appendix	
List of recommendations	23



Management and Control Practices in Three Small Entities

Main Points

What we examined

The federal government includes a large number of small agencies, boards, and commissions that carry out a wide range of activities, from environmental assessment to transportation safety. Most of these organizations have investigatory, regulatory, or quasi-judicial functions. While the government defines “small entities” in a number of ways, for this audit of management and control practices, we considered small entities to be federal organizations with either operating budgets of less than \$100 million a year or fewer than 500 employees.

Our audit examined three small entities:

- the Canada Industrial Relations Board, an independent tribunal responsible for interpreting and applying certain provisions of the *Canada Labour Code*;
- the Canadian Forces Grievance Board, a civilian administrative tribunal that deals with grievances referred to it by the Chief of the Defence Staff; it is independent of the Canadian Forces and the Department of National Defence; and
- the Courts Administration Service, providing registry, judicial, and corporate services to the Federal Court of Appeal, the Federal Court, the Court Martial Appeal Court of Canada, and the Tax Court of Canada.

We looked at the controls applied by the three entities for acquisition cards, contracting, executive travel, hospitality, executive compensation, and selected areas of human resources management. We also examined whether the entities’ management and control practices comply with government policies.

Why it’s important

Despite their relatively small size, these organizations can have a significant impact on the health, safety, and quality of life of Canadians; on recourse for public servants or for citizens in cases of perceived unfairness and inequity; and on the competitiveness of Canadian industry. They may be called on to settle claims or arbitrate disputes that involve the government as an interested party, and they must therefore be independent from the government in such matters.

As publicly funded bodies within the government, they need to ensure prudence, probity, and effective control over the spending of public funds.

What we found

- The Canada Industrial Relations Board has effective control procedures in place for acquisition cards, executive travel, and hospitality. However, its controls for contracting and its management of performance pay lack rigour, and it does not have an integrated human resources plan. It has also experienced internal labour relations problems for several years, affecting a significant number of its employees. Management has taken a number of actions to address some of the problems, but there are still some important issues to be resolved. Officials indicated to us that they are fully aware of the issues and are taking some actions and planning others to resolve the problems.
- The Canadian Forces Grievance Board has managed well in all of the areas covered by our audit. While there had been some instances of non-compliance with government contracting policies and regulations during the first year covered by our audit, controls for contracting have significantly improved within the last 18 months.
- The Courts Administration Service has effective control procedures in place for acquisition cards, executive travel, and hospitality. However, its controls for contracting and its management of performance pay lack rigour. It also has difficulty finding enough people with the required skills and competencies to fill its positions on a timely basis. A significant number of its employees have been in acting positions for up to two years. Yet the Courts Administration Service has done virtually no planning to address these problems.

The Courts Administration Service and the Canada Industrial Relations Board have responded. The recommendations in the chapter were directed toward the Courts Administration Service and the Canada Industrial Relations Board, and these two organizations agree with them. Their responses follow each recommendation.

Introduction

Significance of small entities within the federal government

2.1 There are a large number of small agencies, boards, and commissions in the federal government performing a wide range of activities, from environmental assessment to transportation safety. Most of these organizations, commonly referred to as “small entities,” have investigatory, regulatory, or quasi-judicial functions. While the government defines “small entities” in a number of ways, for this audit we considered them to be organizations that have either an annual operating budget of less than \$100 million or a staff complement of fewer than 500 employees.

2.2 Despite their relatively small size, these organizations can have a significant impact on the health, safety, and quality of life of Canadians, on public servants’ or citizens’ recourse in case of perceived unfairness and inequity, and on the competitiveness of Canadian industry.

2.3 Small entities with quasi-judicial or ombudsman-type roles settle claims or arbitrate disputes that may involve government as an interested party. Thus, it is important that they be independent from government in such matters, even though they are publicly funded bodies within the public service. They nevertheless need to ensure prudence, probity, and effective control over the spending of public funds.

Challenges and risks facing small entities

2.4 Most small entities within the federal government are subject to the management and control requirements of the *Financial Administration Act* (FAA) and to various Treasury Board policies and government regulations. They are also subject to central agencies’ management initiatives, such as the Management Accountability Framework (previously Modern Comptrollership) and Public Service Modernization. Government-wide initiatives can impose significant demands on a small entity given the small number of staff available to implement them.

2.5 Small entities are sometimes headed by senior executives recruited from the private sector. These individuals may have limited experience and knowledge of the management and control requirements, governance expectations, and values of the public sector. A couple of key features common to most small entities are informal structures—for example, ad hoc review (as opposed to a

formal committee and governance mechanisms), and staff with multiple responsibilities (as opposed to the separation of roles and responsibilities normally found in large organizations).

2.6 To maintain the public's trust and confidence in government, deputy heads and senior management of government organizations are required to discharge their responsibilities in accordance with the highest ethical standards of integrity, objectivity, and impartiality. Their conduct and actions are expected to exemplify the values of the public service. Appropriate comptrollership and management are essential in any federal organization to manage financial risks and protect against fraud, financial negligence, violation of financial rules or principles, and loss of assets or public money.

2.7 Due to their small size and the relatively low monetary risks involved, small entities received limited attention from central agencies until recently. Many small entities do not have internal audit capabilities; however, since 1 April 2006, they have become subject to audits by the Treasury Board of Canada Secretariat. The implementation of this policy will be phased in between the effective date of the policy and 1 April 2009.

Entities selected for examination

2.8 In this audit, we examined the Canada Industrial Relations Board (CIRB), the Canadian Forces Grievance Board (CFGFB), and the Courts Administration Service (CAS). We looked at their control practices in key administrative processes and selected areas of human resources management. Exhibit 2.1 includes a brief description of each entity.

Focus of the audit

2.9 The objective of our audit was to determine whether the entities have effective management control procedures in place for acquisition cards, contracting, executive travel, hospitality, executive compensation, and selected areas of human resources management—human resources planning, performance management, and labour relations.

2.10 Our audit covered the period from 1 April 2004 to 30 September 2006.

2.11 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 2.1 Small entities selected for audit

Name of small entity	Mandate and objectives	Number of full-time equivalents	Departmental budget
Canada Industrial Relations Board	<p>The Canada Industrial Relations Board is an independent, representational, quasi-judicial tribunal responsible for the interpretation and administration of Part I (Industrial Relations), and certain provisions of Part II (Occupational Health and Safety) of the <i>Canada Labour Code</i>.</p> <p>The Board's mandate is to contribute to and promote effective industrial relations in any work, undertaking, or business that falls within the authority of the Parliament of Canada.</p> <p>The Board has jurisdiction in regard to some 1 million employees engaged in federal jurisdiction industries, which include interprovincial transportation (air, land, and water), broadcasting, banking, long-shoring, and grain handling, and to private sector employees in Nunavut, the Yukon, and the Northwest Territories.</p>	110	\$12,437,000
Canadian Forces Grievance Board	<p>The Canadian Forces Grievance Board is a civilian administrative tribunal with quasi-judicial powers. The Board deals with grievances referred to it by the Chief of the Defence Staff, and it has the authority to conduct its reviews with independence from the Department of National Defence and the Canadian Forces.</p> <p>The Board was created on 1 March 2000, and its mandate is to issue fair, impartial, transparent, and expeditious findings and recommendations on grievances from members of the Canadian Forces. Its findings and recommendations are issued to both the Chief of the Defence Staff and the grievor, and may deal not only with the grievance itself, but with potential systemic changes that would alleviate a problem or issue Forces-wide.</p>	46	\$6,407,000
Courts Administration Service	<p>The role of the Courts Administration Service (CAS) is to provide registry, judicial, and corporate services to four courts of law—the Federal Court of Appeal, the Federal Court, the Court Martial Appeal Court of Canada, and the Tax Court of Canada.</p> <p>The CAS was established in 2003 through the <i>Courts Administration Service Act</i> by consolidating the former registries of the Federal Court of Canada and the Tax Court of Canada.</p> <p>The CAS has its principal place of business in Ottawa and has three regional offices, six local offices, and seven offices that are colocated with provincial and territorial court offices and staffed by employees of those courts who are also with CAS on a contractual basis. In other locations, the Service leases commercial accommodations, or partners with other levels of government.</p>	650	\$61,600,000

Source: Reports on Plans and Priorities—2006–07

Observations and Recommendations

Use of acquisition cards

2.12 Acquisition cards are credit cards that enable departments and agencies to purchase and pay for goods and services. They are available through contracts with two Canadian banks: the Bank of Montreal provides MasterCard credit card services, and the Canadian Imperial Bank of Commerce provides Visa credit card services. Departments and agencies can use either or both of these acquisition card services, depending on their operational needs. The contracts with the service providers offer a rebate program, payable directly to user organizations. Rebates are based on variables such as the level of expenditures on the cards and how quickly payments are made.

2.13 Public Works and Government Services Canada (PWGSC) is responsible for contracts with the service providers and oversight of programs. The Treasury Board is responsible for government-wide policy on acquisition cards.

2.14 Departments and agencies are required to adhere to the Treasury Board policy and to establish specific policies and procedures to ensure that acquisition cards are used economically and efficiently and that reviews and audits are carried out to determine whether cards are being used according to Treasury Board policy.

2.15 The use of acquisition cards can be a convenient and efficient way for the federal government to obtain and pay for goods and services, if the associated risks are properly managed. It is important that parliamentarians and Canadians be assured that public resources are not misused or abused by those who have access to convenient methods of paying for goods and services.

2.16 We assessed the management control procedures for the use of acquisition cards in the three audited entities. We focused on the processes for

- authorizing and issuing acquisition cards,
- certifying transactions, and
- managing the entity's acquisition card program.

2.17 Exhibit 2.2 provides information on the acquisition card transactions in each entity for the period covered by our audit—1 April 2004 to 30 September 2006.

Exhibit 2.2 Acquisition card transactions

Name of entity	Total number of transactions	Total value	Number of cards in circulation
Canada Industrial Relations Board	485	\$78,290	10
Canadian Forces Grievance Board	254	\$117,921	3
Courts Administration Service	4,392	\$1,621,203	38

The use of acquisition cards is properly controlled

2.18 The Canadian Forces Grievance Board (CFGB) is using the Treasury Board policy as its own policy on acquisition cards. The policies of the Courts Administration Service (CAS) and the Canada Industrial Relations Board (CIRB) are generally consistent with the Treasury Board's requirements and in some areas are more restrictive. The only substantial elements missing from the CAS and CIRB policies are descriptions of what constitutes an abuse or deliberate disregard of administrative policy and what the consequences are for such abuse or disregard. The Treasury Board policy requires organizations to include this in their policies.

2.19 We drew a random sample of acquisition card transactions as well as a number of high-value transactions in the three entities for review. We found that each entity has effective control procedures in place to manage the use of acquisition cards. The cards had been properly authorized, and cardholders had acknowledged their roles and responsibilities by completing acknowledgement forms. Transactions were valid and properly certified (section 34 of the *Financial Administration Act* requires certification that goods and services that were contracted for have in fact been received) and supported with invoices, and payments were authorized (section 33 of the *Financial Administration Act* stipulates that no charge shall be made against an appropriation except on the requisition of a person authorized).

2.20 We noted that a number of CAS employees who were issued acquisition cards had never or rarely used them (7 of the 38 cardholders had never used their cards and 6 had used their cards for 2 transactions only). Since every card issued represents a potential risk for the entity, it is important that cards be issued only to those employees whose roles and responsibilities require the use of cards.

2.21 Finally, using data mining and analysis software, we selected some transactions for examination from each entity's entire database of transactions for the period under review, based on the names of the

vendors and the nature of the transactions. We performed additional analysis and enquiry for these transactions, and concluded that they were valid expenditures, properly approved, and supported.

Procurement contracting practices

2.22 The objective of procurement contracting in the government is to acquire goods and services in a manner that enhances access, competition, and fairness and that results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.

2.23 To establish a formal government-wide management and control framework for contracting activities, the Treasury Board has issued a Contracting Policy. The policy requires that government contracting be conducted in a manner that stands the test of public scrutiny in matters of prudence and probity, facilitates access, encourages competition, and reflects fairness in the spending of public funds. Federal organizations, including the three audited entities, are required to put controls in place to ensure that these objectives are met.

2.24 We assessed the management control procedures for contracting activities of the three audited entities. We focused on whether

- entities have adequate management control procedures in place for contracting, and transactions comply with relevant authorities; and
- entities are monitoring contracting activities regularly.

2.25 We reviewed the entities’ policies, procedures, and controls to determine whether they were clear, consistent with the Treasury Board Contracting Policy, and communicated properly to the parties involved in contracting so that they were fully aware of their roles and responsibilities.

2.26 Exhibit 2.3 provides information on the contracts awarded in each audited entity for the period covered by our audit.

Exhibit 2.3 Contracts awarded

Name of entity	Total number of contracts	Total value of contracts
Canada Industrial Relations Board	172	\$1,678,977
Canadian Forces Grievance Board	156	\$1,152,680
Courts Administration Service	305	\$19,064,587

2.27 The Canadian Forces Grievance Board is using the Treasury Board policy as its own contracting policy. The Courts Administration Service and the Canada Industrial Relations Board have each developed their own contracting policies, and we found that they were consistent with the Treasury Board Contracting Policy.

Controls for procurement contracts are not rigorously applied

2.28 We drew a sample of transactions consisting of high-value contracts and other transactions that in our view presented some risks of non-compliance with contracting policies. We tested the transactions to determine whether the contracts had been awarded, issued, and administered with appropriate prudence and probity and in accordance with the *Financial Administration Act*, the Treasury Board's Contracting Policy, and the Government Contracts Regulations.

2.29 We found that procurement activities were generally managed with prudence and probity and according to government financial policies, procedures, and accepted financial control practices.

2.30 However, the rate of non-compliance with established control procedures, in all three entities, indicated that more rigour is needed in managing procurement contracts. For example, many contract files did not contain appropriate justification to proceed with awarding of **sole-source contracts**. We also noted that most contracts did not include appropriate evaluation of contracting performance and that many contract files did not contain the documentation required by the Treasury Board Contracting Policy.

Sole-source contract—A contract for which the contracting authority does not seek competitive bids.

2.31 The cases of non-compliance noted at the Canadian Forces Grievance Board mostly occurred during the first fiscal year covered by our audit. Our review of the following 18 months revealed that the CFGB had significantly improved its contracting practices and compliance rate.

2.32 Recommendation. The Courts Administration Service and the Canada Industrial Relations Board should ensure that controls for procurement are applied rigorously and that transactions are conducted in accordance with the requirements of the Treasury Board Contracting Policy and the Government Contracts Regulations.

Courts Administration Service's response. The Courts Administration Service (CAS) agrees with the recommendation of the Office of the Auditor General on the issue of procurement contracting practices and has already taken action to address the findings. In 2006, the Service established a Contracts Review Committee to review contracts and their

files on a quarterly basis in order to ensure that they comply with the Government Contracts Regulations, the Treasury Board Contracting Policy, and CAS internal policies and procedures. In December 2005, the Service also established and staffed a senior contracting specialist position to ensure that controls were applied rigorously.

Canada Industrial Relations Board's response. The Canada Industrial Relations Board (CIRB) agrees with this recommendation. All managers have recently successfully completed the Canada School of Public Service's Authority Delegation online assessment course on procurement. All new managers are required to undergo similar training in procurement policy. The CIRB is currently staffing the position of Manager, Materiel Management and Administrative Services, and will ensure that the successful candidate is fully trained in contract management and procurement and rigorously applies the requisite policies and controls.

Executive travel

2.33 Federal public servants are often required to travel to carry out their duties. To establish a formal government-wide management and control framework for travel activities, the Treasury Board has issued two main policies—the Travel Directive and the Special Travel Authorities. The principle underlying the Travel Directive is “to ensure fair treatment of employees required to travel on government business.” The provisions contained in this directive constitute mandatory requirements for public service employees and provide for the reimbursement of reasonable expenses necessarily incurred while travelling on government business, to ensure that employees are not out-of-pocket. The Special Travel Authorities policy applies to travel of deputy heads, Governor in Council appointees, and executives and equivalents.

2.34 We assessed the management control procedures for executive travel and the procedures in place for authorizing business travel, issuing travel advances where necessary, ensuring that travel claims are submitted in a timely manner, certifying travel claims, and issuing reimbursements or collecting overpayments.

2.35 Exhibit 2.4 provides information on executive travel expenses in each entity for the period covered by our audit.

2.36 The Canadian Forces Grievance Board is using the Treasury Board Travel Directive and the Special Travel Authorities as its own policies. The policies of the Courts Administration Service and the Canada Industrial Relations Board are consistent with the Treasury Board Travel Directive and the Special Travel Authorities.

Exhibit 2.4 Executive travel expenses

Name of entity	Total number of expense items	Total value of executive travel expenses
Canada Industrial Relations Board	911	\$1,200,000
Canadian Forces Grievance Board	127	\$110,895
Courts Administration Service	686	\$936,635

Effective control procedures for executive travel are in place

2.37 We drew a random sample of executive travel claims as well as a number of high-value transactions in the three entities for review. We examined whether these transactions had been properly pre-authorized, certified, and supported with invoices and whether payments were authorized.

2.38 We found that adequate control procedures were in place at all three entities and that they were applied effectively.

Hospitality

2.39 It is government policy to extend hospitality in an economical, consistent, and appropriate way when it will facilitate government business or is considered desirable as a matter of courtesy. To ensure that economy and consistency in offering hospitality are maintained throughout the federal public service, and that hospitality spending is controlled and managed with prudence and probity, the Treasury Board has issued a Hospitality Policy that applies to most departments and agencies, including the three audited entities.

2.40 We assessed the management control procedures for hospitality expenses in the three entities. We focused on the processes for certifying hospitality claims and issuing reimbursements to employees.

2.41 Exhibit 2.5 provides information on the hospitality expenses in each entity for the period covered by our audit.

Exhibit 2.5 Hospitality expenses

Name of entity	Total number of expense items	Total value of hospitality expenses
Canada Industrial Relations Board	134	\$39,915
Canadian Forces Grievance Board	43	\$13,947
Courts Administration Service	447	\$160,691

Hospitality expenses are properly certified and supported

2.42 The Canadian Forces Grievance Board (CFGB) is using the Treasury Board policy as its own policy on hospitality. The policies of the Courts Administration Service (CAS) and the Canada Industrial Relations Board (CIRB) are consistent with the Treasury Board Hospitality Policy.

2.43 We drew a random sample of hospitality expense claims as well as a number of high-value transactions in the three entities for review. We examined whether these transactions were valid expenditures and whether they had been properly certified and supported with invoices.

2.44 We found that adequate control procedures were in place at all three entities and that they were applied effectively.

2.45 In addition to the random sample of claims and the high-dollar-value transactions, we reviewed some transactions from each entity's entire database of transactions for the period under review; this review was based on the names of the vendors and the nature of the transactions. We performed additional analysis and enquiry for these transactions and found that they were valid expenditures, properly certified, and adequately supported.

Executive compensation

Governor in Council—The Governor General acting on the advice of the Privy Council, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

2.46 Executive compensation comprises basic remuneration and benefits (see paragraphs 2.65 to 2.68). There are two main categories of executives—those appointed by departments and agencies and those appointed by the **Governor in Council** for either a fixed term or an indeterminate period.

2.47 The Treasury Board is responsible for establishing the terms and conditions of employment for public service executives and equivalents in departments and agencies. The Privy Council Office sets the terms and conditions of employment for Governor in Council appointees, and unless otherwise stipulated, they are the same terms and conditions as those approved by the Treasury Board for the executive group in the public service.

2.48 We assessed whether adequate management control procedures were in place for executive remuneration and benefits and whether the audited entities complied with relevant authorities. We focused on the processes in place to control and manage salaries, leave, severance pay, termination payments, and any other benefits that executives might receive.

2.49 Exhibit 2.6 provides details on our review of executive compensation in each entity for the period covered by our audit.

Exhibit 2.6 Compensation review of executives/equivalents and Governor in Council appointees

Name of entity	Number of executives or equivalents		Number of Governor in Council appointees	
	Reviewed	Total	Reviewed	Total
Canada Industrial Relations Board	11	11	21	21
Canadian Forces Grievance Board	16	16	11	11
Courts Administration Service	20	34	7	7

Executive compensation and benefits are managed in compliance with relevant authorities

2.50 We reviewed a number of compensation and benefits transactions for both Governor in Council appointees and executives in each entity. Overall, we found that effective controls are in place to ensure that executive compensation arrangements are managed in compliance with relevant authorities.

2.51 CIRB is granted authority to pay part-time Governor in Council appointees any fees that may be fixed by the Governor in Council through the *Canada Labour Code*. Those fees are provided in the various orders-in-council appointing individual part-time members. These orders-in-council and their supporting schedules provide that the rate payable to part-time members is a per diem rate. Government practice is to pay the full per diem fee for any work done in any given day. At the CIRB, we noted that the per diem remuneration for part-time Governor in Council appointees was prorated to the time spent working during any given day. This is inconsistent with government practice. The CIRB should review its practice of prorating per diem remuneration to ensure that it is correct in law and policy.

Human resources management

2.52 We examined whether the Courts Administrations Service (CAS), the Canadian Forces Grievance Board (CFGB), and the Canada Industrial Relations Board (CIRB) plan for and manage their human resources in a way to ensure that they have the people with the right skills and competencies to carry out their mandate. We focused on three areas that we considered to be the most critical to the entities achieving their objectives and that present the highest risk—human resources planning, performance management, and labour relations. Exhibit 2.7 presents the human resources profile of each entity.

Exhibit 2.7 Human resources profiles of the entities

	Canada Industrial Relations Board		Canadian Forces Grievance Board		Courts Administration Service	
Full-time equivalents	110		46		650	
Vacant positions (as of September 2006)	23	21%	8	17%	186	29%
Acting appointments (as of September 2006)	2	2%	3	7%	30	5%
Eligible for retirement in next five years	16	15%	12	26%	118	18%

2.53 Human resources planning is a process that identifies current and future human resources needs for an organization to achieve its goals. The process should serve as a link between human resources management and the organization’s overall strategic plan. The *Public Service Modernization Act* and the Treasury Board of Canada Secretariat Management Accountability Framework point to the importance of integrated planning for departments and agencies.

2.54 We expected each entity to have a strategic human resources plan that describes the composition and competencies of its current staff and indicates future staffing needs. The plan should also outline strategies to fill its workforce gaps in the short, medium, and long term and be aligned with the objectives and priorities of the organization.

The Canadian Forces Grievance Board has a human resources plan

2.55 We found that the CFGB has a human resources plan in place. This plan is well integrated with its operational plan, and it outlines human resources priorities and strategies aimed at ensuring that the organization will have a sufficient number of qualified employees to fulfill its mandate and mitigate its corporate risks.

2.56 CFGB data indicates a vacancy rate of 17 percent as of September 2006. Moreover, 26 percent of the Board’s employees are eligible for retirement in the next five years. Its human resources plan identifies succession planning, timely recruiting, and vacancies to be filled, as priorities to be addressed through a combination of internal and external recruitment.

Human resources planning is lacking in two of the entities

2.57 We noted that the Courts Administration Service lacks basic information needed to plan for and manage its workforce. It does not have a human resources plan; as a result, it does not have a complete picture of its current staff competencies and experience and its future staffing needs. We found no evidence of any human resources planning—with the exception of one succession planning initiative still at the early stage.

2.58 CAS data indicates a vacancy rate of 29 percent as of September 2006, which is very high for a small entity. Moreover, 18 percent of CAS employees are eligible for retirement in the next five years. This data reinforces the need for the organization to manage its human resources more strategically.

2.59 The CAS could not provide us with an exact number of vacancies for which it will have to recruit. While its human resources information system showed a 29 percent vacancy rate as of September 2006 (Exhibit 2.7), the CAS informed us that about 40 percent of those vacant positions were inactive—that is, they were considered redundant but had not been taken off the organizational charts. According to its best estimate, the vacancy rate was about 17 percent (110 positions); we could not validate those figures.

2.60 We also found a significant number of people in acting positions for periods of up to two years. As of September 2006, there were 30 appointments—5 executives (out of 9) and 25 non-executives—at a position level higher than the employee's classification level.

2.61 Finally, as a direct result of a staff shortage, one regional office had to borrow staff from other CAS offices. This arrangement resulted in an expenditure of more than \$80,000 for travel expenses, as well as more than \$248,000 in overtime payments and compensatory time off in 2006. Staffing measures were initiated only recently to address the issues related to vacancies and acting appointments.

2.62 At the Canada Industrial Relations Board, 21 percent of positions (23 positions) were vacant as of September 2006 and 15 percent of employees (16 employees) are eligible for retirement within the next 5 years. Management informed us that according to its best estimate, considering that some positions need to be abolished and others are purposely kept vacant, there are currently only 5 vacant positions to staff.

2.63 We noted that the CIRB has a document entitled HR Plan 2007–2009. This document, however, is in fact a calendar of activities for human resources priorities in the next two years and does not link the human resources priorities to the organization’s business goals; nor does it present an analysis of its workforce and of its gaps.

2.64 Recommendation. The Courts Administration Service and the Canada Industrial Relations Board should develop and implement human resources plans that clearly define their current and future human resources needs, that are integrated with their business plans, and that outline their strategies to fill current and projected gaps in their workforce.

Courts Administration Service’s response. The Courts Administration Service agrees with the recommendation of the Office of the Auditor General on the issue of human resources planning. This recommendation was also made in a recent internal audit of human resources management. As a result of that audit, the Service has accessed approximately \$933,000 in funding from the Canada Public Service Agency’s strategic investment framework for six initiatives under the *Public Service Modernization Act*. A key initiative being funded is the development of a human resources plan across the organization. The Service is currently working with a consultant to develop an action plan, and in the 2007–08 and 2008–09 fiscal years, the Service will be putting this plan into action. A key component of the action plan will be the provision of training and tools to senior management in order to ensure the sustainability of the process.

Canada Industrial Relations Board’s response. The Canada Industrial Relations Board (CIRB) agrees with this recommendation. The CIRB currently has a number of strategic plans and/or anticipated actions covering a range of human resources activities, such as employment equity, official languages, and succession planning. It will now move to integrate those existing plans into an overall comprehensive plan linked to business objectives. This will be completed in the 2007–08 fiscal year.

The performance pay management process lacks rigour in two of the entities

2.65 We expected that performance pay awards would be reasonable and based on clear objectives and on results against those objectives. We also expected that proper authorization would be obtained from central agencies, as stipulated in the Treasury Board Directives for the Performance Management Program for the Executive Group.

2.66 To ensure equity and consistency in performance assessment ratings of all executives across an organization, the Directives document requires entities to have a review mechanism, such as a review committee, for the performance evaluation cycle. The CFGB put such a committee in place in 2005. At the CIRB, the President reviews performance assessments. The CAS set up a committee for the Executive group in the 2005–06 fiscal year; however, at the time of our audit, none was in place for the other employees entitled to performance pay, even though this is a requirement under the CAS Performance Management Program.

2.67 We noted that certain performance pay awards at the CAS and the CIRB were based on incomplete performance assessments. The Treasury Board Salary Administration for the Executive Group Policy states that “no performance awards may be given to an executive in the absence of a signed performance assessment describing the commitments and achievements expected during the performance cycle.” In both organizations, we found performance assessments for executives and other employees entitled to performance pay that were incomplete, with no final or overall rating. Moreover, we noted a number of performance assessments for executives with no signatures of either the employee or the manager.

2.68 Recommendation. The Courts Administration Service and the Canada Industrial Relations Board should ensure that performance pay awards are based on complete performance assessments.

Courts Administration Service’s response. The Courts Administration Service agrees with the recommendation of the Office of the Auditor General on the issue of performance assessments. This recommendation was also made in a recent internal audit of human resources management. As a result of that audit, the Service now ensures compliance with the Performance Management Program of the Treasury Board of Canada Secretariat and our own internal policies through the monitoring and annual report of the Performance Review Committee. To ensure awareness, all executives provide a written attestation of their compliance with policy. No performance payments will be authorized for distribution where the Review Committee is not satisfied with compliance with policy, or where executives have not provided an attestation of compliance.

Further, the Human Resources Branch now reports on the quality of performance appraisals for executives to the Senior Management Committee, and training on drafting of performance appraisals has been provided to executives.

Canada Industrial Relations Board's response. The Canada Industrial Relations Board (CIRB) agrees that there have been shortcomings with respect to the performance management process and the maintenance of comprehensive file records of all completed performance assessments. The CIRB will rectify the process immediately, in the current year, and will ensure that all completed performance assessments are maintained by its Human Resources Unit. The CIRB will continue to ensure that performance agreements and assessments are prepared in accordance with government guidelines.

Frameworks are in place to manage labour relations

2.69 We expected each entity to have effective labour management relations that support a sustainable workforce. We reviewed the policies and processes in place for managing labour relations, and we interviewed management and staff, including bargaining agent representatives. We found that all three entities have put in place the framework to support and guide labour relations management, as required by the *Public Service Labour Relations Act* (PSLRA).

2.70 One important component of the PSLRA, which came into force in April 2005, is the requirement for each department and agency to establish and promote an Informal Conflict Management System (ICMS). The ICMS facilitates open and continued dialogue between managers and employees. It incorporates alternative dispute resolution methods into existing rights-based structures to form a multi-option conflict management system. The Act also requires each entity to establish, in consultation with the bargaining agents, a Labour Management Consultation Committee. This committee consists of agency and bargaining agent representatives whose role is to exchange information with staff and provide advice on workplace issues. We found that all three entities have implemented such a committee and have an ICMS in place.

2.71 We also noted that all three entities have implemented additional mechanisms aimed at fostering good labour relations, such as staff retreats, rewards and recognition initiatives, policies on preventing and resolving harassment in the workplace, and identification of harassment prevention coordinators.

2.72 Our interviews with employees at the CAS and the CFGB, as well as the results of the 2005 Public Service Employee Survey conducted in these two organizations, did not reveal any significant labour relations issues.

2.73 However, we found that the CIRB has been facing labour relations issues for a number of years, affecting a significant number of employees. Specific cases include documented complaints, conflicts between employees and between employees and managers, and external consultants' reports highlighting the need to address specific issues and improve the work environment.

2.74 We also found that the CIRB has been facing a significant turnover rate both at headquarters and in certain regions. Because the CIRB has conducted exit interviews only since February 2007, we were not able to determine the reasons for the increase in the number of people leaving the organization.

2.75 We noted that management of the CIRB has taken a number of actions to address some of the more pressing issues. Although some employees we interviewed considered that the situation had improved in the last two years, a good number also pointed out that there are still some important issues to be resolved.

2.76 Our discussions with the Chair and senior management revealed that they are fully aware of the issues that still need to be resolved. They indicated to us that some actions are under way and that others will be undertaken to address the remaining problems. We recognize that certain issues might take some time to resolve, and we will follow up at a later date.

Conclusion

2.77 The Canadian Forces Grievance Board is managing well in all of the areas covered by our audit. Contracting controls were weak during the early period of our audit but improved considerably in the last 18 months.

2.78 The Canada Industrial Relations Board has effective control procedures in place for acquisition cards, executive travel, and hospitality. However, it needs to apply more rigour in its controls for contracting. It also needs to tighten its controls for performance pay and to develop an integrated human resources plan. The Board has experienced internal labour relations problems for a number of years, affecting a significant number of employees. Our discussions with management officials indicated that they are fully aware of the issues that still need to be resolved. They indicated to us that some actions are under way and others will be undertaken to address the remaining problems.

2.79 The Courts Administration Service has effective control procedures in place for acquisition cards, executive travel, and hospitality. However, it needs to tighten its controls for contracting and to manage performance pay more rigorously. The Service has difficulty finding enough people with the required skills and competencies to fill its positions on a timely basis and has a significant number of people in acting positions. Yet it has done virtually no planning to address these problems.

About the Audit

Objective

The objective of our audit was to determine whether selected small entities have effective management control procedures in place for acquisition cards, contracting, executive travel, hospitality, executive compensation, and selected areas of human resources management—human resources planning, performance management, and labour relations.

Scope and approach

We selected three entities for our audit work: the Canada Industrial Relations Board, the Canadian Forces Grievance Board, and the Courts Administration Service. These agencies represent a cross-section of small entities within the federal government, in terms of size and range of functions.

The audit focused on the activities from 1 April 2004 to 30 September 2006. It did not cover the programs provided by the entities.

Our approach included analyzing various documents (policies and guidelines), examining files, and meeting with representatives from the audited entities. We interviewed senior managers and employees at all three entities, and we reviewed pertinent records from the entities.

Criteria

We expected that the selected small entities would

- have management systems and practices in place to ensure probity and prudence in the use of acquisition cards and that policies and procedures for their use are clear and consistent with Treasury Board policy,
- ensure that procurement contracts are awarded and administered with appropriate prudence and probity and in accordance with *the Financial Administration Act* and government contracting policies and regulations,
- ensure that spending on executive travel and on hospitality is adequately controlled and managed with prudence and probity and according to the *Financial Administration Act* and Treasury Board policies and regulations,
- establish and manage executive compensation arrangements according to public service values and in compliance with relevant authorities, and
- ensure that human resources are being managed effectively and in compliance with relevant authorities.

Audit work completed

Audit work for this chapter was substantially completed on 31 May 2007.

Audit team

Assistant Auditor General: Richard Flageole

Principal: Louise Bertrand

Directors: Jean Goulet and Julie Tremblay

Maryanna Basic

Esther Becker

Lucie Després

Andréanne Élie

Rebecca Husband

Patrick Leblanc

Yan Lehoux

Josée Maltais

Marie-Ève Viau

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Procurement contracting practices</p> <p>2.32 The Courts Administration Service and the Canada Industrial Relations Board should ensure that controls for procurement are applied rigorously and that transactions are conducted in accordance with the requirements of the Treasury Board Contracting Policy and the Government Contracts Regulations. (2.22–2.31)</p>	<p>Courts Administration Service’s response. The Courts Administration Service (CAS) agrees with the recommendation of the Office of the Auditor General on the issue of procurement contracting practices and has already taken action to address the findings. In 2006, the Service established a Contracts Review Committee to review contracts and their files on a quarterly basis in order to ensure that they comply with the Government Contracts Regulations, the Treasury Board Contracting Policy, and CAS internal policies and procedures. In December 2005, the Service also established and staffed a senior contracting specialist position to ensure that controls were applied rigorously.</p> <p>Canada Industrial Relations Board’s response. The Canada Industrial Relations Board (CIRB) agrees with this recommendation. All managers have recently successfully completed the Canada School of Public Service’s Authority Delegation online assessment course on procurement. All new managers are required to undergo similar training in procurement policy. The CIRB is currently staffing the position of Manager, Materiel Management and Administrative Services, and will ensure that the successful candidate is fully trained in contract management and procurement and rigorously applies the requisite policies and controls.</p>

Recommendation	Response
<p>Human resources management</p> <p>2.64 The Courts Administration Service and the Canada Industrial Relations Board should develop and implement human resources plans that clearly define their current and future human resources needs, that are integrated with their business plans, and that outline their strategies to fill current and projected gaps in their workforce. (2.52–2.63)</p>	<p>Courts Administration Service’s response. The Courts Administration Service agrees with the recommendation of the Office of the Auditor General on the issue of human resources planning. This recommendation was also made in a recent internal audit of human resources management. As a result of that audit, the Service has accessed approximately \$933,000 in funding from the Canada Public Service Agency’s strategic investment framework for six initiatives under the <i>Public Service Modernization Act</i>. A key initiative being funded is the development of a human resources plan across the organization. The Service is currently working with a consultant to develop an action plan, and in the 2007–08 and 2008–09 fiscal years, the Service will be putting this plan into action. A key component of the action plan will be the provision of training and tools to senior management in order to ensure the sustainability of the process.</p> <p>Canada Industrial Relations Board’s response. The Canada Industrial Relations Board (CIRB) agrees with this recommendation. The CIRB currently has a number of strategic plans and/or anticipated actions covering a range of human resources activities, such as employment equity, official languages, and succession planning. It will now move to integrate those existing plans into an overall comprehensive plan linked to business objectives. This will be completed in the 2007–08 fiscal year.</p>

Recommendation	Response
<p>2.68 The Courts Administration Service and the Canada Industrial Relations Board should ensure that performance pay awards are based on complete performance assessments. (2.65–2.67)</p>	<p>Courts Administration Service’s response. The Courts Administration Service agrees with the recommendation of the Office of the Auditor General on the issue of performance assessments. This recommendation was also made in a recent internal audit of human resources management. As a result of that audit, the Service now ensures compliance with the Performance Management Program of the Treasury Board of Canada Secretariat and our own internal policies through the monitoring and annual report of the Performance Review Committee. To ensure awareness, all executives provide a written attestation of their compliance with policy. No performance payments will be authorized for distribution where the Review Committee is not satisfied with compliance with policy, or where executives have not provided an attestation of compliance.</p> <p>Further, the Human Resources Branch now reports on the quality of performance appraisals for executives to the Senior Management Committee, and training on drafting of performance appraisals has been provided to executives.</p> <p>Canada Industrial Relations Board’s response. The Canada Industrial Relations Board (CIRB) agrees that there have been shortcomings with respect to the performance management process and the maintenance of comprehensive file records of all completed performance assessments. The CIRB will rectify the process immediately, in the current year, and will ensure that all completed performance assessments are maintained by its Human Resources Unit. The CIRB will continue to ensure that performance agreements and assessments are prepared in accordance with government guidelines.</p>

Report of the Auditor General of Canada to the House of Commons—October 2007

Main Table of Contents

Matters of Special Importance Main Points—Chapters 1 to 7 Appendices

Chapter 1	Safeguarding Government Information and Assets in Contracting
Chapter 2	Management and Control Practices in Three Small Entities
Chapter 3	Inuvialuit Final Agreement
Chapter 4	Military Health Care—National Defence
Chapter 5	Keeping the Border Open and Secure—Canada Border Services Agency
Chapter 6	Management of the 2006 Census—Statistics Canada
Chapter 7	Technical Training and Learning—Canada Revenue Agency

