

Review of WD's Quality Assurance Review Process — November 24, 2003

Prepared for: Western Economic Diversification Canada

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CONTENTS

Executive Summary	1
Introduction	2
Background.....	2
Objectives	2
Approach	3
Major Findings	4
1. Not a Quality Management Process.....	4
2. Lack of Consistency	5
3. Project Audits Not Performed Systematically	5
Recommendations	7
1. Quality Assurance Management Process.....	7
2. Standardized Forms and Files.....	7
3. Project Audit Policies and Procedures.....	8

EXECUTIVE SUMMARY

The Audit and Evaluation Department (“Audit and Evaluation”) of Western Economic Diversification Canada (“WD”) conducted a review of WD’s Quality Assurance Review (“QAR”) process. To assist with this review, WD contracted KPMG LLP (“KPMG”).

The findings of this review are based on interviews with WD management and staff in each of four regions and headquarters, and on a high-level review of representative project files. The findings, summarized below, are not region or program specific.

- The QAR process is limited to the completion of file content checklists for each of WD’s programs. The process does not encompass:
 - An independent review of file content quality and adherence to WD policies and procedures; or
 - Issue identification and reporting of review results.
- There is a lack of consistency across regions and programs with respect to the QAR process and the use of standard file structures and forms; and
- Projects are not being systematically audited.

Overall, the QAR process, as followed, is not effective at ensuring appropriate steps are taken and documented throughout the life cycle of WD projects.

This report recommends that WD:

- Build upon the QAR process to design and implement a comprehensive quality assurance management process;
- Standardize project-related forms and files across all regions; and
- Implement specific, formal audit policies and procedures for auditing contribution agreements (projects).



INTRODUCTION

Background

WD implemented the QAR process to help ensure project files contain documentation that demonstrates:

- Applications are reviewed and approved in a complete and appropriate manner, and that files contain “persuasive assessments based on relevant documentation to support decisions and to approve assistance¹,”
- Projects are monitored and evaluated, and funding is used for the purposes agreed; and
- “Resources are used efficiently, and payments and repayments occur in a timely manner¹.”

The QAR process is intended to address specific requirements in Treasury Board’s Transfer Payment Policy. The process is not a quality assurance process as is commonly thought of in a quality management context.

At the request of WD’s Project Assessment Tool (“PAT”) Committee, Audit and Evaluation assessed the degree to which the QAR process is functioning as an effective control against WD’s business risks.

Objectives

The objectives of this review were to:

- Provide an assessment of the degree to which the process is meeting its objective;
- Identify any significant opportunities to improve the effectiveness of the process; and
- Support the concurrent, risk-based review of the Projects Monitoring and Payment (“M&P”) function.

¹ QAR File Contents and Best Practices Checklist, Western Economic Diversification Canada

Approach

Number And Type of Initial Files Reviewed	
Regional Break-down	
Alberta	10
British Columbia	12
Manitoba	11
Saskatchewan	10
	43
Program Break-down	
WDP, ICIP	20
Service Delivery Network	7
ITPP and First Jobs in Science & Technology	5
CDA Foundation	2
Conference Sponsorships	9
	43

Number And Type of Interviewees	
Regional Break-down	
Alberta	7
British Columbia	8
Manitoba	7
Saskatchewan	5
Headquarters	5
	32
Functional Break-down	
Policy Management	4
M&P	7
Project Development Officers	8
Finance	7
Information Systems	5
	1
	32

The following activities were performed to complete this review:

- Conducted an initial high-level review of 43 files selected from the four regions. The sample was based on files listed in WD's GX financial system for the fiscal year 2002/03 that were listed as being complete or for which all approved funds had been disbursed. The sample included files from a cross-section of programs and represented small, medium and large contributions.

Files related to the Service Delivery Network were included in the sample, however the Community Futures program was excluded. This program was the focus of an external audit and evaluation in April 2003. The top table to the left provides a break-down of the files selected by region and program.

The results of the initial file review were further substantiated by findings from a second file review conducted as part of Audit and Evaluation's concurrent review of the M&P function.

- Interviewed 32 WD representatives to ascertain their perspectives on the effectiveness of the QAR process. Interviewees were also asked questions pertaining to the review of the M&P function. The lower table to the left provides a break-down of interviewees by region and function.
- Reviewed various documents related to the QAR process (e.g. process flows, sample forms, training materials).



MAJOR FINDINGS

This section presents three major findings:

1. The QAR process is not a quality management or project management process;
2. There is a lack of consistent practices among regional offices and programs; and
3. Projects are not being systematically audited.

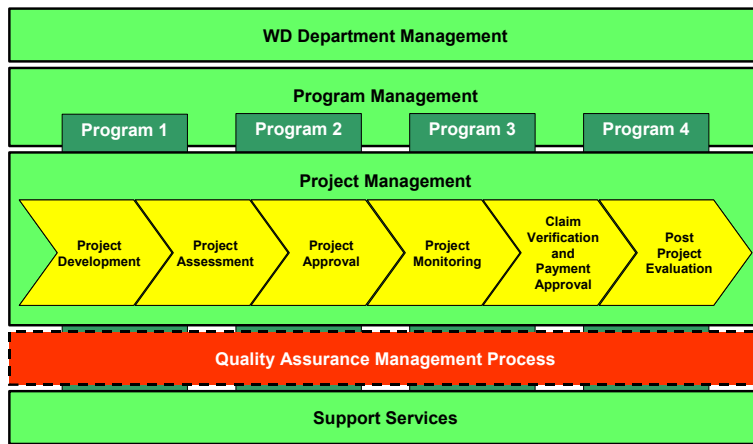
1. Not a Quality Management Process

The QAR process is limited to the completion of file content checklists designed for each of WD's programs. The process does not encompass:

- An independent review of file content quality and adherence to WD policies and procedures; or
- Issue identification and reporting of review results.

As such, it falls short of being a quality management process.

Buy-in to the QAR process is mixed, and on the whole, low. Some interviewees remarked, "what QAR process?" The file review provided evidence that the process is being followed "after the fact" or mechanically for the sake of compliance.



WD lacks a true quality assurance management process.

The QAR process is not helping WD officers or managers ensure that project files provide sufficient, documented evidence that adequate due diligence, project monitoring and claims verification activities were performed.



2. Lack of Consistency

There is a lack of consistency across regions and programs with respect to the QAR process and the use of standard file structures and forms. Specifically, the review identified the following:

- QAR checklists were completed and filed differently between regions. For example:
 - In some files, checklists were buried in the body of the file while others were filed with other final documents such as the project contract;
 - In some regions, each individual involved with the file partially completed a separate copy of the QAR checklist while other regions used one “master” checklist per file;
 - Some checklists were completed as the project progressed, others at the end of the project;
- The use of forms ranged from being extensive (e.g. claim assessment forms) to being very limited;
- Forms varied unnecessarily between regions and programs (e.g. QAR checklists, and claim assessment forms); and
- File structures and numbering systems varied between regions.

3. Project Audits Not Performed Systematically

The Western Diversification, and Innovation and Community Investment Programs (“WDP” and “ICIP” respectively) have project audit policies outlined in the Risk-Based Audit Frameworks (“RBAFs”) for WDP and ICIP. For example, the WDP RBAF requires that project audits be performed for all projects:

- With expenditures greater than \$1 million;
- With a high risk rating; and
- On a random basis.

This review determined that there is no systematic process for ensuring audits are performed as required by the RBAFs. Further, regions do not appear to be in strict compliance with the RBAFs. For example:

- For projects reviewed with a total contribution exceeding \$1 million or with a high risk level, there was no evidence on file of either an audit being performed by Consulting and Audit Canada, or an explanation as to why the audit was not performed (e.g. waived due to the nature of the client or project, audit performed by another contributing partner, or claims to date are not substantive);

- Discretionary audits of projects with contributions less than \$1 million are not performed routinely by all regions; and
- Regions that perform discretionary audits do so based on the judgment of the M&P officers (typically in response to a concern about the project or client), and in one case, based on a combination of judgment and random selection.



RECOMMENDATIONS

This review makes three recommendations to address issues noted among the findings:

1. Design and implement a quality assurance management process;
2. Standardize forms and file structures across regions; and
3. Formalize project audit policies and procedures.

Each of these recommendations is discussed below.

1. Quality Assurance Management Process

WD should build upon the QAR process to design and implement a comprehensive quality assurance management process.

To implement such a process, WD should define:

- Responsibility for overseeing the process;
- Quality standards relating to the completeness and quality of file documentation;
- Procedures that outline processes and responsibilities for:
 - File reviews and sign-off requirements;
 - Periodic, independent quality assurance reviews of selected files. Such reviews could be performed by a rotating, cross-regional team of staff representing Development and Assessment, M&P, and Finance;
 - Tracking and communicating the results of quality assurance reviews; and
- Initial and on-going training requirements for both the quality assurance management process itself, and specific areas identified as a result of the review process.

The review of the M&P function also identified a need for an enhanced quality assurance process.

2. Standardized Forms and Files

WD should standardize project-related forms and files across all regions.

The review did not identify a compelling reason for project-related forms and files to differ between regions. Further, there are many good forms and file practices used by individual regions that could be shared throughout WD. WD should perform a department-wide review of its project-related forms and file structures, and agree upon standards.

As part of this exercise, WD should define a central, coordinating

role to maintain and distribute forms, and to set filing standards.

This recommendation is consistent with recommendations in the M&P review related to the need for greater standardization and central coordination.

*3. Project Audit Policies
and Procedures*

WD should implement specific, formal audit policies and procedures for auditing contribution agreements (projects).

WD is in the process of developing specific audit policies and procedures to support the WDP and ICIP RBAFs. The audit policies should ensure a significant portion of project audits performed are either non-discretionary or randomly selected. This will help ensure decisions about auditing specific projects do not compromise WD's ability to objectively assess the degree to which contribution agreements are being complied with.

WD should ensure the resulting policies are understood and implemented consistently in all regions. Further, WD should, as part of a quality assurance management process, monitor compliance with the audit policy.

Again, this recommendation is consistent with recommendations contained in the M&P review.

