



Industry
Canada

Industrie
Canada

Industry Canada

Aboriginal Business Canada

Business Process and Monitoring

Final Report

January 2003

Canada 

Table of Contents

I. Executive Summary	2
2. Objectives, Scope, Approach and Criteria	4
Objectives and Scope	4
Audit Approach	4
Audit Criteria	6
3. Background of the Aboriginal Business Development Program	7
4. Audit Findings	9
4.1 Active and Closed Projects	9
4.2 Completed Projects	19
4.3 Rejected Applications	21
Appendix A - Audit Criteria	23
Appendix B - Action Plan	27

I. Executive Summary

The audit of the Business Process and Monitoring Process within the contribution programs of Aboriginal Business Canada (ABC) was carried out in accordance with the approved 2001-02 Internal Audit Plan. The objective of the audit was to assess the effectiveness of the controls over the Business and Monitoring Processes within ABC's contribution programs. The audit scope included the Ontario, British Columbia and Atlantic Canada regions as determined through a separate risk assessment conducted in 2001 that identified Business Process and Monitoring as the two highest risk areas within ABC. The audit was conducted in accordance with applicable auditing standards and included such tests as were considered necessary in the circumstances.

In general, controls are in place and are operating as intended within the Business Process area. The majority of projects examined were properly approved and in compliance with ABC policies and procedures, and all approved projects related to eligible costs within prescribed assistance limits and were clearly eligible under one of ABC's four strategic priority areas. However, the effectiveness and efficiency of these controls could be further strengthened through improvements in documentation controls. Documentation control weaknesses noted included inconsistencies in the use of standard forms and documentation between the regions, a lack of supporting rationale for project risk assessments documented in the files, insufficient or poorly organized documentation supporting discussions with applicants to support the assessment of project viability, and a lack of clear guidance on the nature and timing of project reporting for monitoring purposes in the standard Letters of Offer.

The auditors were informed that many of these issues are currently being addressed by ABC management through cross-country training sessions that commenced in June 2002, through which a new Low Risk Project Screening Form and simplified environmental assessment procedures are being presented to improve consistency across all regions. In addition, more rigorous and comprehensive monitoring guidelines are under development which may lead to the inclusion of more detailed monitoring provisions in the Letters of Offer and which outline standard risk criteria against which projects are to be assessed.

Opportunities exist to strengthen many aspects of ABC's monitoring activity. Overall, controls over progress claims for payment were found to be effective and operating as intended but may offer some opportunities for efficiency gains. Control weaknesses were also noted in some cases where payments had been approved despite the fact that certain conditions of the Letter of Offer had not been met. Further, opportunities exist to strengthen the controls over ABC's project performance monitoring practices. In general, no operational or performance project monitoring is occurring. Although claims for payment are thoroughly verified, monitoring of project activities and progress against the project work plan and objectives does not occur on a regular and timely basis. Similarly, although evaluations of the program as a whole have been conducted, formal evaluations of the impacts of individual projects and the extent to which project objectives were achieved has not occurred on a regular basis. The extent of monitoring procedures required to be performed on projects does not vary based on the

projects risk assessment, and may result in an inefficient and ineffective allocation of the project officer's time. In addition, there has been little consideration given to the need to undertake audits of recipients of contributions.

ABC management is aware of the need to strengthen its monitoring activity, and is developing tools and guidelines to improve existing practices. A Monitoring Guideline and a Risk Assessment Guide has been drafted that provides guidelines and criteria to determine the scope and nature of monitoring activity to be conducted on projects, based on the project's risk assessment. In addition, a Data Collection and Performance Indicator Framework has been drafted that identifies the key indicators that may be used for evaluation purposes. Further, four new Payment and Monitoring Officer positions are being staffed for the Toronto, Montreal, Winnipeg and Vancouver offices. These positions may provide a means to fill a quality control function within the Program.

2. Objectives, Scope, Approach and Criteria

Objectives and Scope

The objective of the audit of the Business and Monitoring Processes within ABC's contribution programs was to provide an independent and objective assessment of the effectiveness of the controls within these process areas and to determine whether an appropriate level of due diligence has been exercised in the initial approval of funding through to project monitoring and close-out. This included a determination of whether an appropriate level of due diligence had been exercised in the management of ABC funding through the existence of controls to ensure that funded projects are eligible and consistent with ABC's mandate and terms and conditions, that funding is used for intended purposes, and that an appropriate level of project monitoring occurs throughout the project life cycle.

The scope of the audit was limited to the Business and Monitoring Processes under the Aboriginal Business Development (ABD) program area within the Ontario, British Columbia and Atlantic regions. Based on an analysis of all client accepted offers between April 1, 2001 and February 26, 2002, these three regions represented approximately 32% of the total authorized assistance for all of ABC. The major stages in the Business and Monitoring Processes include the Pre-Approval Stage (Enquiry, Statement of Intent, and Assessment), the Approval Stage, Payment Stage, Monitoring Stage and Close-out Stage.

Audit Approach

The audit approach included a review of key program documents, consultations with management and officers in Head Office and the regions, and a review of a random sample of projects from all three regions.

The audit plan and audit criteria were developed based on consultations held with ABC management in Head Office and a review of key program documents, including ABC's Business Plan, the Formative Evaluation of the Aboriginal Business Development Program (ADBP), program literature and marketing materials, previous reports from Quality Assurance Reviews, Business Process Reviews, and Office of the Auditor General examinations and program policies and procedures as documented in the ABC Toolkit.

Contribution agreements were selected on a random basis from the Ontario, British Columbia and Atlantic regions representing all four strategic priority areas over a range of contribution amounts. A random sample selection was made to ensure that each file had an equal chance of being selected and to eliminate any bias in our selection process. The file review process incorporated three separate populations based on the life cycle of ABC projects: 1) active projects; 2) completed projects; and 3) rejected applications. The samples were selected from projects with an effective date from April 1, 2000 to March 9, 2002 and projects rejected and closed-out during this time period.

A) Active Projects

Region	# of Projects-Population	# of Projects-Sample	% Sample Allocation by Region	Authorized Assistance - Population	Authorized Assistance - Sample	% Sample Allocation by Region
Atlantic	55	29	34%	\$672,118	\$50,296	22%
Ontario	115	37	45%	\$3,475,206	\$1,102,866	54%
British Columbia	76	17	21%	\$1,829,890	\$474,625	24%
Total	246	83	100%	\$5,977,214	\$2,027,787	100%

As shown in the above table, a total of 83 projects were selected out of the population of 246, representing approximately 33.7% of the population for the three regions and 33.9% of the total authorized assistance of the active project population in the three regions.

B) Completed Projects

Region	# of Projects-Population	# of Projects-Sample	% Sample Allocation by Region	Authorized Assistance - Population	Authorized Assistance - Sample	% Sample Allocation by Region
Atlantic	0	0	0%	\$0	\$0	0%
Ontario	69	12	47%	\$1,826,240	\$195,456	34%
British Columbia	132	14	53%	\$2,761,020	\$379,422	66%
Total	201	26	100%	\$4,587,260	\$574,878	100%

A relatively small sample of completed projects was selected at ABC management's request, in order to confirm their assertion that performance monitoring was not being performed in the majority of cases. No completed projects were identified in the Atlantic region due to the fact that no projects had been formally closed within CMIS during the period under examination.

C) Rejected Applications

The rejected application population consisted of projects with an SOI (Statement of Intent) Decision Date on or after April 1, 2001 and an SOI Status Code of 20 (Statement of Intent Withdrawn/Rejected). A total of 256 rejected SOIs were listed in the CMIS database, and 32 applicant files were randomly selected from the database (every 8th file) for the purposes of sample selection. This resulted in the following distribution:

Region	# of Projects - Sample	% Sample Allocation by Region
Atlantic	6	19%
Ontario	24	74%
British Columbia	2	7%
Total	32	100%

All files selected in our sample were audited at ABC's Head Office in Ottawa and preliminary findings were summarized by region and presented to ABC management in Ottawa for initial feedback. Site visits were then conducted in Toronto and Halifax to present the summary of preliminary findings and obtain clarification on the findings.

Audit Criteria

The audit plan, submitted to ABC management in Head Office on March 11, 2002, described the criteria to be applied in the audit. The audit criteria define the standards against which ABC's processes and practices were assessed and were selected with reference to the Office of the Auditor General's *Audits of Grant or Contribution Programs*, Treasury Board's *Policy on Internal Audit*, and to standards and practices followed by ABC.

Audit criteria were developed for each key stage in the Business and Monitoring Process areas and are described in Appendix A of this report. Each of the criteria were tested through our audit of sample projects and through discussions with management.

3. Background of the Aboriginal Business Development Program

Aboriginal Business Canada's (ABC's) mandate is to work with Aboriginal entrepreneurs and business and financial organizations to promote the development, competitiveness, and success of Aboriginal businesses in Canadian and world markets.

ABC achieves its mandate through two main program lines:

- *Aboriginal Business Development Program (ABDP)* that consists of three program areas:
 - a) Aboriginal Business Development, a regionally delivered program providing funding to increase Aboriginal commercial enterprise activity by providing financial support to existing and potential Aboriginal businesses in four strategic priority areas;
 - b) Aboriginal Capital Corporations which provides funding to Aboriginal Capital Corporations who lend to aboriginal businesses; and,
 - c) Access to Capital through which ABC partners with aboriginal development organizations to ensure the Aboriginal Capital Corporations have access to capital.
- *Aboriginal Business Loan Insurance Program*, which is a nationally delivered program used to fund larger programs and to insure loans made by lenders where there are issues of security.

ABC operates under the guidance of the private sector National Aboriginal Economic Development Board through which it continues to respond to emerging opportunities for Aboriginal business growth in regional, national and international economies. ABC serves all Canadian Aboriginal peoples: Indians, on- and off-reserve, Metis and Inuit individuals, and organizations that are owned or controlled by such individuals. ABC operates through seven regional offices consisting of the Ontario, Quebec, Atlantic, British Columbia/Yukon, Alberta/NWT, Saskatchewan and Manitoba regions and through its head office in Ottawa.

ABC Funding and Delivery

Generally, non-repayable contributions to a maximum of \$75,000 are given to individuals and contributions to a maximum of \$250,000 are provided to community-owned projects under ABDP. ABC can make investments to a maximum of \$10 million under its Terms and Conditions where larger strategic investments with widespread regional benefits are identified.

The ABDP Program is delivered by ABC regional field offices and selected External Delivery Organizations. Decision-making for the approval of projects is based on a formal project proposal submission and approval process. All projects are delivered directly to the applicants

by the regional offices. Applicants are required to develop a business plan that address one of the four key priority areas. If considered viable, the project is approved.

Overview of Business and Monitoring Processes:

The major stages in the Business and Monitoring Processes include:

- (1) ***Pre-Approval Stage*** - this stage represents the initial contact between the potential client and ABC through to the initial assessment of the proposal. Once a completed Statement of Intent (SOI) has been received from the applicant, ABC analyses and investigates the SOI to determine project eligibility under the Terms and Conditions of the Program and government, department and Program policies and project viability, based on the assessment criteria detailed in the Program's Terms and Conditions and other analytical tools. The critical document in this phase is the Project Summary Form (PSF) that is prepared with a summary of the analysis and a recommendation for project approval or rejection.
- (2) ***Approval Stage*** - this stage represents the approval by the appropriate delegated authority to approve or reject the project. This entails submitting the completed PSF for approval to the appropriate authority, which depends on the Minister's delegation of authority and the size of the proposed contribution. Once approval is received, a Letter of Offer (LOO) is issued.
- (3) ***Payment Stage (Financial Monitoring)*** - this stage represents the payment process through which claims are received from the recipient and officers review and verify the claims to ensure that they are reasonable and accurate and properly authorized. Claims are then submitted to Financial Services for payment.
- (4) ***Operational and Performance Monitoring Stage*** - this stage consists of operational monitoring - confirmation that progress on the project based on the statement of work is completed and the project is implemented as stated, and performance monitoring - monitoring of on-going project performance.
- (5) ***Close-out Stage*** - for those projects completed, or terminated due to rejection/withdrawal of the application, or expiry of a LOO, a Close File action form is completed. This is typically done after the two-year monitoring period has passed.

4. Audit Findings

4.1 Active and Closed Projects

4.1.1 Pre-Approval Stage

Overall, controls in the pre-approval stage are in place and are operating effectively. The majority of files examined contained properly completed Statements of Intent, supporting business plans and Environmental Assessments. Statements of Intent were not found in only 9% of the files examined, which represents an improvement over the 2001 Quality Assurance Review (QAR) results where 17% of files examined did not contain completed Statements of Intent. Environmental Assessment Forms were not found in 13% of the projects examined. All projects examined were eligible under one of ABC's strategy priority areas.

In addition, Proposal Screening Forms were not used in any of the Atlantic files but were found in all British Columbia files and most of the Ontario files. Industry Canada's Program Services Board approved the use of a Low Risk Project Summary Form on May 23, 2002 that is currently being presented by ABC management to all regions. The new process will not require a Proposal Screening Form for projects that are clearly eligible but instead will require a verbal screening by the Development Officer with the appropriate Manager. ABC has developed specific criteria by project type that must be met to meet the low risk project classification and is in the process of conducting presentations and workshops across the country to ensure all employees are aware of the new process and its application in practice.

The following table provides a breakdown of more notable observations by region.

Observation	Atlantic	Ontario	British Columbia	Total
Statement of Intent not on file	3% (1 of 29)	14% (5 of 37)	6% (1 of 17)	9% (7 of 83)
Proposal Screening Form not on file	100% (29 of 29)	24% (9 of 37)	0% (0 of 17)	46% (38 of 83)
Environmental Assessment Form not on file	10% (3 of 29)	22% (8 of 37)	0% (0 of 17)	13% (11 of 83)

Issues:

a) Standard documents are missing from some files.

In files with missing documentation, such as Statements of Intent and Environmental Assessment forms, there is little evidence to support that an appropriate amount of due diligence has been exercised in the proposal assessment process. This may lead to approvals for projects that are not the most deserving or that will not prove to be successful. Through our consultations with management in Head Office and in the regions, it was stated that no projects are approved without a completed Statement of Intent. As such, the findings above may be as a result of misfiled Statements of Intent rather than to the absence of these documents.

ABC management is currently providing training across the country on environmental assessments, including the presentation of new tools available for use by the Officers. These include a Simplified Environmental Assessment Guide that is designed to provide Officers with the minimum amount of information required to proceed with any confirmation of completion of the environmental assessment process, detailed examples of projects and activities that are subject to environmental assessment (inclusions) as well as those that are not (exclusions), and specific criteria to be considered in assessing the adequacy of performing a simplified environmental assessment. This training should result in more consistency between the regions in terms of the documents retained on file and in the processes and procedures being followed.

Consideration should be given to following up on the implementation of the Low Risk Project Screening Process and the simplified environmental assessment procedures within the next year to ensure that the procedures are being applied accurately and consistently across all regions.

Recommendations:

1. Aboriginal Business Canada should follow up on training currently being conducted on the Low Risk Project Screening Process and Environmental Assessment procedures to promote its consistent application across all regions.

4.1.2 Approval Stage

Overall, the majority of projects examined contained proper approvals and complied with ABC policies and procedures. All projects approved related to eligible costs within prescribed assistance limits. In the vast majority of projects examined, Letters of Offer were dated on or after the date of project approval and were properly signed by the client. Project Summary Forms entitled Summary and Authorization (Contribution) forms were found in all but one file and the majority of these forms were completed properly.

Minor instances of non-compliance included:

- three instances in which projects were missing one of the required signatures for approval;
- five instances in which Amendments to the Letter of Offer were missing proper approval in accordance with the Delegation of Authority;
- six instances where project viability had not been assessed appropriately (e.g. missing financial information);
- four instances in which previous funding to the applicant was not documented on the PSF; and
- four instances in which there was a lack of proper approval confirming the availability of funds, either due to a missing signature or a signature dated after the project approval date.

Most projects examined provided an explanation of how the project will contribute to attaining the Program objectives. However, in 13% of the files examined, there was no supporting evidence regarding enquiries as to the availability of other sources of equity for the applicant and a lack of documentation supporting any discussions held between the applicant and the development officer. This was most prevalent in the Ontario region. In 21% of the Letters of Offer reviewed from the Atlantic region, discrepancies were noted between the conditions stated on the Project Summary Form (PSF) and the LOO. However, this was noted in only two instances in Ontario and not at all in British Columbia.

While there was evidence of discussions with the recipient in most files, these notes were generally not organized and could not be easily located. In some files, officers maintained neat and concise notes to file that summarized all consultations with the recipients on one form. However, in the majority of files, notes were scattered throughout the file and often were not easily understood (e.g. numbers and calculations on the back of a form with no reference as to which they referred). Also, in the majority of the files reviewed, the risk of the project was assessed on the PSF as either high, medium or low but did not include documented rationale to support the assessment nor did the risk assessment result in any variation in the extent of procedures or documentation maintained on the project.

The following table provides a breakdown of significant observations by region.

Observation	Atlantic	Ontario	British Columbia	Total
Lack of consistency between conditions in Letter of Offer and in Project Summary Form	21% (6 of 29)	5% (2 of 37)	0% (0 of 17)	10% (8 of 83)
Lack of documentation supporting enquiries of development officer as to availability of equity	14% (4 of 29)	9% (7 of 37)	0% (0 of 17)	3% (11 of 83)
Lack of documentation supporting discussions with applicant	0% (0 of 29)	24% (9 of 37)	6% (1 of 17)	12% (10 of 83)
Letter of Offer does not describe monitoring or follow-up provisions	100% (29 of 29)	97% (36 of 37)	88% (15 of 17)	96% (79 of 83)

Issues:

a) There is insufficient documentation on file supporting discussions held with clients, enquiries as to the availability of other sources of equity, and follow-up actions to be taken by the Development Officer.

The absence of complete file documentation creates difficulties in determining the current status of the project and in identifying issues and the status of their resolution. This becomes even more critical when files change hands or when issues arise that require attention, as there is no paper trail to provide a history of events on the project.

All discussions with the client, courses of action taken in the approval process, the client's next steps/how to proceed, and any follow-up undertaken should be documented and dated. It is recommended that all consultations with the applicant or representatives of the applicant be located in one place within the file, preferably at the front of the file to provide a clear history of these discussions and a clear identification of the Officer's last date of contact with the client.

b) The assessment of the project risk level on the Project Summary Form is not supported with any documentation.

The project risk level is simply noted on the Project Summary Form as being high, medium, or low without any supporting rationale documented in the file to aid in understanding the rationale behind risk ratings. This lack of supporting documentation does not demonstrate that the projects risk was appropriately assessed. In addition, the lack of documented criteria against which the project risk is assessed does not provide for any consistency in the assessment of project risk between officers and between projects.

ABC management has responded to this issue through the drafting of a Risk Assessment Guide that details the criteria against which projects should be assessed, and the resulting coverage requirements for monitoring projects based on low, medium and high risk classifications.

The Risk Assessment Guide should be completed and implemented on a timely basis across the regions to enable consistency in the risk assessments being performed by Officers and to guide future monitoring activity. Risk assessments should be performed at the funding decision stage. Criteria to be considered in the Risk Assessment Form could include dollar value of the contribution, time period covered by the contribution, and the strength of factors considered when assessing project viability, such as management capability, financial capability, etc. The level of risk determined should be brought forward and noted on the Project Summary Form, referring to the Risk Assessment Form. Comprehensive monitoring procedures should then be developed that are reflective of the projects risk rating. For example, high risk projects may require filing of project activity reports, site visits, etc. while low risk projects may not require any monitoring outside of claims verification and final reporting.

Recommendations:

1. Aboriginal Business Canada should ensure that all consultations with the client are formally documented in the file.
2. Aboriginal Business Canada should ensure that the project risk assessment guide is finalized and implemented.

4.1.3 Payment Stage

In all projects examined, claims were supported by detailed documentation of the costs being claimed and there was evidence that the Development Officer had verified the costs being claimed against this supporting documentation and against the eligible costs stated in the Letter of Offer. However, the working papers used by the Atlantic Region differed from those being used in Ontario and British Columbia (i.e. a Comparison of Costs Claimed form was used only in the Atlantic region, whereas the other regions made use of only a Contribution Verification Checklist).

In 16% of the files examined, payments were approved despite the fact that certain conditions of the Letter of Offer had not been met. These typically related to requirements for evidence of insurance to be provided prior to payments being made and requirements for final reports or business plans being provided prior to final payment being made.

The following table provides a breakdown of significant observations by region.

Observation	Atlantic	Ontario	British Columbia	Total
Requirements of Letter of Offer not met	17% (5 of 29)	5% (2 of 37)	35% (6 of 17)	16% (13 of 83)

Issues:

a) In some instances, the requirements of the Letter of Offer were not met prior to payment being approved.

The Letters of Offer identify a number of conditions which must be met prior to the approval of payment of claims, such as evidence that appropriate insurance coverage exists, receipt of final reports or business plans, etc. This is a key requirement to ensure that the project is progressing as planned and, in the case of final payments, that all client requirements have been fulfilled.

Consideration should be given to implementing a procedure through which Officers are required to cross-reference the conditions of the Letter of Offer to the supporting documentation in the file as proof that all conditions of the Letter of Offer have been met, particularly in the case of final payments.

Recommendations:

1. Aboriginal Business Canada should ensure that conditions in the Letters of Offer are cross-referenced to evidence in the file.

4.1.4 Monitoring Stage

In each of the projects examined during our file review, there were instances where no evidence of operational or performance monitoring was evident, such as the filing of annual financial statements, final reports or business plans. In those files where required documents had been filed, there was no evidence that the documents had been reviewed or assessed as part of the overall monitoring of the project. In addition, as previously noted, there were instances noted of the conditions or requirements of the Letter of Offer not having been met. Operational and performance monitoring was identified as a weakness in the 2001, 1998 and 1995 Quality Assurance Reviews and continues to represent an area where improvements could be made. Management is currently responding to this through the development of monitoring guidelines and tools.

While standard Letters of Offer were found in all files examined containing the clause “this agreement will terminate after the later of ... two years after the commercial project’s completion date” and some Letters contained a clause requiring annual financial statements to be filed by the applicant, in all cases examined there were either insufficient or no details provided in the Letters of Offer on specific monitoring requirements, such as reporting required to be submitted and the related timing of these submissions. In addition, although Letters of Offer contain a standard clause granting ABC the right to audit the recipient, this right had not been exercised in any of the projects in our sample. According to ABC management, ABC has historically had a low level of audit activity, primarily focused on large projects or projects where significant issues have arisen.

The following table provides a breakdown of significant observations by region.

Observation	Atlantic	Ontario	British Columbia	Total
Conditions/requirements of Letter of Offer not met or not documented	17% (5 of 29)	5% (2 of 37)	35% (6 of 17)	16% (13 of 83)
No evidence of project monitoring	100% (29 of 29)	97% (36 of 37)	88% (15 of 17)	97% (80 of 83)

Issues:

a) Little or no monitoring is currently conducted on projects.

Little evidence of operational or performance monitoring on files was noted with the exception of a few cases in which annual financial statements had been filed by the client. In those cases where financial statements had been filed, there was no evidence of any type of analysis or review of the statements on file. This applies especially to those projects of significant dollar value, projects of an on-going nature, or for longer-term projects.

Over the past few years, a number of federal government policies and frameworks have been released which stress the importance of monitoring not only the activity of grants and contributions projects, but also the impacts of those projects in demonstrating that funds have been used for intended purposes and that intended results have been achieved. As an initial input into any evaluation of the ABC program, it is necessary to have reliable data at the project level that measures the extent to which project objectives have been achieved and their respective link to ABC’s strategic objectives. Without ongoing project monitoring and evaluation of the critical success factors of ABC’s projects, the program will have difficulty in demonstrating the achievement of its objectives and the impacts of its funding.

In addition, project monitoring also assists in the identification of critical success factors of successful projects which may provide valuable information for ensuring that future funding is focused on those projects that will have a true impact in the achievement of ABC's objectives. Finally, ongoing monitoring of project activities and results is necessary to identify issues and problems on a timely basis to permit corrective action to be taken to contribute to overall project success.

ABC management is aware of this issue and is responding by developing tools and guidelines to improve existing practices. A Report on Monitoring Activity of ABC was conducted in July 2001 that concluded that existing ABC monitoring procedures were not being complied with in the majority of cases. In response to these findings, ABC drafted a monitoring guideline in the fall of 2001 through which it was recommended that a minimum level of monitoring activity was required from project inception to completion, but that the scope and nature of this activity should vary based on the dollar value of the projects, with more extensive procedures being conducted on higher dollar value projects. In addition, ABC has drafted a Data Collection and Performance Indicator Framework for the Aboriginal Business Development Program (ABDP) which identifies the key indicators that may be used to measure and assess the extent to which ABC's objectives have been achieved.

Finally, a work description for the new position of Payment and Monitoring Officer has been developed. When staffed, these officers will be responsible for coordinating and conducting financial and administrative monitoring and analysis of project submission requests for payments, performing site visits where necessary to verify reported project activity and financial information, and serving a quality control function in ensuring conformity to departmental guidelines and verifying that appropriate documentation exists on file. These officers will also be responsible for facilitating discussion and information exchanges on problem resolution and mutual projects between development officers, recipients, and other relevant parties. ABC intends to staff these positions in Toronto, Montreal, Winnipeg and Vancouver.

The project monitoring procedures currently under development should be finalized and implemented across all regions on a timely basis. Key considerations that should be incorporated into the monitoring process include the use of project risk assessments to drive the extent of documentation and monitoring required for individual projects. Detailed guidelines should be developed which specify the extent of monitoring and documentation required by level of risk, ensuring that higher risk projects require more documentation and more monitoring activity than do low risk projects. Sufficient project monitoring should be undertaken throughout the project to ensure the project is meeting its objectives and monitoring subsequent to the project end date should focus on assessing the extent to which the project continues to be a success.

The results of project monitoring should then be consolidated at the program level to assist in the measurement of the achievement of the Program's objectives and the identification of Program impacts. Monitoring or project activity reports that may be required by the recipient as part of the monitoring process should also incorporate measurements against the key performance

indicators identified in the Data Collection and Performance Indicator Framework to ensure that ABC is collecting the required data to evaluate project success and eventually the overall success of ABC. Self-monitoring by the client (such as the outsourced XDO position) may also assist in measuring the overall performance of the project.

b) Project risk assessments do not impact the procedures performed on the project.

In several instances where a project was assessed as low risk, the documentation on file and extent of work performed was the same as on projects assessed as high risk. Gathering the same amount of documentation and performing the same procedures for low risk files as those assessed as high risk leads to unnecessary additional work for little or no value and reduces resources (time, people) available to concentrate their efforts on projects that present higher risks.

In response to this issue, ABC management has recently drafted a Risk Assessment Guide which details the criteria against which projects should be assessed, and the resulting coverage requirements for monitoring projects based on low, medium and high risk classifications.

c) Letters of Offer do not provide sufficient detail of monitoring provisions.

In order to monitor a project's progress, periodic reporting on project activities against milestones and final reporting on the outcomes and impacts of the project are necessary. Reporting requirements and the related timing of these requirements should be clearly defined in the Letter of Offer to commit the client to providing the quality and quantity of information necessary for the Development Officer to track the success of the project and ultimately assess the effectiveness of the project in meeting Program objectives.

Standard Letters of Offer should be revised to incorporate more specific and more rigorous monitoring provisions, such as the filing of activity reports. The extent of monitoring required should be reflective of the project's risk assessment.

d) ABC has had a low level of activity in auditing recipients.

According to ABC management, none of the recipients in the sample have been audited. Historically, there has been a low level of audit activity in this area, focused primarily on larger projects or projects experiencing problems. ABC should formally define the criteria to be considered in selecting projects to audit and identify the nature of procedures that should be performed. The criteria should be risk-based to ensure that those projects of highest risk (eg. large dollar value, lack of compliance with reporting requirements, frequent revisions to payment claims) are selected for audit. This will help create a consistent, definable approach to audit activities as well as one that is based on standard criteria that consider the relative risk of each project, thereby ensuring that resources are allocated to those areas of greatest risk. In addition, it is recommended that some recipients be selected for audit on a random basis to provide for a sufficient coverage of recipients in the sample.

Recommendations:

1. Aboriginal Business Canada should strengthen its monitoring efforts through the following:
 - finalization and implementation of a risk-based approach to monitoring for all regions;
 - the finalization and implementation of the project risk assessment guide;
 - revision of Letters of Offer to incorporate specific monitoring provisions; and
 - development and implementation of risk-based audit criteria and procedures for the audit of recipients.

4.2 Completed Projects

For completed projects, a Close File action form is required. In addition, best practices in grants and contribution programs indicate that the success of the project in contributing to the achievement of program objectives should be assessed and measured in relation to key performance indicators.

In the sample of 26 closed projects examined, there was no evidence of an evaluation of the success of the project in meeting ABC's objectives and in identifying lessons learned or best practices to enable continuous improvement. There were also 21 instances (81%) in which there was no evidence that the requirements of the Letter Of Offer had been met prior to project closing. These would include evidence that appropriate insurance coverage existed, receipt of business plans or feasibility studies, final reports, receipt of financial statements, and other requirements. Further, there were 18 instances (69%) in which Closing Letters or Closed Action Forms were not on file.

The following table provides a breakdown of significant observations by region.

Observation	Ontario	British Columbia	Total
Requirements of Letter of Offer not met or not documented	67% (8 of 12)	93% (13 of 14)	81% (21 of 26)
Closed Action Form not on file	50% (6 of 12)	86% (12 of 14)	69% (18 of 26)
No evidence of evaluation of success of project	100% (12 of 12)	100% (14 of 14)	100% (26 of 26)
Letter of Offer not amended after project completion date	0% (0 of 12)	14% (2 of 14)	8% (2 of 26)

It was also noted that there are approximately 4,250 closed projects in the CMIS database (ie. projects with a Contract Completion Date on or before our sample selection date of March 9, 2002) that were still listed as active projects. This is due to officers and clerks not closing files within CMIS (i.e. moving them to the status code for Completed Project) on a timely basis.

Issues:

a) Little or no documentation exists regarding the evaluation of the project once completed.

Lack of supporting documentation to evaluate the success of the project makes it difficult to determine if the client needs were met and/or if the program's objectives were achieved. Further, it provides little in the way of providing opportunities for continuous improvement within the Program. As previously noted, ABC has drafted a Data Collection and Performance Indicators Framework for the ABDP which identifies key performance indicators against which the actual results and achievements of ABC may be measured.

At the completion of each project, the project should be formally evaluated, commenting on its successes and weaknesses. Lessons learned should be documented and related modifications incorporated into the project life cycle and best practices developed to facilitate continuous improvement. The identification and monitoring of critical success factors will also allow ABC to begin to create a history of successes and failures that can be used to determine whether strategic priorities should be changed and to assess whether different criteria should be reflected in the project risk assessment to ensure that resources are directed to those areas of highest risk.

Finally, existing Project Closing procedures should be modified to include the collection of data identified in the Data Collection and Performance Indicators Framework for ABDP to enable ABC to evaluate project success against a standard set of criteria. This in turn can then be rolled up and used to measure effectiveness and the achievement of objectives at the organizational level.

b) Projects are not formally closed within CMIS on a timely basis.

During the sample selection process, it was noted that a significant number of projects that are beyond the two-year monitoring period, and therefore are technically closed, are still listed as active projects within CMIS. This was confirmed through consultations with management and the regions. The lack of timeliness in formally changing the status of projects within CMIS may create difficulties in the ongoing management of the ABC contribution portfolio, as statistical data within CMIS may not be accurate.

Recommendations:

1. Aboriginal Business Canada should ensure that projects are formally evaluated at the end of the Letter of Offer term.
2. Aboriginal Business Canada should ensure that all projects included in the CMIS database reflect their proper status.

4.3 Rejected Applications

The sample of rejected applications was examined by reviewing the SOI Processing Screen on line for each application in the sample. There were four reasons for rejection in the sample selected:

- ineligible applicants;
- projects not being viable;
- ineligible products/processes; and
- applications being withdrawn by the applicant.

These reasons were not supported by any other additional information on screen. Based on our discussions with ABC staff and management, formal files of rejected applications are not retained as applicants are informed both verbally and in writing of the rejection and clarifications of the rationale for the rejection are assumed to be communicated through a phone call from the Development Officer.

Rejected applications are considered to be a low risk area, as the program has a culture of providing funding to all applicants who reasonably meet eligibility criteria and it is not likely that deserving applications would be rejected. In addition, the rationale for the rejected applications examined appeared reasonable. Therefore, controls over rejected applications are in place and appear to be operating effectively.

APPENDICES

**Aboriginal Business Canada
Business Process and Monitoring of Contributions
Audit Criteria**

The audit criteria as presented in the ABC audit plan dated March 11, 2002 were as follows:

A) Business Process:

Pre-Approval

Pre-approval criteria were designed to determine whether only eligible applicants and viable projects are considered for funding. Specific criteria examined under this objective included:

Program level:

- Potential applicants are aware of the program.
- Program officers understand who is eligible for funding, under what conditions, for what purposes and in what amounts.
- The program design is fully consistent with the *Policy on Transfer Payments*.
- Results expected from the program are clear, measurable, and directly related to program objectives.
- Eligibility and assessment criteria directly address and contribute to these expected results.

Project level:

- Applicant eligibility is proven and documented.
- Applicant has demonstrated the significance of the need or opportunity and how this need supports the Programs objectives.
- Applicant demonstrates appropriate knowledge and capability to undertake the project.
- Applicant has demonstrated that it has the necessary support structures to successfully complete the project.

Approval

Approval criteria were intended to determine whether only eligible applicants and viable projects are approved for funding and whether approved projects are properly authorized. Specific criteria examined under this objective included:

Program level:

- An appropriate segregation of duties between those who review and approve applications and those who approve payments exists.
- Guidelines covering conflict of interest among reviewers exists, is enforced and is monitored.
- A project review committee and/or checklist or standard appraisal form is used to ensure consistency in the application and approval process.
- Project selection criteria ensure that only eligible recipients are funded and appraisal procedures ensure that the successful applications meet the stated objectives of the Program.
- Assessment criteria supports program objectives.
- The most appropriate projects are selected based on consideration to the expected results and costs.

Project level:

- Project complies with program eligibility and assessment criteria.
- Other funding sources have been disclosed and compliance with Industry Canada's stacking policy has been verified.
- Project planning estimates (timing and budgets) are realistic.
- Appropriate analysis of the business plan has been summarized on the Project Summary Form (PSF).
- Consideration has been given to the need for an environmental assessment and where required, has been completed.
- Approval or rejection by a delegated authority based upon review of the PSF.
- There is certification by a responsible officer that sufficient funds were available in the appropriation before the agreement was signed under Section 32 of the FAA.
- Letter of Offer (LOO) issued for approved projects.
- The rationale for each funding decision is appropriately documented to permit appropriate supervision and review.

Letter of Offer (LOO)

Letter of Offer criteria were intended to determine whether agreements are signed with recipients that ensure that the funds are being used for the purposes agreed.

Project level:

- Terms and conditions in LOO is consistent with the Program's Terms and Conditions and the PSF and clearly outlines expected project results.
 - ▶ LOO meets effective accountability requirements including
 - ▶ statement of objectives;
 - ▶ clear understanding between parties on required outcomes or expected results before funding begins;
 - ▶ monitoring provisions based on assessment of risk; and
 - ▶ conditions that must be met to receive payments.

B) Monitoring Process:

Payment

Payment criteria were designed to determine whether project funding is being used for the intended purposes and whether only authorized claims are paid. This was assessed against the following criteria:

Program level:

- Proper financial controls have been designed and implemented to ensure that payments are subject to commitment control, account verification and payment requirements under Sections 32, 33 and 34 of the *Financial Administration Act*

Project level:

- Officers have complied with financial controls including:
 - ▶ Section 34 there is proof that performance conditions of the agreement were met before each payment was made
 - ▶ Section 33 proof that finance officer signing was assured that Section 34 was met prior to payment authorization.
 - ▶ Claims are reviewed for reasonableness and accuracy.
 - ▶ Claims are examined to ensure compliance with terms of LOO.
 - ▶ Advance payments are properly authorized on the PSF and LOO.
 - ▶ Advance payments are in accordance with Treasury Board guidelines.

Monitoring

Monitoring criteria were intended to assess whether compliance with contractual obligations throughout the project life cycle is monitored and to determine project successes and benefits. Specific criteria examined included:

Program level:

- Actual project results are measured and consolidated.
- There is on-going program information against the achievement of expected results.
- Reporting on project results is timely and accurate.

Project level:

- Progress reports are reviewed to ensure that project is progressing consistently with LOO and business plan.
- Where changes occur in a project, procedures are in place to determine whether to continue the funding.
- Terms of LOO have been met.
- Monitoring focuses on outcomes/results of activities.
- Problems with project performance are resolved quickly.

Project Close-Out

Project Close-Out criteria relate to assessing whether clients have repaid all repayable contributions and whether all reporting obligations have been met.

Program level:

- Mechanisms are in place to determine whether expected program results and objectives were met.
- Lessons learned from performance monitoring are incorporated into revisions of the program design.

Project level:

- Money owed under repayable contributions is collected.
- There is a process in place to determine whether the project was successful in contributing to expected program results.

ACTION PLAN
ABORIGINAL BUSINESS CANADA
BUSINESS PROCESS AND MONITORING

January 2003

**ACTION PLAN
ABORIGINAL BUSINESS CANADA
BUSINESS PROCESS AND MONITORING**

Preamble: This action plan addresses a number of operational improvements recommended by the Business Process and Monitoring Audit. A number of recommendations have been addressed and the remaining recommendations will be completed as outlined in the action plan.

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p>Pre-Approval Stage:</p> <p>Aboriginal Business Canada should follow up on training currently being conducted on the Low Risk Project Screening Process and Environmental Assessment procedures to promote its consistent application across all regions.</p>	<p>Low Complexity (Risk) Project Screening and Simplified Environmental Assessment procedures and tools have been completed and implemented. Training across all regions was conducted during Spring 2002.</p>	<p>Senior Management Team Quality Assurance Team</p>	<p>Completed June 2002</p>
<p>Approval Stage:</p> <p>1. Aboriginal Business Canada should ensure that all consultations with the client are formally documented in the file.</p> <p>2. Aboriginal Business Canada should ensure that the project risk assessment guide is finalized and implemented.</p>	<p>Client Contact Sheet will be developed and Executive Director will inform ABC staff that all significant consultations with clients and others are documented on file.</p> <p>Risk Assessment Guide, procedures and tools have been finalized and implemented. Executive Director informed staff to utilize new procedures.</p>	<p>Senior Management Team Quality Assurance Team</p>	<p>June 30, 2003</p> <p>Completed November 2002</p>
<p>Payment Stage:</p> <p>Aboriginal Business Canada should ensure that conditions in the Letters of Offer are cross-referenced to evidence in the file.</p>	<p>Initial Claim and Contribution Verification Checklist are being developed to ensure that project conditions are cross referenced with LOO. Executive Director will inform ABC staff to utilize updated procedures.</p>	<p>Quality Assurance Team</p>	<p>June 30, 2003</p>

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p>Monitoring Stage:</p> <p>Aboriginal Business Canada should strengthen its monitoring efforts through the following:</p> <ul style="list-style-type: none"> - finalization and implementation of a risk-based approach to monitoring for all regions; - the finalization and implementation of the project risk assessment guide; - revision of Letters of Offer to incorporate specific monitoring provisions; and - development and implementation of risk-based audit criteria and procedures for the audit of recipients. 	<p>Risk-based monitoring procedures and tools in development for implementation by Spring 2003. Project Risk Assessment Guide completed and implemented across all regions.</p> <p>Letter of Offer under review with assistance of Regions and Legal Branch.</p> <p>Draft RBAF completed and submitted to TBS for comment that outlines criteria for risk-based audits of recipients.</p>	<p>Senior Management Team Quality Assurance Team</p>	<p>March 31, 2003</p> <p>Completed November 2002</p> <p>March 31, 2003</p> <p>March 31, 2003</p>
<p>Completed Projects:</p> <ol style="list-style-type: none"> 1. Aboriginal Business Canada should ensure that projects are formally evaluated at the end of the Letter of Offer term. 2. Aboriginal Business Canada should ensure that all projects included in the CMIS database reflect their proper status. 	<p>As part of a new monitoring regime a new Business Performance Review form is being developed that will formally evaluate projects at the end the Letter of Offer term.</p> <p>Executive Director will remind ABC staff on a regular basis that projects in CMIS are to reflect their proper status.</p>	<p>Senior Management Team Quality Assurance Team</p>	<p>March 31, 2003</p> <p>Ongoing</p>

Approved:

Executive Director, Aboriginal Business Canada