
AUDIT AND EVALUATION
DIRECTORATE

DIRECTION GÉNÉRALE
DE LA VÉRIFICATION
ET DE L'ÉVALUATION

AUDIT OF THE BUDGETING, UTILIZATION
AND REPORTING OF FUNDING FOR THE
PROGRAM FOR SUSTAINABLE
AQUACULTURE
PROJECT # 2003-65143A
FINAL REPORT
SEPTEMBER 30, 2005



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1.0 EXECUTIVE SUMMARY

Background

In August 2000, Department of Fisheries and Oceans (DFO) launched its Program for Sustainable Aquaculture (PSA). The objectives of the PSA are to foster growth of a sustainable and internationally competitive aquaculture industry in Canada and to increase public confidence in aquaculture. The program reflects the federal government's commitment to increase scientific knowledge to support decision-making, strengthen measures to protect human health, and make the federal legislative and regulatory framework more responsible to public and industry needs. Specifically, the program allocates \$75 million over five years with an ongoing \$15 million each year thereafter in the following key areas:

- \$12.5 million for environmental and biological science to improve the federal government's capacity to assess and mitigate aquaculture's potential impacts on aquatic ecosystems;
- \$20 million for the Aquaculture Collaborative Research and Development Program (ACRDP), under which DFO partners with industry by jointly funding R&D projects to enhance sector innovation and productivity;
- \$20 million to strengthen the Canadian Shellfish Sanitation Program to maintain consumer and market confidence in the safety and quality of aquaculture products; and
- \$22.5 million to enhance the application of DFO's legislation, regulations and policies that govern aquaculture, particularly as they relate to habitat management and marine navigation.

The total funding was provided not only to DFO, but to Environment Canada and the Canadian Food Inspection Agency. DFO was allocated \$60 million, Environment Canada \$10 million and the Canadian Food Inspection Agency \$5 million. The Treasury Board Secretariat (TBS) allocation to DFO was provided as ongoing, A-base funding. This audit is concerned only with the DFO assigned component of the PSA, which represents \$12 million per fiscal year.

Objectives and Scope

The original Terms of Reference for this audit engagement made reference to a comprehensive examination of the financial management control framework for the PSA, including the degree of adherence to financial controls associated with the Sections 32, 33 and 34 of the *Financial Administration Act*. During the initial planning stage of the audit, we identified significant miscoding of PSA budget and expenditure data into the departmental financial systems. Due to these inadequacies in the audit trail, it was concluded that undertaking the audit based on the original TORs would not be cost-effective. The focus of the audit and the audit objective was revised as follows: to determine the extent to which the controls associated with the budgeting, utilization and reporting of PSA funds are adequate to ensure the financial integrity of the Program.

The audit scope included an examination of financial information and documents from April 2000 to March 2005. The audit was not intended as a complete review of the PSA program

management control framework nor a certification of the funds expended under the PSA program.

Key Findings

A Collaborative Accountability and Performance Reporting Framework (CARF) was submitted to Treasury Board Secretariat (TBS) in April 2001 setting out DFO'S key performance indicators, roles and responsibilities, budget allocations and reporting requirements. In addition, a specific coding structure was devised to account for all the PSA funding at DFO. The audit found that the financial controls specific for this program had significant gaps.

- Significant number of budgetary and expenditure entries were incorrectly coded into the departmental financial accounting system pertaining to the PSA.
- TBS provided \$56.1 million for Salaries and O&M, and \$3.9 million for Employee Benefits during the five year period that ended in FY 2004/05. By applying the formal PSA coding structure to identify PSA funding, the departmental financial system showed \$42 million were budgeted to the PSA and \$36.9 million utilized. The differences over the period are \$14.1 million less budgeted than allocated and \$19.2 million less utilized than allocated.
- The Audit Team focused on a representative fiscal year, FY 2003/04 to determine the specific nature of the significant discrepancies between the funds allocated to the PSA versus the funds reported as budgeted and utilized in the departmental financial accounting system. The discrepancy reported for FY 2003/04 between funds allocated to the PSA versus utilized was approximately \$2.8 million.
- As a result of detailed discussions with the Regions, the Audit Team was able to reconcile much of this discrepancy, reducing it from \$2.8 million to \$467,300.
- Given, acknowledged miscoding of financial transactions associated with the PSA much of this \$467,300 for FY 2003/04 can in all likelihood be attributed to miscoding. The Regions confirmed that the coding practices detailed in the analysis of FY 2003/04 PSA expenditure patterns were consistently used in the other years of the Program, thereby accounting for much of the discrepancies identified between PSA funds allocated versus budgeted and utilized for the other fiscal years of the PSA.
- The departmental functional authority for Aquaculture Management, the Office of Sustainable Aquaculture (OSA) and now the Aquaculture Management Directorate has not been able to exercise adequate controls on the funding allocated to the PSA.
- The role of Regional Aquaculture Co-ordinators in support of the Aquaculture Management Directorate's functional authority for Aquaculture lacks clarity and focus.
- Reporting of PSA performance was inadequate as there was no reporting requirement established to account for the utilization of PSA funding. Only one PSA report for FY 20001/02 was produced by OSA. In this report there was no reference to the actual utilization of PSA funds.
- We found there was no systematic ongoing monitoring of the utilization of PSA funding or adherence to the established PSA financial coding structure.
- PSA funding represents only a portion of the total Aquaculture funding of DFO. This has resulted in a lack of regional focus and commitment to separately tracking PSA funding.

Key Recommendations

The audit recommendations are:

- Reaffirm the role of the Aquaculture Management Directorate as the departmental functional authority for Aquaculture, supported in this functional role by the Regional Aquaculture Co-ordinators.
- Ensure coding of funds to PSA activities is facilitated and that all involved with the budgeting and utilizing of funds in support of the PSA understand and are committed to accurately coding these funds.
- Determine whether the current PSA financial management coding structure should be expanded to include all resources budgeted for and expended on Aquaculture. ACRDP funding would continue to remain visible as a separate entity due to industry contribution to DFO projects.
- Establish Service Level Agreements between Assistant Deputy Ministers involved in the Aquaculture Program and the Regional Directors General to ensure accountability for:
 - Key Aquaculture commitments in support of delivering on the Aquaculture Plan of the Minister of Fisheries and Oceans.
 - Funds budgeted and utilized in support of Aquaculture.
 - National consistency in reporting utilization of Aquaculture funding.

2.0 INTRODUCTION

2.1 BACKGROUND

In 1995, the federal government introduced the Federal Aquaculture Development Strategy (FADS) as the basis for an economic and regulatory environment in which aquaculture could prosper while ensuring public confidence and safety. In 1998, the Minister of Fisheries and Oceans appointed the Commissioner for Aquaculture Development as the champion for the aquaculture industry in relations with the federal government.

The Program for Sustainable Aquaculture (PSA), which began in the Fall of 2000, flows from these earlier initiatives, and responds to consultations with the aquaculture industry and stakeholders to determine priorities and challenges to the development of the industry while maintaining public confidence and safety, as well as protection of the marine environment. It is an ambitious program requiring an integrated horizontal management approach.

2.2 PROGRAM DESCRIPTION

The objectives of the PSA are to foster growth of a sustainable and internationally competitive aquaculture industry in Canada and to increase public confidence in aquaculture. To accomplish these objectives, the PSA has a number of components, several of which provide additional funding to existing areas with a focus on sustainable aquaculture and others which are new.

These components are:

1. Science and Research and Development – providing additional funding for biological science research at DFO and environmental science research at DFO and Environment Canada (EC) and a newly funded Aquaculture Collaborative Research & Development Program (ACRDP), performing contract research co-funded by DFO and the private sector;
2. Human Health – providing additional funding to DFO, EC and Canadian Food Inspection Agency (CFIA) in support of the Canadian Shellfish Sanitation Program (CSSP);
3. Regulatory Framework – additional funding to DFO to support applications under the *Navigable Water Protection Act* (NWPA) related to Marine Safety, and additional funding to DFO and EC to support aquaculture Habitat Management; and
4. Management Framework – new funding to DFO in support of policy and program coherence initiatives and establishment of the Office of Sustainable Aquaculture (OSA).

Together these components are intended to provide an integrated program, with mutually supportive elements to support continued development of a Canadian aquaculture industry, which will be sustainable over the long term.

[Section severed pursuant to s.69 (1)(g) re (c) of the ATIP] Funds were provided not only to DFO, but also to Environment Canada and the Canadian Food Inspection Agency. Although the subject audit is concerned with the DFO component, the complete Program is presented below for information and context. The overall Program is comprised of three components: an Improved Management/Regulatory Framework; Science and Research and Development (R&D);

and measures to address Human Health concerns. These three components consist of the following six program areas:

Component	Objective	Funding Level
Improved Management/Regulatory Framework		
Policy & Program Coherence	To maintain the Office of Sustainable Aquaculture at DFO which provides a sustained federal focus on aquaculture program components and related activities both within DFO and with strategic partners	2000-2002 \$1.75 million and 12 FTEs 2002-2003 \$1.5 million and 12 FTEs 2003-2004 and thereafter \$1 million and 9 FTEs
Marine Safety	To address measures to modernize, clarify, streamline and strengthen aquaculture policy and regulatory issues related to the <i>Navigational Waters Protection Act</i> (NWPA) and to support approval and monitoring of aquaculture works and sites under the NWPA;	2000-2001 – 2001-2002 \$1.5 million and 18 FTEs 2002-2003 and thereafter \$1.25 million and 16 FTEs Funds delegated by DM to RDGs and Commissioner, CCG
Habitat Management	To address policy and regulatory issues related to maintaining a healthy and productive aquatic environment	\$1.5 million (on-going) • \$1.25 million and 13 FTEs for DFO Resources distributed by Habitat Management \$.25 million and 2.5 FTEs for EC
Science and Research and Development		
Environmental & Biological Science	To be invested in environmental and biological science research to develop and implement effective area-wide strategies that will promote	\$2.75 million on-going • \$2.5 million and 16 FTEs for DFO – Administered by the DFO National Coordinating Committee for the Environmental Science Program

	the environmental sustainability of the aquaculture industry;	<ul style="list-style-type: none"> • \$.25 million but no FTEs for EC
Aquaculture Collaborative Research & Development Program (ACRDP)	Managed by DFO, to provide funds for R&D projects that are proposed and jointly funded with private sector partners;	2000-2001 \$3.5 million growing to \$4.5 million in 2003-2004 and thereafter. No FTEs. Administered by DFO Science Sector
Human Health		
Canadian Shellfish Sanitation Program (CSSP)	To strengthen measures to ensure the safety and quality of fish and fish products, further increasing consumer and market confidence in aquaculture products;	\$4.0 million on-going <ul style="list-style-type: none"> • \$1.5 million and 14 FTEs for DFO, • \$1.5 million and 6.5 FTEs for EC • \$1.0 million and 5.3 FTEs for CFIA

2.3 OBJECTIVES AND SCOPE

Objectives

The original Terms of Reference for this audit engagement made reference to a comprehensive examination of the financial management control framework for the PSA, including the degree of adherence to financial controls associated with the Sections 32, 33 and 34 of the *Financial Administration Act*. During the initial planning stage of the audit, we identified miscoding of PSA budget and expenditure data into the departmental financial systems. Due to these inadequacies in the audit trail, it was concluded that the cost to undertake the audit based on the original TORs would not be cost effective. The focus of the audit and the audit objective was revised as follows: to determine the extent to which the controls associated with the budgeting, utilization and reporting of PSA funds are adequate to ensure the financial integrity of the Program.

Scope

The audit scope was on the budgeting, utilization and reporting of the funding associated with the PSA. The focus was on the funding for the initial five year period of the PSA program that ended in March 2005. The audit was not intended as a complete review of the PSA program management control framework nor a certification of the funds expended under the PSA program.

2.4 METHODOLOGY AND APPROACH

Methodology

The Audit Team conducted a detailed analysis of the financial data recorded in DFO's financial system.

In addition, the Audit Team conducted interviews and gathered pertinent information from all Regions and in Headquarters. Selected regions were visited and information was gathered from the remaining regions via telephone and centrally accessible financial systems of DFO. Policies, guidelines, procedures, practices and controls were examined as they pertained to the budgeting, utilization and reporting of PSA funding

2.5 LINES OF ENQUIRY AND AUDIT CRITERIA

Overview

The following is an overview of the lines of enquiry and audit criteria that were pursued by the Audit Team to assess the adequacy of the financial controls associated with the budgeting, utilization and reporting of the PSA.

Lines of Enquiry are the broad subject headings describing areas determined, during the Planning Phase, to be the most productive for this audit. Each Line of Enquiry is accompanied by audit criteria, which was used to assess the adequacy of the financial control framework.

1. Line of Enquiry: Overall Financial Management Control Framework of the departmental component of the PSA

Audit Criteria

- 1.1. *Collaborative Accountability and Performance Reporting Framework (CAPRF)* – created, approved by management and implemented.
- 1.2. *Standards* - Financial policies, procedures and guidelines established, documented, approved and communicated.
- 1.3. *Standards monitored* - Ensure that standards are updated for relevance.
- 1.4. *Roles and responsibilities* - Defined and communicated.
- 1.5. *Monitoring* – Ensure financial management practices are applied consistently across PSA.

2. Line of Enquiry: Budgeting, Accounting for and Financial Reporting for the departmental component of the PSA

Audit Criteria

- 2.1. *Framework* - Reporting needs are identified and established.
- 2.2. *Preparation* – Regular review of reports for completeness, accuracy & compliance.
- 2.3. *Approval* - Senior management reviews and approves reports.
- 2.4. *Communication* – Expectations and results are known to staff.
- 2.5. *Accounting policies* – Defined and communicated.
- 2.6. *Data classification* - Defined, documented and used. Policies are in place.

2.7.Reporting Requirements – Implemented as per CAPRF that was submitted to TBS.

3.0 OBSERVATIONS

3.1 OVERVIEW ANALYSIS OF BUDGET AND EXPENDITURE PATTERNS

A special coding structure was established for the Program for Sustainable Aquaculture when funds were first allocated to DFO in fiscal year 2000/01. The financial guidelines for the PSA consisted of a simple coding structure to trace budgets and expenses. The funds were broken down into two major categories: Salaries and Operating & Maintenance (O&M). For the majority of the Department's coding of O&M and Salary transactions, the coding structure utilizes an allotment code number 110 for Salaries and 120 for O&M. For the PSA, a special project code number "90300" was assigned for budgets and expenditures related to the PSA. As an additional way to distinguish PSA transactions, a special allotment code of 121, rather than 120, was assigned to account for PSA related O&M budget and expenditures items.

Regional financial officers are aware of the above coding structure. However, the coding of actual transactions is carried-out at the responsibility centre level where adherence to financial coding conventions is less certain. The importance of utilizing the special PSA financial coding structure was not strongly emphasized or reinforced over the first years of the PSA Program.

The Audit Team obtained various financial reports of all budgeted and expended amounts from fiscal year 2000/01 to 2004/05 from the department's financial system (ABACUS). This was done to trace the approximately \$12 million yearly allocation. Our analysis revealed that the Treasury Board Secretariat provided \$56.1 million for Salaries and O&M and \$3.9 million for the Employee Benefit Plans for a total of \$60 million. The departmental financial system showed \$42 million in budgets allocated to the PSA across the department and \$37 million in actual expenditures. Schedules 1 and 2 attached, clearly show that over the five year period the budgeted amount allocated and recorded in the DFO financial system, ABACUS, in comparison to the funds received from the Treasury Board Secretariat is consistently lower.

The Audit Team performed a detailed analysis of one fiscal year to attempt to ascertain the specific nature of the variances. The Audit Team chose FY 2003/04 as a representative PSA year in order to perform the detailed analysis to determine the cause for the significant discrepancies between funding allocated under PSA and amounts recorded in the financial system of DFO. This analysis identified evidence of deviation from the formal financial coding structure established for the PSA which accounted for a large part of the discrepancy initially identified between the amount of funds allocated to the PSA versus budgeted and utilized.

The following Section 3.2 describes in detail the nature of the financial coding anomalies that resulted in the majority of the under-reporting of PSA funds budgeted and utilized when compared to the original Treasury Board Secretariat allocation.

3.2 MAJOR CAUSE OF DISCREPANCY – LACK OF UNDERSTANDING AND USE OF FORMAL PSA FINANCIAL CODING STRUCTURE

As stated above, FY 2003/04 was selected as the most appropriate year to perform an in-depth analysis of PSA expenditure patterns. FY 2000/01 was not chosen as a representative year

because it was the start-up year for the PSA and funds were only allocated to DFO mid way through the FY. The second year was not chosen as representative because funding allocated to regions under the ACRDP component of the PSA was not approved until after September 2001. Due to this late ACRDP allocation, \$1.4 million carried forward into FY 2002/03, making this year non-representative. The last year of the program (2004/05) was not completed when the audit commenced. In addition, there were no financial budget or expenditure transactions coded to PSA for the Canadian Coast Guard Sector (CCG) because the PSA component of the CCG was transferred to Transport Canada.

The Audit Team obtained a copy of the PSA yearly funding model, as shown on Schedule 3 attached. This model identifies the various organizational entities in DFO as well as other Federal Government organizations receiving PSA funding.

The Audit Team undertook to analyze the PSA budget and expenditure patterns in relation to the funds formally allocated to the Program. The formally recognized key determinants of PSA accounting for funds, that is an allotment code of 121 and/or a Project Code of 90300, were used to identify funds budgeted and utilized against the PSA. The attached Schedules 4 and 5 highlight the funds allocated by the Treasury Board Secretariat versus the DFO budget allocation and actual expenditures recorded, under Salary and O&M, by Sector and Region for the FY 2003/04. Schedule 5 reflects the practice of initially allocating all of the funding associated with the Aquaculture Collaborative Research and Development Program (ACRDP) to the Headquarters Science Sector and the subsequent reallocation of these funds to the Regions.

A review of the Salary dollars allocated versus utilized reveals that in all regions, except the Maritimes, there were more Salary dollars reported utilized than allocated. In the Maritimes Region, the PSA allocation of \$145,000 to Fisheries Management and \$238,700 to the Canadian Coast Guard were not coded to the PSA Project Code of 90300 but to Project Code 00000 thereby losing the linkage to the PSA in the departmental financial system. When all regions are considered, the net difference in Salary dollars allocated versus utilized resulted in a positive variance of \$19,400.

A different pattern, however, emerged for O&M funding, where approximately \$2.8 million less was formally reported as utilized than allocated. The Audit Team examined the O&M difference by Region. As with Schedule 5, Schedule 6 presents the Treasury Board Secretariat allocation of O&M by Region and the reallocation of ACRDP funds from Headquarters to the Regions.

In discussions with the Regions concerning these variances, it was deduced that a significant amount of the discrepancy between funds allocated to the PSA and funds budgeted and utilized could be linked to the ACRDP component of the program under the Science Sector.

To focus in detail on ACRDP expenditure patterns, the Audit Team initially conducted a detailed analysis of the ACRDP related expenditures in the Maritimes and Pacific Regions. This analysis identified that a major factor causing the discrepancies between the O&M funds allocated to regional ACRDP versus budgeted and allocated was the coding of transactions that took place when O&M dollars were converted to Salary dollars. This conversion was necessary because ACRDP allocations were in O&M dollars only, however, Salary dollars were required for ACRDP projects. Salary dollars were not coded to the special PSA supplementary project code

of 90300 because the Regions used different Project Codes to track the different regional ACRDP projects. As a result the O&M dollars converted to Salary dollars were no longer formally linked via the 90300 Project Code to the PSA in the departmental financial reporting system.

The Pacific Region coded all O&M funds converted to Salary dollars using a Project Code 00000. In the Region, \$256,000 of ACRDP funding was miscoded in this fashion on the conversion of O&M to Salary thereby reducing the amount of funds attributed to the PSA by the same amount. In addition, the Pacific Region reallocated \$129,000 of ACRDP funding outside of the PSA to cover general regional funding shortfalls as well as \$285,000 reallocated from the ACRDP to a priority Sea Lice Project. The Sea Lice Project, although not considered part of the PSA was supportive of the overall Aquaculture Program.

In the Maritimes Region, the O&M funds converted to Salary were coded against the unique, regionally assigned ACRDP Project Codes that replaced the 90300 Project Code. The Gulf, Newfoundland, Quebec and Central and Arctic Regions also confirmed the funds converted to Salary dollars were assigned unique regional ACRDP Project Codes to allow the linkage of the funds to the PSA via these ACRDP Project Codes.

Based on the knowledge that the ACRDP Salary funding was coded against unique, regionally assigned Project Codes, the Audit Team was able to create a special report from the departmental financial system which identified the budget and utilization of Salary dollars expended against the unique ACRDP Project Codes and hence attributable to the PSA. As a result of this analysis an additional \$1.279 million in Salary was identified as pertaining to the PSA. Using the 20% conversion factor, this \$1.279 million in Salary converts back to \$1.535 million in originally allocated O&M.

When the \$1.535 million of O&M converted to Salary expenditures linked to the PSA through unique Project Codes is considered, the discrepancy between PSA allocated O&M funding and that utilized is not \$2.8 million but \$1.521 million. Further, the detailed analysis of PSA expenditure patterns in the Pacific Region, as noted above, can account for an additional \$670,000 of the discrepancy. The miscoding of Maritime Region's CCG and Fisheries Management Salary dollars to Project Code 00000 rather than 90300, referenced above, accounts for a further \$383,700 of the discrepancy. When all the above known instances of miscoding and reallocations from the PSA are considered, the total amount of PSA funding that could not be fully accounted for is reduced from the \$2.8 million that was originally identified using the formal PSA coding structure to \$467,300.

Given acknowledged miscoding of financial transactions associated with the PSA much of this \$467,300 for FY 2003/04 can in all likelihood be attributed to miscoding. The Regions confirmed that the coding practices detailed in the analysis of FY 2003/04 PSA expenditure patterns were consistently used in the other years of the Program, thereby potentially accounting for much of the discrepancies identified between PSA funds allocated versus budgeted and utilized for the other fiscal years of the PSA

Conclusion

A significant part of the differences between the allocation of funding for PSA and the amounts formally recorded against Allotment Code 121 and/or Project Code 90300 in the financial system of DFO relates to coding of the ACRDP financial transactions. The major contributing factor for the differences was the conversion of O&M dollars to Salary dollars without the application of the assigned project code 90300 in conjunction with the 110 Salary allotment code. However, when the regionally generated unique ACRDP Project codes are used to identify Salary dollars linked to ACRDP, much of the discrepancy can be accounted for.

Other coding anomalies identified during the audit, apart from those related to the ACRDP contribute to obscuring a clear statement and understanding of how much O&M and Salary dollars are budgeted and expended on the PSA. If the unique, regionally assigned ACRDP Projects Codes were acknowledged as part of the formal departmental financial coding structure, efforts to track PSA related resources would be greatly facilitated.

The evidence gathered during this audit suggests that the variance found between funds allocated, budgeted and spent on PSA resulted from the lack of formal recognition of regional ACRDP coding practices as well as instances where other formal PSA financial coding practices were not adhered to.

The lack of adherence to the established formal PSA coding structure was not formally addressed for the first five years of the Program. This includes the use of regionally generated unique ACRDP Project Codes to track Salary dollars, a practice that was never formally recognized as part of the PSA financial coding structure. This control weakness points to overall weaknesses in the PSA financial management control framework. These weaknesses are described in detail in the section below – PSA Financial Management Control Framework Weaknesses

3.3 PSA FINANCIAL MANAGEMENT CONTROL FRAMEWORK WEAKNESSES

Overview

Ministers from the three respective departments were to establish an on-going monitoring process for initiatives funded by the Program within the respective departments. It required that a Collaborative Accountability and Performance Reporting Framework (CAPRF), which among other things, set out key performance indicators and the roles and responsibilities of the partners, be created and implemented by DFO's Office of Sustainable Aquaculture (OSA).

As a result, OSA in collaboration with key partners including Environment Canada (EC), the Canadian Food Inspection Agency (CFIA), OCAD and the DFO Audit and Evaluation Directorate, submitted a CAPRF to the Treasury Board Secretariat in April 2001 which set the basis for the reporting requirements.

An annual review by a program governance body was required to report on the progress made in each of the program areas/elements against the established result statements set out in the CAPRF. The governance body (National Management Board for the PSA) was subsequently

obliged to determine those program areas/elements not meeting their goals and to make recommendations for improvement, including reallocation of funds from one program area/element to another if necessary.

Findings

The DFO management structure for the Program for Sustainable Aquaculture is very complex as it covers a number of business lines within five sectors and six regions. For the most part, the total amount for PSA was annually distributed directly to the Regions and Headquarters organizations involved in the PSA as part of their respective A Bases.

The OSA was charged with developing and coordinating a horizontal management and integration of PSA program implementation. The Audit Team found that the lack of controls over PSA funding can be directly attributed to weaknesses in the exercise of functional authority over the Program. The departmental Functional Authority for Aquaculture Management – OSA and now the Aquaculture Management Directorate (AMD) has not been able to exercise adequate controls on the funding allocated to the PSA. The following are the primary causes for this lack of control.

- ***Lack of Clarity and Focus Pertaining to Role of Regional Aquaculture Co-ordinators in Support of OSA Functional Authority for Aquaculture.*** - The Regional Aquaculture Co-ordinators (RACs) have not been funded from the regional PSA allocations to the Regions but funded by the Regions on a risk basis. In addition, the RACs are organizationally situated in various Sectors in the Regions. As a result, the communication and relationship between the departmental Aquaculture functional authority, the OSA, and the RACs has for the most part, not been strong.
- ***Inadequate Formal Reporting of PSA Performance*** - Under the Collaborative Accountability and Performance Reporting Framework (CAPRF) established at the outset of the PSA, annual reports were to be made which set out the progress made in advancing the PSA. There was no performance report for the fiscal year 2000-2001 because PSA funding was provide halfway through the fiscal year. The OSA, after extensive consultation with the regions and sectors, developed enhanced reporting templates for use in fiscal year 2001/02.

The fiscal year 2001/02 performance report was a comprehensive document highlighting the Department's objectives, expected outputs and outcomes, and achievements. The report also presented issues and challenges and the budgeted dollars by sectors for the five year program. However, the report provided no comparison of actual spending to the budgets allocated for the first two fiscal years of the PSA. The report was submitted to Departmental Management Committee (DMC) and the Treasury Board Secretariat in 2003.

No further PSA annual reports were completed by the OSA. The only other report developed was a business case drafted in 2003, which was prepared by the OSA, to justify increases in resources for both the regions and sectors in order to address perceived funding shortfalls.

- ***No Systematic Ongoing Monitoring of the Utilization of PSA Funds or Adherence to the PSA Coding Structure*** – As stated above, only one formal PSA Annual Report was produced, however, it did not report any information on fund utilization. No adequate financial monitoring system was established to monitor and track the utilization of PSA funds by the Regions. If such a system had been established the lack of adherence to the formal PSA coding structure would have been discovered in the initial years of the Program and rectified.
- ***PSA Funding Represents only Part of Total Aquaculture Funding*** - Total regional risk managed contribution to Aquaculture has grown to be significant compared to the \$11M to \$12M of PSA annual funding. Total departmental funding for Aquaculture is now conservatively estimated to be \$22-24 M. The fact that the PSA funding is only approximately fifty percent of the total departmental Aquaculture expenditure explains in part, the lack of regional focus and commitment to the separate tracking PSA funding.

Conclusion

The lack of controls on the expenditure accounting for PSA funds resulted from the inability of the OSA to exercise adequate functional authority over this aspect of the Program. Financial monitoring systems were not established to ensure adherence to the established PSA coding structure. Therefore the information contained in the official departmental financial systems pertaining to the PSA is inaccurate or subject to misinterpretation...

The PSA currently represents only about half of all departmental funding directed at supporting the Aquaculture Management function. Given that the Program Activity Architecture of DFO places a high degree of emphasis on the overall Aquaculture Program, it would be potentially more important to monitor and accurately report on the entire departmental Aquaculture initiative rather than on just the PSA. If this more global approach to monitoring Aquaculture budget and expenditures was adopted it would remain important to be able to identify the ACRDP within the Aquaculture Program because of the industry contributions to ACRDP projects.

3.4 RECOMMENDATIONS

Recommendation 1

The Deputy Minister should reaffirm the role of the Executive Director, Aquaculture Management, as the departmental functional authority for Aquaculture, supported in this functional role by the Regional Aquaculture Co-ordinators.

Recommendation 2

The Executive Director Aquaculture Management, working collaboratively with the Director General of Finance and the Director General of Program Planning and Coordination – Fisheries and Aquaculture Management, should ensure that a formally recognized methodology is adopted to facilitate the tracking of ACRDP project Salary dollars. In

addition, they should ensure that all involved with the budgeting and utilizing of funds in support of Aquaculture understand and are committed to accurately coding these funds.

Recommendation 3

The Executive Director Aquaculture Management, working collaboratively with the Director General of Finance and the Director General of Program Planning and Coordination – Fisheries and Aquaculture Management, should determine whether the current Program for Sustainable Aquaculture financial management coding structure should be expanded to include all resources budgeted for and expended on Aquaculture. ACRDP funding would continue to remain visible as a separate entity due to industry contribution to DFO projects.

Recommendation 4

The Executive Director Aquaculture Management should coordinate the establishment of Service Level Agreements between Assistant Deputy Ministers involved in the Aquaculture Program and the Regional Directors General to ensure accountability for:

- Key Aquaculture commitments in support of delivering on the Aquaculture Plan of the Minister of Fisheries and Oceans.*
- Funds budgeted and utilized in support of Aquaculture.*
- National consistency in reporting utilization of Aquaculture funding.*

4.0 MANAGEMENT ACTION PLAN

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p><i>Recommendation 1</i></p> <p><i>The Deputy Minister should reaffirm the role of the Executive Director, Aquaculture Management, as the departmental functional authority for Aquaculture, supported in this functional role by the Regional Aquaculture Co-ordinators.</i></p> <p><i>Recommendation 2</i></p> <p><i>The Executive Director Aquaculture Management, working collaboratively with the Director General of Finance and the Director General of Program Planning and Coordination – Fisheries and Aquaculture Management, should ensure that a formally recognized methodology is adopted to facilitate the tracking of ACRDP project Salary dollars. In addition, they should ensure that all involved with the budgeting and utilizing of funds in support of Aquaculture understand and are committed to accurately coding these funds.</i></p>	<p>A detail action plan will be finalized after considering the results of the evaluation of the PSA, which should shed light on defining and clarifying the term “functional authority”. In turn this will provide the necessary guidance in the development of a clear aquaculture governance role for AMD and the aquaculture file within the Department.</p> <p>A memorandum outlining this methodology, to ensure the proper tracking of ACRDP project salary dollars, will be produced.</p>	<p><i>AMD with PP&C, FAM</i></p> <p><i>AMD with PP&C, FAM, Director General of Finance and A/DG of Aquaculture & Oceans Science</i></p>	<p><u>October 31, 2005</u></p>

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p><i>Recommendation 3</i></p> <p><i>The Executive Director Aquaculture Management, working collaboratively with the Director General of Finance and the Director General of Program Planning and Coordination – Fisheries and Aquaculture Management, should determine whether the current Program for Sustainable Aquaculture financial management coding structure should be expanded to include all resources budgeted for and expended on Aquaculture. ACRDP funding would continue to remain visible as a separate entity due to industry contribution to DFO projects.</i></p> <p><i>Recommendation 4</i></p> <p><i>The Executive Director, Aquaculture Management, should coordinate the establishment of Service Level Agreements between Assistant Deputy Ministers involved in the Aquaculture Program and the Regional Directors General to ensure accountability for:</i></p> <p><i>- Key Aquaculture commitments in</i></p>	<p>After consultation with other sectors and PP&C FAM, AMD will seek DMC's decision to implement this recommendation as DMC's approval is required to change the financial management coding structure to include all resources budgeted for and expended on Aquaculture.</p> <p>Action on this recommendation should be deferred until the results of the evaluation are produced. The results would provide clarification on whether or not SLAs should be taken into consideration and at what level they should be produced (Executive Director to ADMs or ADM, FAM to ADMs). By creating SLAs at this level, the question of accountability regarding reporting structure will be brought forth and clarification regarding this needs to be presented.</p>		

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p><i>support of delivering on Aquaculture Plan of the Minister of Fisheries and Oceans.</i></p> <ul style="list-style-type: none"> <i>- Funds budgeted and utilized in support of Aquaculture.</i> <i>- National consistency in reporting utilization of Aquaculture funding.</i> 			

SCHEDULE 1: PSA FUNDING BY FISCAL YEAR

PSA FUNDING
 (\$ Millions)

<u>Fiscal Year</u>	<u>TBS Allocation</u>	<u>DFO Budget</u>	<u>Difference</u>	<u>Actual Expenses</u>	<u>Difference</u>
2000-2001	\$10.7	\$6.5	\$4.2	\$5.7	\$5.0
2001-2002	10.7	7.4	3.3	6.1	4.6
2002-2003	12.5	11.7	0.8	10.0	2.5
2003-2004	11.1	8.8	2.3	8.3	2.8
2004-2005	11.1	7.6	3.5	6.8	4.3
	<u>\$56.1</u>	<u>\$42.0</u>	<u>\$14.1</u>	<u>\$36.9</u>	<u>\$19.2</u>
	(Note 1)				

Note 1:

Employees Benefit Plans over the 5 fiscal-years of the program amounted to \$3.9 million for a total \$60

SCHEDULE 2: PSA FUNDING – SALARIES AND O&M

PSA FUNDING
(\$ Millions)

TBS Allocation

<u>Fiscal Year</u>	<u>TBS Salaries</u>	<u>TBS O&M</u>	<u>TBS Total</u>
2000-2001	\$4.0	\$6.7	\$10.7
2001-2002	4.0	6.7	10.7
2002-2003	4.0	8.5	12.5
2003-2004	4.0	7.1	11.1
2004-2005	4.0	7.1	11.1
	<u>\$20.0</u>	<u>\$36.1</u>	<u>\$56.1</u>

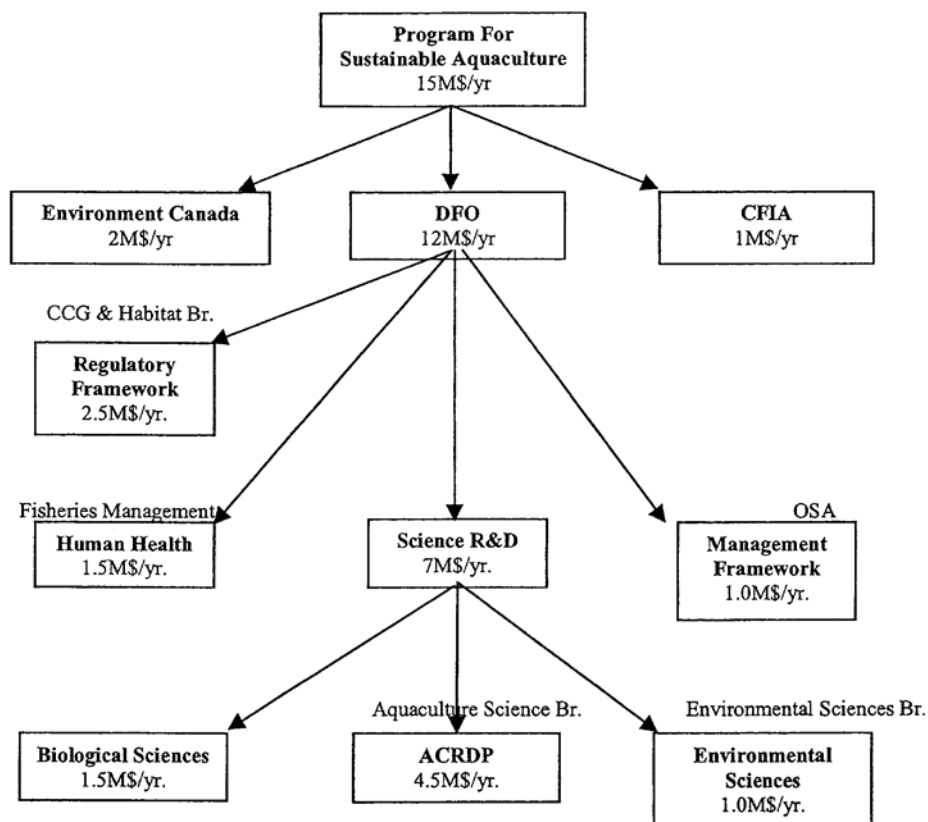
DFO Budget

<u>FISCAL Year</u>	<u>DFO Salaries</u>	<u>DFO O&M</u>	<u>DFO Total</u>
2000-2001	\$2.4	\$4.1	\$6.5
2001-2002	2.7	4.7	7.4
2002-2003	4.4	7.3	11.7
2003-2004	4.0	4.8	8.8
2004-2005	2.2	5.4	7.6
	<u>\$15.7</u>	<u>\$26.3</u>	<u>\$42.0</u>

ACTUAL Expenses

<u>FISCAL Year</u>	<u>DFO Salaries</u>	<u>DFO O&M</u>	<u>DFO Total</u>
2000-2001	\$1.5	\$4.2	\$5.7
2001-2002	3.2	2.9	6.1
2002-2003	4.1	5.9	10.0
2003-2004	4.0	4.3	8.3
2004-2005	2.2	4.6	6.8
	<u>\$15.0</u>	<u>\$21.9</u>	<u>\$36.9</u>

SCHEDULE 3: PSA FUNDING MODEL



Allocated to:	Biological Sciences		ACRDP		Environmental Sciences		
	FTE	***O&M	Admin.	Projects	FTE	O&M	Projects
ESSRF							
Newfoundland	1.5	0.2 M\$	0.06 M\$	0.54 M\$	1	15K\$	
Maritimes	2	0.3 M\$	0.06 M\$	0.54 M\$	1	15K\$	
Gulf	1.5	0.2 M\$	0.06 M\$	0.54 M\$	**1	**15K\$	
Quebec	1.5	0.2 M\$	0.06 M\$	0.54 M\$	1	15K\$	
Central & Arctic		0.1 M\$	0.06 M\$	0.54 M\$	1	15K\$	
Pacific	1.5	0.2 M\$	0.12 M\$	1.08 M\$	1	15K\$	
NCR	2	0.4 M\$		0.3 M\$	1	15K\$	*431K\$
Subtotal in \$	12	1.5 M\$	0.42 M\$	4.08 M\$	464K\$	105K\$	*431K\$
Total		1.5M\$/yr.		4.5M\$/yr.		1.0M\$/yr	

* these monies are combined with ESSRF monies to fund research. Additional funds beyond the \$431 K are applied to aquaculture research under ESSRF.
 ** These monies are supplied from the NCR O&M budget rather than as a separate allocation. The reason is a historical artifact that the Gulf region was not identified as a separate region in the creation of the administration of the Environmental Sciences Program.
 *** It was not possible to separate the cost of the FTEs from the O&M as was done for Environmental sciences where the average cost of 1 FTE was 67 K\$.

SCHEDULE 4: PSA FUNDING BY SECTOR – 2003/2004

PSA FUNDING
(\$ Thousands)

TBS Allocation

<u>Sector</u>	<u>Salaries</u>	<u>O & M</u>	<u>Total</u>
CCG	\$765.3	\$155.0	\$920.3
Policy	843.1	33.6	876.7
Corporate Services	0.0	375.3	375.3
Fisheries Aquaculture	680.0	595.6	1,275.6
Oceans	822.7	155.8	978.5
Science	932.0	5,760.4	6,692.4
	<u>\$4,043.1</u>	<u>\$7,075.7</u>	<u>\$11,118.8</u>

DFO Budget

<u>Sector</u>	<u>Salaries</u>	<u>O & M</u>	<u>Total</u>
CCG	\$430.2	\$78.0	\$508.2
Policy	1,049.7	306.8	1,356.5
Corporate Services	0.0	375.1	375.1
Fisheries Aquaculture	553.5	384.7	938.2
Oceans	840.5	125.0	965.5
Science	1,158.6	3,494.9	4,653.5
	<u>\$4,032.5</u>	<u>\$4,764.5</u>	<u>\$8,797.0</u>

ACTUAL Expenses

<u>Sector</u>	<u>Salaries</u>	<u>O & M</u>	<u>Total</u>
CCG	\$457.0	\$105.7	\$562.7
Policy	1,092.7	321.3	1,414.0
Corporate Services	0.0	212.3	212.3
Fisheries Aquaculture	659.0	286.0	945.0
Oceans	857.7	108.8	966.5
Science	995.7	3,267.0	4,262.7
	<u>\$4,062.1</u>	<u>\$4,301.1</u>	<u>\$8,363.2</u>

SCHEDULE 5: PSA FUNDING BY REGION – 2003/2004

PSA FUNDING
(\$ Thousands)

Salaries

<u>Region</u>	<u>TBS Allocation</u>	<u>DFO Budget</u>	<u>Actual Expenses</u>	<u>Difference Allocation vs Expenses</u>
Newfoundland	\$590.2	\$694.2	\$630.2	\$40.0
Maritimes	753.5	384.1	449.7	-303.8
Gulf	223.0	189.0	252.5	29.5
Quebec	491.4	609.3	705.2	213.8
Central & Arctic	240.6	279.1	261.6	21.0
Pacific	634.8	695.8	638.8	4.0
NCR	1,109.6	1,181.0	1,124.5	14.9
	<u>\$4,043.1</u>	<u>\$4,032.5</u>	<u>\$4,062.5</u>	<u>\$19.4</u>

O & M

<u>Region</u>	<u>TBS Allocation</u>	<u>DFO Budget</u>	<u>Actual Expenses</u>	<u>Difference Allocation vs Expenses</u>
Newfoundland	\$244.3	\$499.5	\$588.9	\$344.6
Maritimes	305.4	709.1	589.0	283.6
Gulf	200.2	629.0	601.1	400.9
Quebec	253.7	668.7	592.7	339.0
Central & Arctic	138.5	587.5	591.0	452.5
Pacific	335.1	683.7	816.1	481.0
NCR	5,598.5	987.0	522.3	-5,076.2
	<u>\$7,075.7</u>	<u>\$4,764.5</u>	<u>\$4,301.1</u>	<u>-\$2,774.6</u>

SCHEDULE 6: PSA FUNDING (O&M) BY REGION – 2003/2004

PSA FUNDING
 (\$ Thousands)

<u>Region</u>	<u>TBS Allocation</u>	<u>ACRDP Re-Allocation</u>	<u>Total</u>
Newfoundland	\$244.3	\$600.0	\$844.3
Maritimes	305.4	600.0	905.4
Gulf	200.2	600.0	800.2
Quebec	253.7	600.0	853.7
Central & Arctic	138.5	600.0	738.5
Pacific	335.1	1,200.0	1,535.1
NCR	5,598.5	-4,200.0	1,398.5
	<u>\$7,075.7</u>	<u>\$0.0</u>	<u>\$7,075.7</u>