



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Audit of Community Adjustment Fund and Recreational Infrastructure Canada

WESTERN ECONOMIC DIVERSIFICATION CANADA

Audit & Evaluation Branch

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1.0 Executive Summary

- 1.1 The audit of the Community Adjustment Fund (CAF) and Recreational Infrastructure Canada (RInC) initiatives included in the Economic Action Plan (Budget 2009) was identified in the approved Western Economic Diversification Canada (WD) 2009 – 2012 Risk Based Audit Plan. This is a system-under-development audit designed to provide early and timely feedback to management on their program design and controls. The audit was commenced within six months of the initiatives being announced.
- 1.2 The purpose of the audit is to provide audit assurance to the Deputy Minister on the new control frameworks designed for the CAF and RInC initiatives. The Budget 2009 objective was to get money flowing quickly and lawfully. This audit examined WD's controls and processes for CAF and RInC against that objective.
- 1.3 The audit examined elements in the initial development and implementation stages of the two initiatives. The audit examined the effectiveness of activities undertaken between the January 27, 2009 announcement and June 30, 2009. The audit included examination of organizational structures, program design, systems readiness, eligibility screening, due diligence, compliance, communications, monitoring, and reporting. Internal Audit was able to review the program design and the first intake process for both initiatives against these attributes.

Findings

- 1.4 Overall, WD has incorporated the lessons learned from 22 years of experience in delivering grants and contribution programs. WD management modified existing systems and processes to address the unique challenges and risks associated with CAF and RInC.
- 1.5 In the short period of time between January and June 2009, WD designed and initiated CAF and RInC programs in order to achieve their stated goals of economic activity, job creation and/or job maintenance.
- 1.6 As part of this development process, WD focussed on program design, deployment of resources, engagement of staff, expedited eligibility assessment, ministerial liaison, training, and community outreach.
- 1.7 WD has effectively implemented RInC and some funds have begun to flow to selected recipients. WD used its past outreach and experiences gained from delivering infrastructure programs to facilitate an early kick-start to the program. As of the end of audit fieldwork on August 31, 2009, WD had completed due diligence on over 95% of the projects in the first tranche of RInC allocations. WD's internal reports showed that RInC was over subscribed. As of August 31, 2009, the government had not yet allocated the second tranche of RInC to WD.
- 1.8 WD's design of CAF was sound. Internal Audit tested the framework and tools that were developed for the first intake and determined that they worked effectively.

- 1.9 CAF projects are varied in nature and the due diligence assessment takes longer than RInC projects. WD had yet to expend significant funds at the time of this report even though substantial amounts have been financially committed in the government accounting system.
- 1.10 The overwhelming volume and varied quality of over 2,600 applications received for both CAF and RInC created challenges for WD in the areas of information technology, rigorous monitoring, staffing and training, strain on core programs, continued outreach, and communications.
- 1.11 The large volume of applications required prolonged and extra-ordinary staff efforts to expedite the approval process over such a short period of time. Since there is no flexibility in cash re-profiling for CAF and RInC, WD must now shift adequate attention to the monitoring process now that projects have been approved. Due to the timing of this audit, Internal Audit was not able to assess any of the monitoring process.
- 1.12 Opportunities for improvement have been documented in the report. It was apparent that discussions were already occurring to deal with these challenges and solutions may be in place by the time this report is published.

2.0 Audit Assurance

- 2.1 Based on internal audit standards and criteria selected, audit work has been completed and analyzed to support the conclusion that sound risk mitigation strategies and control frameworks have been designed to enable successful implementation of the CAF and RInC initiatives. WD should effectively meet program objectives once rigorous monitoring processes are designed and implemented.
- 2.2 In accordance with the Government of Canada internal auditing standards, the Chief Audit Executive is providing audit assurance that relevant and reliable management controls have been designed and are operating satisfactorily that should enable the successful delivery of the CAF and RInC initiatives in the four western Canadian provinces.

3.0 Introduction

- 3.1 The Community Adjustment Fund (CAF) and the Recreational Infrastructure Canada (RInC) initiatives are part of the Economic Action Plan (Budget 2009), the Government of Canada's plan announced January 27, 2009 to ensure a quick recovery from the current economic downturn. The Budget provided Western Economic Diversification Canada an additional \$360 Million in short-term funding over two years up to March 31, 2011. The government tasked WD with delivering CAF and RInC initiatives in the four western provinces: British Columbia, Alberta, Saskatchewan, and Manitoba. These investments were intended to stimulate the economy and create jobs in communities across Canada.

Community Adjustment Fund (CAF)

- 3.2 CAF is an initiative providing \$1 billion nationally over two years to address the short-term economic needs of Canadian communities impacted by the global recession. The national fund will provide economic stimulus by supporting projects that create jobs and maintain employment in and around communities that have experienced significant job losses and lack alternative employment opportunities. By focusing on the creation of short-term employment to support communities and the sectors that contribute to their viability, CAF will play a distinctive role in relation to other economic stimulus measures included in Canada's Economic Action Plan. WD will implement the fund in the four western provinces, investing \$306 million to help communities reduce the short-term impacts of the economic downturn. The primary goal of CAF is immediate job creation.

Recreational Infrastructure Canada (RInC)

- 3.3 RInC is a program identified under the Economic Action Plan that will invest \$500 million in recreational facilities across Canada over a two-year period. WD's share of the program is \$153 million. The program provides targeted and temporary stimulus to the Canadian economy by increasing the total amount of construction activity related to recreational infrastructure. Eligible projects under RInC are normally for the rehabilitation or repair of recreational facilities, including new construction to expand or replace existing infrastructure assets, and must be completed by March 31, 2011.
- 3.4 The federal government will fund up to 33 per cent of eligible costs and may, in exceptional circumstances, fund up to 50 per cent. Projects approved under RInC can receive up to \$1 million in federal funding, which will normally represent one-third of project costs. Remaining project funding may be sourced from provincial or municipal governments, community organizations, or the private sector. WD will implement the fund in western Canada, investing almost \$54 million of a \$175 million federal contribution in the first tranche that has been allocated on a regional per capita basis and \$99 million of the remaining national \$325 million portion.

Audit Context

- 3.6 The economic stimulus funds of \$459 million (including both RInC allocations) represent a 115% increase in WD's annual reference level. The infusion of supplemental funds and the corresponding increase in effort to deliver in a short period of time meant a significant strain on existing resources. Success in the CAF and RInC context is getting money flowing quickly and lawfully between now and March 2011. This context impacted on the inherent risks associated with these initiatives. Therefore, WD needed to design sound controls to ensure that the funds were properly managed and disbursed in a timely and appropriate manner.
- 3.7 The Comptroller General of Canada and the Auditor General of Canada have both signalled the inherent risks and audit significance of the Economic Action Plan initiatives.

Audit Objective

- 3.8 The purpose of the audit was to provide audit assurance to the Deputy Minister on the new control frameworks designed for the CAF and RInC initiatives. The Budget 2009 objective was to get money flowing quickly and lawfully. This audit examined WD's controls for CAF and RInC designed to achieve that objective.

Scope

- 3.9 The audit examined elements in the initial development and implementation stages of CAF and RInC. The audit examined the effectiveness of activities undertaken between the January 27, 2009 announcement date and June 30, 2009. The audit included examination of organization structures, program design, systems readiness, eligibility screening, due diligence, compliance, communications, monitoring, and reporting. Internal Audit was able to review the program design and the first intake process for both initiatives against these attributes. The auditors selected sample projects from amongst those that were approved and those that were not recommended for approval.

Key Risks

- 3.10 The audit focused on the controls that management had developed to mitigate the following risks:
- a) Inadequate governance and risk management for CAF and RInC;
 - b) Delays in approvals that prevent funds from flowing quickly;
 - c) Insufficient and misunderstood application process;
 - d) Processes that do not comply with Treasury Board policy;
 - e) Lack of clarity around eligibility criteria;
 - f) Inadequate monitoring procedures to deliver on stringent "use it or lose it" conditions around the funds;

- g) Lack of staff capacity and expertise;
- h) Inability to report on results;
- i) Systems that cannot support the new programs;
- j) Incremental spending that does not achieve the intended results; and
- k) Negative public perception around the delivery of the programs.

Acknowledgements

3.11 The auditors would like to thank WD management and staff for the cooperation and timely assistance provided to the audit team throughout this engagement.

4.0 Observations and Recommendations

4.1 Governance and Risk Management

Criteria: It was the audit expectation that the Executive Committee had formalized risk exposures and defined context and corporate practices for managing CAF & RInC risks. Regions and branches understand their roles and accountability and have in place risk management processes tied to strategic corporate plans and CAF-RInC objectives. Delegations of authorities are in place for CAF and RInC.

- 4.1.1 In order to secure the appropriate Treasury Board program authorities, WD identified the key risks and proposed mitigation strategies to address the risks involved. In designing the programs, management quickly secured the necessary delegation of authorities and the program authorities to spend the money. WD developed the program objectives, outcomes, eligibility criteria and approval processes.
- 4.1.2 There was substantial management and staff consultation and engagement through all levels of the organization during the development of the program criteria, tools, and staff training modules. Authority, responsibility and accountability was clarified and communicated through similar means. The auditors found evidence of the roles of both headquarters and the regions during the program design stage and also during the implementation of the first intake stage.
- 4.1.3 The department's Executive Committee were actively engaged and involved. The auditors examined evidence of regular Executive Committee updates and discussions on the new initiatives.
- 4.1.4 The Minister approved and announced all CAF and RInC projects during the audit period. WD staff and management performed their due diligence and made recommendations on all projects prior to forwarding them to the Minister's office for approval. Given the high volume and relatively low dollar value of many of these projects, the current decision-making/delegation model is very time intensive for both departmental and Ministerial staff. The auditors noted a frequent submission of recommended projects and extensive communications process between the department and the Minister's office that enabled project decisions to be made effectively.

4.2 Program Design

Criteria: It was the audit expectation that consultations with the Regions happened and sufficient resources were devoted for the analysis and role out of policy options on CAF and RInC. Related experiences and lessons learned from other programs were applied. Consistent and functional methodologies for assessment, priority setting, selection, documentation, authority, responsibility and accountability were clear, communicated and met regional needs.

- 4.2.1 The auditors found evidence that staff and stakeholders were heavily engaged in the design and development of the program tools. Regional situations and concerns were addressed while ensuring consistency in the program design and implementation across all regions.
- 4.2.2 The design and roll-out of new programs requires considerable dedicated resources. Staff were recruited and/or deployed to successfully develop the guidelines and tools for CAF and RInC.
- 4.2.3 Management and staff confirmed to auditors that lessons learned from previous contribution programs, monitoring activities, impact studies and evaluations helped in developing and modifying project assessment processes and contribution agreements.
- 4.2.4 Where necessary, the expertise and information holdings of other agencies, such as Statistics Canada, were obtained. The critical program tools (eligibility screening criteria, and project approval records) worked when applied to the first intake of both initiatives. These tools enabled a standardized assessment of all projects and documented the projects' economic stimulus activity, project quality, cash flow needs, job creation or maintenance, and impacts.

4.3 Capacity and Resources

Criteria: It was the audit expectation that sufficient human resources, information and technology systems, tools and accommodations are in place.

- 4.3.1 Regional offices and headquarters developed human resource plans and modified existing organization structures in order to cope with expected demands of the new initiatives. Management analyzed current and future competency and training needs and incorporated them into the plans. Plans were put into place to secure sufficient additional office space to accommodate the new staff.
- 4.3.2 Regions and headquarters used a variety of staffing models. Generally, CAF and RInC units were comprised of a mix of new and experienced staff. For example, the BC region reassigned staff to CAF and RInC from programs that had ended or were winding down. This enabled the region to efficiently deploy experienced staff. The remaining regions had to attract a mix of staff from within and outside the organization.
- 4.3.3 Regions that employed fewer experienced staff for CAF and RInC found the learning curve to be steeper and experienced delays in the initial project assessment and due diligence processes.
- 4.3.4 Moving existing staff from other parts of the organization into CAF and RInC could leave a residual gap in core programming needs. Management will need to ensure that CAF and RInC success does not jeopardize WD's core initiatives. At this point, senior

management remains confident that both the core programs and the new initiatives will be delivered successfully by year-end.

4.3.5 Management determined the new information management and technology needs for CAF and RInC. Management decided to modify its existing systems to capture CAF and RInC project data (Project Gateway) and generate reports (Infoquest). Due to the short time frame, some of the required system changes were not completed in time for the first intake. As a result, the regions had to manually input the data into their own spreadsheet instead of into the existing system. According to management, by August 31, 2009 over 90% of the project applications had been entered into the corporate database.

4.3.6 Because of the initial lag to populate Project Gateway with the new data, management was not able to produce some system-generated reports. Instead, some corporate reports were compiled from regional “manual” data. Management is currently addressing this gap in order to effectively manage CAF and RInC data collection and reporting needs.

Recommendation # 1 Although CAF and RInC projects are a departmental priority, WD management needs to maintain adequate resources and focus on its core programs.

Recommendation # 2 WD management needs to complete the proposed and required system changes as soon as possible to address all new CAF and RInC data collection and reporting needs for both regions and headquarters.

4.4 Clarity, Eligibility, and Communications

Criteria: It was the audit expectation that processes and information exist to enable clients’ understanding of the priorities, eligibility criteria, and expected results of these programs and that these factors were clearly communicated. Transparent lines of communication exist between WD, users and stakeholders. Efficient processes exist to take in, assess and recommend approval for applications received.

4.4.1 In May 2009, once the programs had been developed, WD posted program information on its public website. There was information on the key priorities, expected results, eligibility criteria, application requirements, and frequently asked questions. WD provided contact information for all regions and headquarters.

4.4.2 In addition, the regions and headquarters undertook outreach activities involving presentations, meetings, community mail-outs and funding partner engagement to market the initiatives.

4.4.3 During the initial intake, the auditors confirmed screening was done against the posted eligibility criteria on all applications and sufficient due diligence was completed for approved projects. Internal Audit verified 12 of 55 approved projects as of June 30 2009

against the selected audit criteria. Internal Audit also verified 10 applications that were not recommended for approval against the selected audit criteria.

- 4.4.4 WD regions received over 2000 inquiries from communities and stakeholders who expressed interest after learning about the initiatives from the website and the media. Management updated its public website to facilitate the dissemination of information and also to enable applicants to complete and submit applications online in PDF format or by fax and mail. Over 90% of the applications were received by fax or PDF attachment submitted on-line.
- 4.4.5 Management adopted existing service standards for the processing and approval of CAF and RInC applications. Due to the early stages of these initiatives, Internal Audit was unable to assess performance against these standards.
- 4.4.6 As of August 31 2009, WD had not sent rejection letters to applicants. Rejections will come in two stages. Firstly, after the initial screening for those projects that do not meet the criteria. Secondly, once all the funding has been allocated to the top priority projects. WD needs to communicate decisions on a timely basis in order to avoid damaging public perception and negatively impacting WD's client service reputation.

Recommendation # 3 WD should communicate funding decisions, both positive and negative, to applicants on a timely basis.

4.5 Reporting and Performance

Criteria: It was the audit expectation that appropriate and timely financial results and performance data are documented and reported to management and central agencies on a timely basis. Reporting requirements are relevant, understood, reasonable, and communicated to stakeholders.

- 4.5.1 Despite some of the systems limitations outlined in section 4.3, WD submitted its two quarterly reports and templates on CAF and RInC on time as required by central agencies for parliamentary reporting purposes. Reporting templates for recipients to submit quarterly progress reports are under development. WD will have to ensure that communication with and monitoring of recipients is stepped up to meet this new reporting requirement.
- 4.5.2 The job creation measurement indicator is calculated during the project assessment and it is incorporated in the recipient contribution agreement as a reporting requirement during actual project implementation. The measure is good for determining economic activities and the impact of job creation or maintenance; however, management may need to conduct some internal and external education on the collection and use of this indicator.

4.6 Compliance

Criteria: It was the audit expectation that Treasury Board policies and directives are followed. Recipient project contribution agreements are consistent with program authorities

- 4.6.1 Internal Audit saw evidence that the Treasury Board requirements had been integrated into processes and controls developed for CAF and RInC. Internal Audit will assess this further in future audits.
- 4.6.2 The recipient contribution agreements reflected the terms and conditions of the program authorities for the initiatives. Administrative requirements on recipients in the contribution agreements were consistent with the program authorities and are required to ensure effective control. They were considered reasonable and proportionate to the level of risk, materiality of funding and the risk profile of the recipients for the audit sample of 12 project files examined.

4.7 Financial and Cash Management

Criteria: It was the audit expectation that financial forecasts and cash flows are prepared and monitored on a regular basis and realignments made where warranted. Policies and procedures have been established and documented regarding transaction management practices, and financial authorities are known and understood by personnel.

- 4.7.1 WD financial systems were modified to capture information on CAF and RInC in order to enable reporting to central agencies and senior management. As of the end of August, WD had committed over 90% of its first tranche of RInC funding and a significant portion of its CAF funding. At the same time, WD had spent very little actual cash due to the early stages of most projects.
- 4.7.2 To date, most of management's attention has been focused on planning and project assessment. Going forward, that management attention will have to focus on active monitoring of the projects, given the fact that the funds cannot be re-profiled from one fiscal year to another. This "use it or lose it" provision will require more active monitoring than is currently needed for WD's core programs.
- 4.7.3 There is need for management to be on top of the monitoring early in order to minimise lapsing CAF and RInC funds since they cannot be re-profiled and to enable re-allocation of funds to other projects or regions in need of cash flow. Management explained that additional personnel are being added to the monitoring and payment function and this will be a priority once all the project assessment is complete. Training will be needed for both new and existing staff since the "use it or lose it" requirements of CAF and RInC demand more proactive cash flow monitoring rather than WD's customary practice of waiting for payment claims.

Recommendation # 4 WD needs to develop rigorous monitoring processes designed around the unique elements of the CAF and RInC initiatives. WD staff need to be adequately trained on those new processes.

4.8 Partnerships

Criteria: It was the audit expectation that WD leveraged, where appropriate, collaborative opportunities to enhance economic stimulus opportunities. Consultation with existing provincial, municipal, and other federal organizations have been utilized and/or new ones formed.

- 4.8.1 Internal Audit found substantial evidence that WD had consulted with different groups in order to market CAF and RInC in the short window between February and June 2009. This is reflected in the overwhelming number of applications received and the variety and nature of applications.
- 4.8.2 Through CAF and RInC, WD built on existing provincial partnerships as well as creating new partnerships such as the third party delivery arrangement with Northern Development Initiative Trust (NDIT). This arrangement with NDIT was created to improve delivery efficiency and effectiveness for WD in affected remote communities in northern British Columbia. Internal Audit examined the NDIT contribution agreement and underlining administrative documentation requirements and determined that effective controls have been agreed upon to ensure reasonable mitigation of the level of risks associated with third-party delivery.
- 4.8.3 Discussion with management indicated that the outreach focus was on provincial, municipal, non-profit organizations and known partners in the traditional core WD program. It was difficult to forge new alliances in the short period of time required to deliver the program. It was not clear if the outreach activities touched all communities and/or industries impacted by the economic downturn.

5.0 Conclusion

- 5.1 WD has accomplished several program milestones since CAF and RInC were announced on January 27, 2009 as part of the federal budget. WD has undertaken sound and expedient steps to design and implement CAF and RInC. WD has established practical and reasonable resources, structures, roles, responsibilities and accountabilities. WD has positioned itself with sound risk mitigation strategies and control frameworks that should enable successful implementation of the CAF and RInC initiatives as introduced in the Economic Action Plan (Budget 2009).
- 5.2 WD needs to focus on developing its new monitoring processes and building that enhanced capacity. As CAF and RInC evolve and actual project spending occurs, future audit testing will focus on those phases of CAF and RInC.
- 5.3 Based on the results of this audit, Internal Audit has concluded the following regarding the key risk and control elements for CAF and RInC covered by this audit.

Risk and Control Element	Assessed Criteria Results
1. Governance and Risk Management	Criteria met
2. Program Design	Criteria met
3. Capacity and Resources	Criteria mostly met
4. Clarity, Eligibility & Communications	Criteria mostly met
5. Reporting and Performance	Criteria met
6. Compliance	Criteria met
7. Financial and Cash Management	Criteria mostly met
8. Partnerships	Criteria mostly met

6.0 Audit Strategies and Approach

Planning

- 6.1 Audit planning started in May 2009 and fieldwork was completed in August 2009 in all of the four provinces and headquarters. Pre-engagement meetings and a preliminary survey were completed to facilitate identification of key risks, audit criteria, control elements and audit strategies. WD staff, departmental audit committee and central agency staff were also engaged.

Standards and Methodology

- 6.2 Government of Canada internal auditing standards were used for the audit. It is evidence-based and provides audit assurance that is fully supported. All available evidence has been analyzed considering factors, logic and regional environment; and examined against audit criteria and expectations. Sources of evidence included interviews, risk analysis, verification, regional visits, analytical reviews, elaboration on cause and effect of conditions, background literature, and confirmations as necessary.

Sampling

- 6.3 The identified key risks were prominently considered in judgmentally selecting project files for examination. The auditors judgmentally selected 12 of 55 approved files as at June 20, 2009, as part of the audit evidence. The auditors judgmentally selected 10 files that were not recommended for approval. These 22 sample files were tested against applicable attributes in the audit criteria.

Follow-up Auditing

- 6.4 This is a system-under-development audit for program initiatives that are barely six months old. Based on the current approved risk based audit plan, a subsequent audit will be conducted to cover some of the elements of CAF and RInC that are still under development. This follow up audit is scheduled for 2011-12, which is the year following the completion of both CAF and RInC.

Audit Team

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