



Final Audit Report

**AUDIT OF THE INFRASTRUCTURE  
PROGRAM –  
CANADA-ONTARIO INFRASTRUCTURE  
PROGRAM (COIP) AND  
CANADA-ONTARIO MUNICIPAL RURAL  
INFRASTRUCTURE FUND (COMRIF)**

Audit and Evaluation Branch

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## 1.0 Executive Summary

### 1.1 Introduction

The Canada-Ontario Infrastructure Program (COIP) is the Ontario component of Infrastructure Canada's Infrastructure Canada Program. The Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) is the Ontario component of Infrastructure Canada's Municipal Rural Infrastructure Fund program. Each Program is intended to help renew and build infrastructure in rural and urban municipalities across Ontario. Industry Canada is responsible for delivering the COIP Program and the COMRIF Program (the Programs) as a federal delivery partner. The Programs are administered jointly by the Province of Ontario and by Industry Canada through the Sector Strategies and Infrastructure Programs (SSIP) Branch, Regional Operations Sector.

The objective of the audit was to provide an independent and objective assessment of the design and operating effectiveness of the COIP and COMRIF Program management control frameworks (MCF) and the extent to which the transfer payments under the Programs are managed in accordance with the Policy on Transfer Payments.

The scope of the audit covered each Program's operations from their inception through to July 2007. The Audit and Evaluation Branch's (AEB) 2005-2008 Multi Year Risk-Based Audit Plan, approved by the Departmental Audit and Evaluation Committee (DAEC) includes an audit of the Infrastructure Programs.

### 1.2 Main Findings

Management has designed controls within each Program that are intended to ensure sound governance, internal control, and risk management practices. However, key controls in two areas were found to be operating ineffectively: 1) the Programs' current approach to the selection and conduct of recipient auditing and monitoring activities is not sufficiently risk-based and the activities are not being conducted on a timely basis; and 2) instances of non-compliance with established COIP Program procedures were identified through our file review process. In addition, there is a need to improve performance measurement and reporting practices.

#### Governance

Both Programs operate in compliance with inter-departmental agreements and Memorandums of Understanding (MOUs). These documents define the general roles and responsibilities of Industry Canada in implementing and monitoring the Programs. One issue related to performance measurement and reporting was identified in the Governance category: although performance information is tracked and reported against pre-defined performance indicators, the current performance measures do not provide a solid basis for assessing the overall impact of Program funding on improving Ontario infrastructure.

## Controls

Industry Canada monitors the status of projects through the receipt and review of financial claims, project progress reports, annual audits, and the conduct of site visits. A key strength of each Program is the implementation of joint Management Committees and four supporting sub-committees. These Committees consist of Industry Canada and Provincial representatives who generally meet on a monthly basis to discuss and monitor project and program status and identify action items required. This practice enables both federal and provincial delivery partners to keep apprised of the issues affecting the Programs and fosters a collaborative approach to program delivery.

One key issue was identified within the Internal Controls category: instances of non-compliance with established procedures in the claims review and approval process and in recipient reporting were identified. The most pervasive instances of non-compliance occurred within the COIP Program and related to insufficient backup to support financial claims and lack of timely project reporting by recipients.

## Risk Management

Changes in identified risks at both the program and project level are monitored through Management Committee meetings, and remedial action is taken as necessary. At a global level, Annual Business Plans are prepared by Industry Canada that include a section describing new and significant challenges or risks facing the Programs that may impact the achievement of the Programs' objectives.

One significant issue was identified within the Risk Management category: a risk-based approach to monitoring and recipient auditing activities, as required under the Policy on Transfer Payments, has not been formally defined and implemented. This reduces the effectiveness of monitoring and audit activities as under the current approach, scarce Program resources may be allocated to lower risk areas or projects.

In addition, planned recipient audit activities are not being conducted on a timely basis. At the time we completed our audit fieldwork, the first round of recipient audits under the COIP Program was being completed despite the fact that the Program was created in 2000 and no recipient audits had been completed for the COMRIF program. Within the COIP Program, it is our understanding that management had deferred conducting recipient audits until projects have been completed.

Given the materiality, complexity, and long-term nature of projects funded under the Programs, the conduct of more frequent and timely recipient audit and monitoring activities for higher risk projects throughout the projects' life cycle would enable management to better address and

resolve areas of concern, including identifying potential recoveries for ineligible expenses claimed.

### 1.3 Recommendations

1. The Director General, SSIP, in consultation with delivery partners, develop and implement a risk-based approach and related training to the conduct of site visits, monitoring, recipient auditing activities as well as program management audits and ensure the results of program management audits are forwarded to the Audit and Evaluation Branch upon completion.
2. The Director General, SSIP, should ensure that the Director of Operations, Infrastructure Operations Directorate (IOD), reviews and revises existing claims review and approval procedures to reflect a risk-based approach and develops and implements a quality control process to ensure on-going compliance with established procedures.
3. The Director General, SSIP, in consultation with Infrastructure Canada and other federal delivery partners, should consider revising the existing process for gathering and reporting on Program performance results to better reflect actual Program impacts.

### 1.4 Lessons Learned

It is recognized that lessons learned from the initial implementation of the COIP Program were identified and considered by management in the design and delivery of the COMRIF Program. One of the key success factors followed was a greater collaboration between the Province and Industry Canada in all aspects of the COMRIF Program's design and delivery. The success of this joint delivery approach was evident through our identification of more effective controls within the COMRIF Program.

### 1.5 Statement of Assurance

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria. The opinion is applicable only to the Programs examined.

### 1.6 Audit Opinion

In my opinion, there are multiple areas that present risk exposures related to the governance, control and risk management processes of the Infrastructure (COIP/COMRIF) Programs that require management attention.

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Peter Everson  
*Chief Audit Executive, Industry Canada*

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Date

## 2.0 About the Audit

### 2.1 Background

#### COIP Program

The COIP program is the Ontario component of Infrastructure Canada's Infrastructure Canada Program. The Program is intended to help renew and build infrastructure in rural and urban municipalities across Canada. An agreement between The Government of Canada and the Government of the Province of Ontario was signed in October 2000 that defines Industry Canada's responsibilities for delivering the program. COIP represents a total federal funding commitment of \$680.7 million to the Province of Ontario that is designed to complement and leverage provincial funding for the Ontario SuperBuild municipal infrastructure initiatives such as the Ontario Small Town and Rural Development Initiative; the Sports, Culture and Tourism Partnerships; and the Millennium Partnerships. The federal government may fund up to one-third of total eligible project costs under the Program. As of March 31, 2007, a total of \$665 million in federal funding had been approved under the Program, and \$15 million had been incurred to covering operating and management costs.

Federal funding is provided by Infrastructure Canada through an appropriation to Industry Canada. Industry Canada then disburses these funds by reimbursing the Province for the federal portion of funding required for each project based on approved claims submitted by the recipient to the Province. This is due to the fact that individual contribution agreements under COIP are entered into directly between the Province and the end recipient. As a result, Industry Canada does not provide any payments directly to end recipients under this Program.

The COIP Program's primary target client groups are municipalities and its main priority project areas are "green" municipal infrastructure, particularly: solid waste management; recycling; and energy efficient building. Secondary priorities include local transportation infrastructure, cultural and recreational infrastructure, rural and remote telecommunications, and affordable housing.

The COIP Program began in fiscal year 2000-01 and was originally expected to end in fiscal 2005-06. The Program completion deadline was extended to March 2008 to allow municipalities' additional time to complete funded projects.

Industry Canada reports annually to Parliament on its planned activities and past performance results for the COIP Program in its annual Departmental Performance Results and Reports on Plans and Priorities.

## COMRIF Program

The COMRIF Program was created through Budget 2003 as the Ontario component of Infrastructure Canada's Municipal Rural Infrastructure Fund program. Through a joint federal-provincial secretariat, the governments of Canada and Ontario are each contributing up to \$298 million to COMRIF over a seven year period to target the infrastructure needs of small and rural Ontario communities with populations of less than 250,000. The program responds to local needs and priorities by helping to provide cleaner water, better sewage systems, upgraded waste management processes, and safer roads and bridges.

The COMRIF program was launched on November 15, 2004. As of March 31, 2007, funding has been provided through three Intakes. A fourth funding round for Asset Management was launched on December 6, 2006 and all applications were received by March 31, 2007. All COMRIF projects must be completed and claims submitted for reimbursement by March 31, 2009.

COMRIF funds are allocated to Industry Canada through an Other Government Department ("OGD") suspense account. As such, Infrastructure Canada is responsible for the public reporting of the plans and results of the COMRIF Program within its annual Department Performance Reports and Reports on Plans and Priorities. Similar to the COIP Program, individual contribution agreements under COMRIF are entered into directly between the Province and the end recipient. Industry Canada then reimburses the Province for the federal portion of funding required for each project based on approved claims submitted by the recipient to the Province.

Both the COIP Program and the COMRIF Program are administered by Industry Canada's Sector Strategies and Infrastructure Programs (SSIP) Branch, Regional Operations Sector. Program delivery is largely conducted from the Infrastructure Operations Directorate (IOD) in Toronto, with overall direction and support for program management and policy being provided through the Department's SSIP Branch in the National Capital Region.

## 2.2 Audit Objectives

The objectives of the audit were to provide assurance that:

- A management control framework ("MCF") and related management, operational, and risk management practices were in place and operating as intended for each Program; and
- The transfer payments under each Program were managed in accordance with the *Policy on Transfer Payments*.

## 2.3 Audit Criteria

In support of the requirements under Treasury Board's *Policy on Internal Audit*, audit criteria were developed and linked to each audit objective under the categories of internal controls, governance and risk management. (see Appendix A for specific criteria).

## 2.4 Audit Scope

The scope of the audit covered the COIP and COMRIF Programs operations from their inception to July, 2007.

## 2.5 Audit Methodology

The approach to the audit was detailed in the Audit of the Infrastructure Program Preliminary Survey Report dated March 29, 2007 and consisted of the following:

- Relevant documentation was examined to obtain an understanding of each Program's current risks, risk management processes, governance structures, management control frameworks, information used for decision making, and internal controls;
- A sample of eleven COIP projects and a sample of twelve COMRIF projects were selected and examined for compliance with Program policies and procedures. The sample of eleven COIP projects represents 29.2% of total federal funding committed under the Program and was judgementally selected based on materiality and coverage across the four COIP Program initiatives. The sample of twelve COMRIF projects was judgementally selected based on materiality and coverage along each of the three COMRIF Intake phases. This sample represents 22.9% of total federal funding committed under Program as of March 31, 2007;
- Sixteen interviews were conducted with representatives from the COIP and COMRIF Programs, the Regional Operations Sector, the Province of Ontario, Infrastructure Canada, and selected funding recipients; and
- The information gathered through the above procedures was analyzed against each of the audit criteria listed in Appendix A.

## 3.0 Observations

### 3.1 Introduction

In accordance with the Audit of the Infrastructure Program Preliminary Survey Report dated March 29, 2007, management practices and procedures within each Program were examined against each of criteria listed in Appendix A. We found that controls and operational practices to help ensure sound governance, internal control, and risk management had been designed for each Program, but that several key controls were not operating effectively in practice. Specifically, significant issues were identified with respect to the timeliness and nature of recipient auditing and monitoring activities being conducted for each Program and with respect to compliance with established Program procedures for claims processing and monitoring activities, particularly within the COIP Program. The audit noted one other issue related to the need to improve performance measurement and reporting practices. Opportunities for improvement were identified to streamline existing claims approval and project monitoring procedures and to better focus program audit activities.

### 3.2 Effectiveness of the Management Control Framework

Management has designed a number of practices to help ensure sound governance, risk management and control over the Programs. Of particular note is the active participation of both Industry Canada and Provincial representatives on joint Management Committees and supporting sub-committees. These Committees consist of Industry Canada and Provincial representatives who generally meet on a monthly basis to discuss and monitor project and program status and identify action items required. This practice enables both federal and provincial delivery partners to keep apprised of the issues affecting the Programs and fosters a collaborative approach to program delivery.

The Management Committee is charged with a wide range of responsibilities, including: establishing guidelines for applications; performing application assessments; approval reporting; implementing and evaluating projects; and communicating guidelines and Program requirements to applicants. The Management Committee must ensure that the project review and selection process, the audit framework, and the communications protocols are respected.

A Joint Secretariat has been established with responsibility for the day-to-day operations of the COMRIF Program. The Secretariat is accountable to the Management Committee and assists in the administration of the Program, including the timely production and sharing of information on applicants, projects, financial cash flows, and other operational matters. The Secretariat consists of equal provincial and federal representation. Other joint committees that support the operations of the Joint Secretariat include the Operations Sub-Committee, the Audit Sub-Committee, and the Communications Sub-Committee. The use of this joint committee approach

is a key control in helping to ensure that issues and program performance are identified and reported on a timely and routine basis to both federal and provincial delivery partners.

## **Governance**

Annual Business Plans for the Ontario Infrastructure Programs define key objectives and priorities for the Programs as well as action plans and deliverables required to meet the Program's stated objectives. Annual Business Plans also include a documented human resource plan and financial plan.

The governance structure for each Program is formally defined within the Program RBAFs and RMAFs developed by Infrastructure Canada. The general roles and responsibilities of Industry Canada in implementing COIP and COMRIF projects in Ontario are further defined within the COIP Agreement and the MOU for the COMRIF Program between Industry Canada and Infrastructure Canada.

Each Program's RMAF describes performance measurement and evaluation strategies. As stated in each Program's RMAF, Infrastructure Canada has overall responsibility for the results of both the Municipal Rural Infrastructure Fund and the Infrastructure Canada Program. Individual project performance results under each Program are monitored by Industry Canada and discussed at the Management Committee level.

## **Internal Control**

At the time of the audit fieldwork, projects were not assigned to specific officers within the COIP and COMRIF Programs. In an effort to manage its limited human resources and balance workload, Program management implemented a process through which claims under both the COIP and COMRIF programs were reviewed by staff as they were available. As a result, there was a lack of continuity in the review of claims and progress reports on each project file. This created risks of reduced efficiency in claims processing and project monitoring activities and in identifying project issues on a timely basis given the complexity and long term nature of both COIP and COMRIF projects. It is our understanding that management has revised this approach to assign specific officers to each file to allow for greater continuity and increase the efficiency of claims verification and monitoring procedures.

## **COIP Program**

All applications for COIP funding are received directly by the Province. The Province reviews applications for eligibility and merit, nominating deserving and eligible applications for approval to the COIP Management Committee. The COIP Management Committee has responsibility for recommending projects for approval and ensuring approval is obtained in accordance with delegated financial authorities. Under the Program, the Minister of Industry must approve all

projects. Additional approvals are required from the Minister of Transport, Infrastructure and Communities for projects between \$1 million and \$10 million, and from Treasury Board for all projects in excess of \$10 million. This needs to be vetted with PSB – evidence on file? A decision was made by Industry Canada’s Program and Services Board (PSB) in 2000 that PSB approval of COIP projects would not be required since the intended role and mandate of the PSB was covered through the Management Committee and delegation of authorities under the Program.

Approved funding agreements are entered into directly between the Province and the recipient. All contribution agreements examined through the audit had been approved as required under the COIP Agreement and in accordance with the Program’s delegations of authority. It was noted that there are differences between the provincial and federal eligible costs under the Program due to differences in the Program’s terms and conditions at the provincial level and the federal level.

Formal training specifically tailored to the COIP Program was not provided to staff and management. However, Program staff is guided by a documented COIP Administration Manual. The Manual describes the procedures expected to be performed by Industry Canada throughout each phase of the project’s life cycle, including the conduct of environmental screening procedures, eligibility screening, and ranking projects against pre-defined assessment criteria.

### **COMRIF Program**

The COMRIF Program has been implemented under a joint delivery model with the Province. Through this model, the planning of all aspects of the Program was conducted in a collaborative manner with representatives from both Industry Canada and the Province. As a result, the provincial and federal terms and conditions for the Program are consistent. Program procedures and supporting tools were jointly developed by the Province and Industry Canada, resulting in consistent eligibility criteria, application guidelines and forms, project assessment criteria, and claims review procedures. All procedures and supporting tools were reviewed and approved by a joint federal/provincial Management Committee. Training was provided to both provincial and federal staff concurrently. This joint training helped to ensure quality and consistency in the implementation and application of program procedures at both the provincial and federal levels.

Under COMRIF’s joint delivery model, applications for COMRIF funding are assigned to either a provincial or federal lead. This allows for a more equitable distribution of workload between the provincial and federal representatives. In all cases, applications for funding and claims are initially reviewed by the lead partner for eligibility and merit in accordance with Program terms and conditions and assessment procedures. They are then reviewed by the other delivery partner for compliance. However, as in the COIP Program, all COMRIF agreements require approval by delegated authorities from the Minister of Industry, Minister of Transport, Infrastructure and Communities, and Treasury Board depending upon the value of the contribution agreement.

## Risk Management

Infrastructure Canada has developed an integrated RBAF (Risk-Based Audit Framework) and Results-based Management and Accountability Framework (RMAF) for the Infrastructure Canada Program, under which Industry Canada delivers the COIP Program. Infrastructure Canada has also developed an RBAF for its Municipal Rural Infrastructure Fund through which Industry Canada delivers the COMRIF Program. These frameworks identify the key risk areas for each Program as a whole, as well as the required risk mitigation strategies to be implemented by each federal delivery partner, including Industry Canada.

Industry Canada representatives are kept up to date on risks affecting each of the COMRIF and COIP Programs through their attendance at regular Management Committee meetings. The Management Committees have responsibility for overseeing the monitoring of both the Programs as a whole and individual projects. Management Committee meetings are typically held on a monthly basis and allow for a thorough discussion of program and project specific risks, as well as result in specific action plans to mitigate risks identified.

Business Plans for the Ontario Infrastructure Programs are developed annually by the Director of Operations, IOD and the Director General SSIP, with the input from all respective managers. Annual Business Plans include a section that describes new and significant challenges or risks facing the Programs, including external and political factors as well as internal constraints that may impact the achievement of Program objectives. Our examination of the Infrastructure Operations Directorate Business Plan 2007-08 confirmed that key risks and challenges facing each Program were identified and strategies and action plans to mitigate these risks were defined.

### 3.3 Compliance with the *Policy on Transfer Payments*

The audit found that management has designed a number of management practices to help ensure compliance with the *Policy on Transfer Payments*. These practices include:

- claims that are expected to be supported by detailed breakdown of costs by category, supporting invoices, and progress reports;
- clearly defined delegations of financial authority that are documented and adhered to; and,
- contribution agreements that clearly define the project's objectives, roles and responsibilities, project monitoring and reporting requirements, and the conditions that are required to be met prior to payment.

However, the audit identified instances where significant practices and controls were not found to be operating effectively, most notably with respect to recipient audit and monitoring activities and compliance with Program procedures for claims processing and monitoring.

## Governance

As described previously, each Program is subject to the governance structures defined within the COIP Agreement and MOU for the COMRIF Program. As required under these documents, the Program has complied with requirements to establish and implement joint committee structures to oversee and monitor the Programs.

## Internal Controls

Our examination of a sample of project files indicated that the Programs exercise due diligence in the approval of recipients that comply with the eligibility criteria contained in the terms and conditions of the Programs. Our audit also identified multiple layers of review and approval for claims under each Program.

Under the COIP Program, claims are submitted by the recipient to the Province for review and approval. Provincially approved claims are then forwarded to Industry Canada where they are reviewed for eligibility and completeness under the Program's terms and conditions. This second level of review and approval is required due to the fact that certain costs under the Program are eligible for reimbursement by the Province but are not eligible for reimbursement federally due to differences between the federal and provincial terms and conditions for the Program. Claims are then approved in accordance with Industry Canada's delegated signing authorities and are entered into the Shared Information Management System for Infrastructure database (SIMSI). The majority of claims reviewed in our sample of project files had received appropriate approvals in accordance with delegated signing authorities. Industry Canada reimburses the Province for the federal portion of funding required for each project based on the approved claims. Instances of non-compliance are discussed in detail under Finding #2 in Section 4.3 of this report.

Under the COMRIF Program, all recipient claims are submitted on-line through SIMSI. When Industry Canada is the project lead, claims are initially reviewed and approved by Program Delivery Officers. Claims are then forwarded to a Claims Officer and to the Manager of Business Services for review and approval. In addition, the Director of Operations, IOD is required to approve all claims over \$500,000. These approval levels are consistent with the Department's delegations of authority. The federally approved claim is then sent to the Province through SIMSI for additional provincial review and approval procedures. When the Province is the lead, a provincially approved claim is received through SIMSI. Industry Canada then performs a secondary review and approval of these claims.

Progress reports are used as a performance measurement tool to assess progress against project timelines and milestones and in assessing the reasonableness and eligibility of claims filed. Although isolated instances were identified that supported the Program's receipt of regular

communication from recipients including project progress reports, site visit reports, and joint committee meeting minutes, in many cases this documentation was missing from project files within both Programs.

## **Risk Management**

The RBAFs for each Program require the Management Committees to ensure that appropriate monitoring activities are conducted including receiving and reviewing annual audits of the Programs, project progress reports, detailed claims submissions, and recipient audit reports. These sources of information are a key input in the identification of risks and risk mitigation strategies on a timely basis. Our review of a sample of Management Committee meeting minutes confirmed that discussions were held to discuss a wide range of issues, including funding recommendations, communication approaches, ensuring consistency between funding decisions and program objectives, and progress updates on environmental assessment and claims submissions. It was noted that Management Committee meetings for the COIP Program have been held on an as needed basis over the past three years due to a reduced volume of activity under this Program.

## 4.0 Findings and Recommendations

### **Finding #1: Recipient audits and monitoring activities are not being conducted in accordance with a formal risk-based approach or on a timely basis.**

Each Program's RBAF states that recipient auditing and monitoring activities and the conduct of annual program management audits is the responsibility of the province through the joint Management Committee which is co-chaired by Industry Canada.

In conjunction with its annual business planning process, Program management determines the number of site visits and recipient audits that will be conducted during the year. In previous years, a target of 75 site visits was planned to be conducted for the COIP and COMRIF programs. This target has been revised to a total of 50 site visits in the most recent business plan. Based on our interviews with Program staff and management, the selection of site visits is primarily based on the materiality of the project. Other projects will be subject to site visits if they are located in close geographic proximity to projects selected based on their dollar value.

With respect to recipient auditing, 150 COIP recipient audits and 50 COMRIF recipient audits are planned to be conducted in total. The method of selecting recipient audits under each Program is based primarily on project completion dates and materiality rather than based on other identified risk factors, such as previous experience with the recipient, results of environmental assessments, and complexity and length of the project. The current approach to selecting recipient monitoring and audit activities may result in a sub-optimal use of monitoring and audit resources, as higher risk projects may not be selected for in-depth monitoring and audit and/or Program resources may be focused on projects of lower risk.

In addition to the issues with respect to the risk-based approach to recipient auditing and monitoring activities, issues were identified in the timeliness with which recipient audits occur under the Programs. At the time we completed our audit fieldwork, the Province was in the process of completion of the first 45 recipient audits under the COIP Program. As a result, the Program has been providing material funding to recipients without conducting recipient audits for a full six years. The draft results of these audits were not provided to the audit team upon request due to ongoing revisions to the recipient audit report.

Under the COMRIF Program, the RBAF states that recipient auditing is the responsibility of the province in accordance with the Joint Management Committee terms of reference. The RBAF further requires contribution audits to be conducted annually based on a risk-based audit plan to be developed by the implementing department. The specific auditing and monitoring procedures expected to be performed are formally documented in the COMRIF Reporting-Audit-Evaluation Guideline. At the time we completed our audit fieldwork, a request for proposal was in process

to contract an external firm to conduct the first round of COMRIF recipient audits and no audits had been conducted.

In addition to recipient audits, both the COIP Agreement and the COMRIF MOU require annual program management audits to be conducted. Audits of the Canada-Ontario Infrastructure Program were conducted in 2001, 2003 and 2005 by an external accounting firm and addressed both program level management controls and project level controls through the examination of a sample of project files. The specific criteria and procedures for each audit were approved by the Management Committee. At the end of our audit fieldwork, no COMRIF program audit had been completed. It is recognized that the requirement to conduct annual Program audits does not reflect a risk-based approach. As a result, the Programs are subject to continuous auditing from various levels, including the Province, Industry Canada, and Infrastructure Canada, and it is recognized that there is a risk of duplication of audit effort and reduced value of audit work completed due to the frequency of planned Program audits.

Given the high dollar value and complexity of agreements under each of these Programs, the conduct of recipient audits and monitoring activities on a timelier basis would provide the Department with greater ability to identify and respond to instances of non-compliance with funding agreements and areas for improvement in the delivery of each Program. Currently, the Management Committee for each Program is not in compliance with the requirements for conducting recipient and program audits as required under the Program RBAFs. In addition, it was noted that the results of program management audits are not systematically provided to the Departmental Audit and Evaluation Branch. These audit results would be useful for the Audit and Evaluation Branch for consideration in the annual and long-term planning to help ensure that key risk areas are known and to help reduce duplication of audit effort.

### **Recommendation #1:**

*The Director General, SSIP, in consultation with delivery partners, develop and implement a risk-based approach and related training to the conduct of site visits, monitoring, recipient auditing activities as well as program management audits and ensure the results of program management audits are forwarded to the Audit and Evaluation Branch upon completion.*

### **Finding #2: Instances of non-compliance with established procedures were identified.**

Our review of a sample of COIP and COMRIF project files identified several instances of non-compliance with established Program procedures.

### **COIP Program**

Within the COIP Program, the most pervasive instances of non-compliance consisted of the following:

- 27% of files examined did not have evidence of completed environmental assessments or completed environmental mitigation measures on file.
- 27% of the claims examined were not supported by appropriate back-up. Issues identified in the backup submitted included: insufficient documentation to demonstrate project activities conducted in support of the claim, documentation that did not agree to the amounts claimed, and lack of sufficient detail on supporting back up for amounts claimed.
- 20% of the claims examined did not have appropriate sign off as required by two Program Managers.
- 25% of the claims examined were either not supported by a claims checklist or included checklists that were not appropriately completed.

In addition to the above, annual reports and final project reports were generally not submitted to the Program on a timely basis.

### **COMRIF Program**

Fewer instances of non-compliance were identified in the COMRIF files examined. However, our file review did identify isolated instances in which required signatures were missing on Claims Checklists and Claim Forms. Other isolated instances were identified in which claims were approved without sufficient back-up, such as without completed environmental assessments or progress reports.

The gaps identified through our file review process increase the risk that payment may be made for ineligible items and reduces the ability of Program management to proactively monitor the progress of projects throughout their life cycle.

It is our understanding that many of the above instances occurred due to turnover within the Programs. In addition, issues are frequently encountered in the review of COIP claims due to the fact that more costs are eligible under the provincial terms and conditions than under the federal terms. It is recognized that current procedures under both Programs require sign offs by claims officers, two Program managers, and in claims over \$500,000, Director sign off. Given that all claims are subject to review by Provincial representatives as well as Industry Canada personnel, there are opportunities to streamline the existing review and approval process in accordance with a risk-based approach. It is noted that, in all claims examined through the audit, at least one member of Program management had approved the claims submitted.

It was also identified that the Claims Checklists are lengthy and detailed and could be streamlined to focus on critical decision points in the claims process to improve operating efficiency.

**Recommendation #2:**

*The Director General, SSIP, should ensure that the Director of Operations, Infrastructure Operations Directorate (IOD), reviews and revises existing claims review and approval procedures to reflect a risk-based approach and develops and implements a quality control process to ensure on-going compliance with established procedures.*

**Finding #3: No formal measurement and tracking of the overall impacts and outcomes of the Programs is currently conducted.**

Each Program's RMAF describes the expected impacts and outcomes of the Programs as well as the requirement for each implementing department to provide performance information to Infrastructure Canada for overall program reporting. Some performance information is tracked and reported on, such as the amount of Program funding disbursed and percentage of Ontario communities who have benefited under the Programs. However, results of our interviews with Program management and our documentation review identified opportunities to improve the quality of performance measurement and reporting. In particular, concerns were identified regarding the utility of existing performance measures in assessing the impact of Program funding on improving Ontario infrastructure.

**Recommendation #3:**

*The Director General, SSIP, in consultation with Infrastructure Canada and other federal delivery partners, should consider revising the existing process for gathering and reporting on Program performance results to better reflect actual Program impacts.*

**Lessons Learned**

It is noted that lessons learned from the initial implementation of the COIP Program were identified and acted upon by management that allowed for a more efficient and effective delivery of the COMRIF program.

Unlike the COIP Program, all aspects of the COMRIF Program were jointly developed by IC and the Province of Ontario. Key success factors that were followed in the design and delivery of the COMRIF Program include:

- Joint program planning and development process between the federal and provincial governments resulting in consistent terms and conditions, eligibility criteria, applicant guides and forms, and assessment tools;
- Joint training of federal and provincial personnel to help ensure quality and consistency in the review and approval of applications and claims;

- More frequent and regular involvement of the joint federal/provincial Management Committee; and
- The allocation of specific project files to each of Industry Canada and the Province of Ontario as a lead partner to allow for a more equitable distribution of program management and greater up-front involvement by Industry Canada on project files.

Our interviews with representatives of Program management further identified that a Pan Canadian conference involving all regional delivery partners responsible for Infrastructure Canada programs was held approximately two years ago. This forum was a useful mechanism to share experiences, issues, and best practices in program delivery. Holding similar forums would be beneficial to promote consistency across the regional delivery agents and identify areas for improvement in program management and delivery based on the experiences of other federal delivery partners.

### **Audit Conclusion**

Overall, we found that while COIP and COMRIF Program management have designed controls and related procedures intended to provide effective governance, risk management, and internal control over the Programs, certain key controls were found to be operating ineffectively. Significant issues were identified as follows:

The Programs' current approach to the selection and conduct of recipient auditing and monitoring activities is not risk-based and does not provide management with information on recipient compliance with the terms and conditions of their contribution agreements on a timely basis as required under the *Policy on Transfer Payments*. The Program's approach to conducting recipient audits upon project completion impairs the ability of Program management to identify and resolve issues of non-compliance in a timely manner and does not consider other identified project risk factors. This reduces the effectiveness and efficiency of time and resources as efforts may not be consistently focused on higher risk projects.

Instances of non-compliance with established COIP Program procedures were noted, which included insufficient supporting documentation for claims, incomplete or missing environmental assessments, and missing recipient progress and monitoring reports on the files examined. These issues are similar to those identified in previous COIP Program Audits<sup>1</sup> conducted on behalf of the Province.

The audit noted one other issue related to the need to improve performance measurement and reporting practices. Opportunities for improvement were identified to streamline existing claims

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<sup>1</sup> Ministry of Agriculture and Food, December 2002, Canada-Ontario Infrastructure Program, Summary Report Interim Audit  
Deloitte, 2005, Canada-Ontario Infrastructure Program, Detailed Report to the Audit Committee OSTAR initiative

approval and project monitoring procedures and to better focus program audit activities. These issues are reported in detail in Section 4 of this report.

It is acknowledged that the issues identified were more significant and prevalent under the COIP Program due to the nature of the Program's design and the resulting challenges experienced by management due to a lower level of collaboration and differing eligible costs between the federal and provincial delivery partners. It is further acknowledged that management has made concerted efforts to strengthen the design and delivery of the COMRIF Program based on lessons learned from COIP. These efforts by management have been successful in reducing instances of non-compliance and other issues within the COMRIF Program.

## 5.0 Appendix A: Audit Criteria

The following table outlines the audit criteria that were used to assess Industry Canada's management of the COIP and COMRIF Programs for each audit objective.

### **Audit Objective #1: A Program management control framework and related management, operational, and risk management practices were in place and operating as intended.**

Criteria
<b>Governance</b>
Results expected from the program are clear, measurable, and directly related to program objectives
A mechanism exists to identify and share lessons learned, knowledge and expertise between Industry Canada and other Infrastructure Program partners.
Third party delivery agreements/memorandums of understanding clearly define terms, service levels, and performance targets
Expected results are monitored, communicated and reported on a regular and timely basis and support effective and timely management decision-making at both the project and program levels.
Roles and responsibilities for managing and delivering the program are clearly defined between partners, executive committees, and other stakeholders
Communication on program and progress status, issues and results occurs on a timely basis between relevant stakeholders, such as through various Committee structures.
<b>Internal Control</b>
Staff and management who are responsible for program delivery have the required skills, knowledge and capacity
Business planning is performed annually to identify financial and human resource requirements to meet program objectives over the planning cycle
Proper financial controls have been designed and implemented to help ensure that payments are subject to control, account verification and payment requirements under the terms and conditions of the contribution agreements, and Sections 32, 33 and 34 of the <i>Financial Administration Act</i> (FAA)
<b>Risk Management</b>
A mechanism exists to systematically identify, assess, monitor and report on risks facing the program.
A risk-based approach to the monitoring of contribution agreements exists and is followed.

**Audit Objective #2: The transfer payments under the Program were managed in accordance with the *Policy on Transfer Payments***

<b>Criteria</b>
<b>Governance</b>
There is a process in place to determine whether the project was successful in contributing to expected program results.
Program guidelines are fully consistent with the Policy on Transfer Payments.
<b>Internal Control</b>
Applicant's eligibility is proven and documented.
Applicant demonstrates appropriate knowledge and capability, and support structures to undertake the project.
Assessment criteria are defined and support program objectives.
Project complies with program eligibility and assessment criteria.
There is an appropriate process to approve or reject projects by a delegated authority.
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.
The rationale for each funding decision is appropriately documented to permit supervision and review.
Terms and conditions in Contribution agreements are consistent with the Program's Terms and Conditions and clearly outlines expected project results.
Contribution agreements meet 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.
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 and are examined for compliance with terms of contribution agreements.
Advance payments are properly authorized and are in accordance with TBS guidelines.
Progress reports prepared by the recipient, either on a monthly basis or in conjunction with the submission of claims, are reviewed to ensure the project is progressing consistently with contribution agreement statement of work.
A mechanism exists to verify that the terms of contribution agreements have been met. Consequences for non-compliance have been defined and are adhered to in practice.
<b>Risk Management</b>
Monitoring and audit requirements of the program's Risk-Based Audit Framework are met and issues identified are resolved on a timely basis.

## 6.0 Appendix B: Management Action Plan

The following table summarizes recommendations addressing findings from our audit of the COIP and COMRIF Programs.

Recommendation	Management Response and Proposed Action	Responsible Official	Action Completion Date
<p>1. The Director General, SSIP, in consultation with delivery partners, develop and implement a risk-based approach and related training to the conduct of site visits, monitoring, recipient auditing activities as well as program management audits and ensure the results of program management audits are forwarded to the Audit and Evaluation Branch upon completion.</p>	<p>A process review is already underway to examine current practices and introduce a risk-based approach to project monitoring activities for both COMRIF and future programs. The approach will also be applied to COIP subject to remaining opportunities, given the program's proximity to full completion.</p> <p>A COMRIF recipient audit will be undertaken shortly and will reflect a risk-based management approach.</p> <p>Delivery partners will be consulted, where appropriate, particularly in the area of risk determination and project review parameters.</p> <p>Results of program management audits will be forwarded to AEB upon completion.</p>	<p>Director General, SSIP</p>	<p>July 2008</p> <p>Progress Report December 2008 / Final Report 2009-2010</p> <p>Ongoing as required</p> <p>Ongoing as required</p>

Recommendation	Management Response and Proposed Action	Responsible Official	Action Completion Date
<p>2. The Director General, SSIP, should ensure that the Director of Operations, Infrastructure Operations Directorate (IOD) reviews and revises existing claims review and approval procedures to reflect a risk-based approach and develops and implements a quality control process to ensure on-going compliance with established procedures.</p>	<p>Claims review and approval procedures are currently being examined under the process review. Both a risk-based approach and a quality control process will be integrated into these procedures.</p>	<p>Director General, SSIP</p>	<p>April 2008</p>
<p>3. The Director General, SSIP, in consultation with Infrastructure Canada and other federal delivery partners, should consider revising the existing process for gathering and reporting on Program performance results to better reflect actual Program impacts.</p>	<p>The collection of performance measures data begun in 2007 will continue towards completion and reporting.</p> <p>The Director General, SSIP, will share the results of the audit with Infrastructure Canada for consideration in possible revisions to existing or planning for new Program performance results.</p>	<p>Director General, SSIP</p>	<p>March 2008</p> <p>Upon issuance of final report</p>