

SSHRC  CRSH

**INTERNAL AUDIT OF
THE INDIRECT COSTS PROGRAM**

Final report

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I. INTRODUCTION

1. Background and Context

The Indirect Costs Program (ICP) helps Canadian postsecondary institutions with the ancillary costs of research through the provision of grants. Its current budget is \$325 million for 2009-10.

The program is administered by a small team of dedicated staff under the secretariat of the Canada Research Chairs Program within the Social Sciences and Humanities Research Council (SSHRC).

Research institutions that meet the eligibility criteria for an ICP grant award are informed of their eligibility and the extent of the grant that they are entitled to receive, and are invited to submit a request form to receive the funds.

For 2008-09, the extent of funds awarded range from a few thousand dollars to up to \$39 million, and were spread throughout approximately 125 institutions. Awards are calculated using an approved funding formula that is based upon the average amount of research funding received over a three-year period from the following three federal government funding agencies:

- Social Sciences and Humanities Research Council (SSHRC);
- Natural Sciences and Engineering Research Council (NSERC); and
- Canadian Institutes of Health Research (CIHR).

Expenditures against the award are allowable under certain criteria that support research activities. The list of eligible expenditures includes the following examples:

- Facilities—renovation and maintenance, upgrading of equipment, operating costs and technical support for laboratories.
- Research Resources—acquisition of library materials, improving information resources, and library operating and administrative costs.
- Management and Administration—support for the completion of grant applications, acquisition and upgrade of information systems, training of research personnel, and research planning and promotion.
- Regulatory Requirements—support of regulatory bodies, upgrade and maintenance of facilities to meet regulatory requirements and training to meet regulatory requirements (e.g., health and safety, ethics, animal care).
- Intellectual Property—supporting technology licensing, administration of agreements, and costs associated with conferences where the general public is the target audience.

While certain aspects of the program are straightforward (for example, there are clear rules governing eligibility and the calculation of an award), given the nature of the program (the provision of grants to cover indirect costs) there are other areas, such as assessing and reporting on the impact or the value-added results of the program, that are more challenging to address. Regardless, in today's public sector environment, it is critical that all programs that involve the distribution of public funds have appropriate governance, risk management

and controls in place which enable the program to demonstrate its due diligence and accountability for the administration and overall management of the program.

2. Audit Objective, Scope and Approach

This audit was undertaken by Deloitte & Touche LLP (Deloitte) on behalf of SSHRC. The contract was awarded to Deloitte after a process of competitive tendering.

The objective of the audit was to provide assurance that within the ICP, management controls, risk management practices and overall governance structures are adequate and effective.

The scope of the audit included eligibility assessment, grant award calculations, payments, and monitoring arrangements covering the periods 2006-07 and 2007-08. The first quarter of 2008-09 was also included in the scope, as this incorporated the most recent eligibility and award calculation exercises.

The approach for this audit included the following activities:

- during the planning phase, preliminary interviews were undertaken with program management and administrative staff, as well as a high-level review of documentation, to develop an understanding of the program and to identify potential risks that needed to be considered in the development of the audit program and audit criteria;
- based upon the audit program developed during the planning phase, follow-up interviews and a program of audit testing were conducted; and
- the results of testing, interviews and documentation review were documented in the audit program and in this audit report for management comments.

It should be noted that the objective and scope of work for this audit were determined in conjunction with, and approved by, SSHRC management.

I. AUDIT CONCLUSION AND FINDINGS

1. Overall Conclusion

Based on the audit work conducted, many elements of good program administration were noted, including evidence of strategic documents, an RMAF/RBAF with performance indicators, and a website for communication of the key elements of the program. A key risk to the ICP is incorrectly applying the funding formula and thereby distributing funds incorrectly. Audit testing confirmed that the calculations performed by the program in applying the funding calculation formula and the controls over the payment process were adequate and operating as intended. However, the audit did identify opportunities for improvement in a variety of areas. The opportunities are summarized as follows and detailed further in section 2.2:

- formalization of decision-making processes;
- administrative practices;
- eligibility assessment;
- site monitoring visits;
- performance measurement and reporting;
- reporting to the minister; and
- strategic governance and risk management of the program.

2. Findings

2.1. Formalization of Decision-Making Processes

2.1.1. Findings

It is important for any program to have a formal approval process in place to enable decision-making on ongoing operating decisions related to program delivery. Through this audit, two instances were noted where normal program operating protocols were amended without formal approval.

- The scheduled program of site monitoring visits was postponed in January 2008 due to staffing constraints and a concern regarding potential duplication with the impending evaluation exercise.
- Two instances were identified where the expected three-year average of agency funding was not utilized to calculate award entitlement. Instead, a one-year and two-year average were utilized for new institutions.

While the program was able to provide rationale for both of these cases, there is no formal record of a decision made by the ICP steering committee to approve these changes to normal operating protocols. Instead, based on the minutes of relevant meetings, it appears that these items were relayed for information purposes only, as opposed to formal approval.

In today's environment, it is critical that the rationale for such decisions be clearly documented and receive formal approval by an appropriate governance body to demonstrate due diligence and transparency in the decision-making process.

2.1.2. Recommendations

It is recommended that any decisions related to changes in standard operating practices, protocols and/or interpretations of program terms and conditions be formally reported to a suitable governance committee for their formal approval, and that evidence of such approval be maintained.

<i>Management Response</i>	<i>Action/Timeframe</i>
The existing governing structure of the program is such that only issues of strategic importance are brought to the attention of the steering committee for decision and approval. On a daily basis, oversight of the program is provided by an executive director who has the authority to make decisions on standard operating practices, protocols and the interpretation of the program's terms and conditions.	Industry Canada (evaluation directorate) is leading a review of governance and administrative mechanisms of all tri-Council programs, with a report scheduled to be delivered to tri-Council presidents and the deputy minister of industry by February 2009. The secretariat will initiate a review of the governance of all programs within its mandate upon receipt of Industry Canada's governance review. The results of these reviews will further clarify the need for changes to the program governance structure.

2.2. Administrative Practices

2.2.1. Findings

Two areas were noted with respect to administration of the program where improvements can be made: documented operating procedures and addressing staff vacancies and succession planning.

Standard operating procedures documenting the administrative activities and processes conducted within a program are necessary in order to provide guidance to staff involved in the administration and management of the program and to preserve corporate memory. Although the ICP is administered by a small team of staff, such a set of documented procedures would provide for continuity and consistency in program application, particularly if and when there is staff turnover and when there is a requirement for training of new staff. The audit team noted that while ICP administrative staff have developed an administrative guidelines document (initially intended for the provision of guidance to institutions but which has been utilized to update the ICP website), internal operating procedures and guidelines have been instigated (but remain a work-in-progress) to provide guidance with regard to key processes conducted to administer the program.

It was noted that this program is administered by a small team of staff and, as such, any changes to the staffing structure in terms of vacancies or frequent turnover can create an additional burden on the other staff, and potentially impact the program's ability to complete required activities. As an example, the audit team noted that the position of performance analyst is currently vacant due to secondment. Feedback from other ICP staff identified adverse effects of this vacancy on the program's ability to undertake planned site monitoring visits, to analyze the results and outcomes both from site monitoring visits and from the annual outcome reports submitted by institutions, and in the program's ability to develop its annual report to the minister on a timely basis. In addition, it was noted that the position of senior program officer (the lead individual for the administration of the program) will become vacant at the end of 2009-10 due to retirement. Given the importance of this position to the ongoing administration of the program, having a transition or succession plan is critical; however, a

process of transition or succession planning has not yet been developed and instigated by the program.

2.2.2. Recommendations

It is recommended that standard operating procedures be developed to provide guidance to staff involved in the administration of the program. Such procedures should cover the key aspects of the program’s administration, including as a minimum:

- confirmation and approval of institution eligibility;
- method of calculating and approving ICP awards;
- reconciliation between the eligibility list and the institutions included in the award calculation process, and required corrective actions where variances are detected;
- use of the CIMS database;
- completion of site monitoring visits;
- collation and summarization of annual outcome reporting; and
- management activities (e.g. payment approval, protocols for decision making, and reporting to the steering committee and the minister).

<i>Management Response</i>	<i>Action/Timeframe</i>
<p>While it is true that a formal procedures manual for the program is not available yet, it does not mean that the program operates without documented procedures. Until September 2007, the administrative support tasks for the program were carried out by the senior program officer with assistance from the CRC administrative assistant and the program support officer. Each one of these staff members documented the procedures for which they were responsible. With the hiring of a program assistant, many procedures have now been formalized and are being documented to be included in a formal procedures manual. An administrative guide for the use of universities has also been created and will be shared with the community in the near future.</p>	<p>The preparation of a procedures manual for the program is underway and expected to be completed by March 2010.</p> <p>The administrative guide for the use of universities has become the content of a revised website for the ICP (www.indirectcosts.gc.ca). The website will be made compliant with the government’s Common Look and Feel requirements during the course of 2009-10 fiscal year.</p>

It is also recommended that an action plan be developed to address the staffing challenges faced within the program, with particular importance placed on transition and succession planning for the impending retirement of the senior program officer, including an appropriate transition and hand-over period.

<i>Management Response</i>	<i>Action/Timeframe</i>
<p>The position of performance analyst has been vacant since December 2007. Efforts to staff the position on a term basis failed. The position of program analyst has recently been filled on a term basis pending the results of the classification. The position of data management coordinator will also be reviewed in November 2008 by the SSHRC classification committee. The senior program officer is retiring in May 2010, which leaves management sufficient time to plan for transition and succession.</p>	<p>The position of program analyst was staffed as of May 1, 2009. The position of data management coordinator was staffed as of December 22, 2008.</p> <p>The classification level for the position of performance analyst makes it difficult to recruit someone with the qualifications and experience required to manage the performance measurement function of the three programs administered by the secretariat—the Canada Research Chairs Program, the Indirect Costs Program, and the Canada Excellence Research Chairs Program. As of May 15, 2009, the position remains unfilled.</p> <p>A staffing plan will be developed in fall 2009 for the replacement of the retiring senior program officer.</p>

2.3. Eligibility assessment

2.3.1. Findings

In order to receive a grant for indirect costs under the program, institutions must meet certain eligibility criteria. All such institutions are identified by the program on a “validation list” that represents the core working document for establishing and confirming the eligibility of institutions. Based on interviews conducted, the senior program officer undertakes an annual review of the validation list of eligible institutions and amends the list as necessary. Having said this, there is no formal sign-off of the annual review of the validation list of eligible institutions by the senior program officer, nor is there a formal approval of the list provided by the director of the program. Similarly, there is no formalized evidence of the activities undertaken by the senior program officer to confirm the accuracy and completeness of the list.

Once eligibility is established, the institutions are invited to access an online application form for completion prior to receiving their award. Institutions are required to provide an indication of how much of the award they plan to spend under five categories of indirect costs (facilities, resources, management and administration, regulatory requirements and intellectual property), with one figure required for each category. There is no current requirement for institutions to provide any further breakdown or backup of proposed expenditures on the application form. As a result, limited due diligence is feasible for the program, based on that level of information. After discussions with the program’s administrative staff, they noted that, given the nature of the program (i.e. indirect costs, with approximately 20 per cent of indirect costs being covered through these grants), it is difficult to effectively challenge the data provided by eligible institutions to confirm that the funds will be spent in eligible expenditure areas. Regardless, in today’s environment, it is important for the program to be able to demonstrate an appropriate degree of due diligence prior to distribution of public funds.

2.3.2. Recommendations

It is recommended that the annual review of the list of eligible institutions receive formal approval by the director of the program to confirm completeness and accuracy. This should be accompanied by adequate and available supporting information evidencing the activities undertaken by the senior program officer to establish and confirm eligibility. Consideration should also be given to presenting results of this analysis and approval to an appropriate governance committee.

Management Response	Action/Timeframe
The responsibility to review the eligibility of institutions on an annual basis is clearly defined in the job profile of the senior program officer which states: <i>“Liases and negotiates with provincial and territorial authorities and with Canadian universities and colleges to determine institutional eligibility and grant entitlement.”</i> Decisions are documented in paper or electronic files, and the revised list of eligible institutions is presented to the members of the Interagency Program Review Committee and the Interagency Data Working Group for their comments and input. All final decisions are communicated to the agencies and recorded in the annual file. The list is then used for the annual calculations of the indirect costs grants.	<p>According to the design of the program, the annual review of the institutional list is a management function and does not require the approval of the program’s steering committee.</p> <p>In order to address the recommendation that appropriate approval be provided, we have added signature lines for the executive director and the senior program officer to the final institutional list. This has been implemented for the 2008 institutional list.</p>

It is also recommended that program management determine what due diligence can be reasonably conducted prior to the distribution of funds, considering the practicalities and resource requirements necessary to conduct such due diligence. As an example, the program may require that institutions provide additional documentation supporting the basis for their planned expenditures in each indirect cost category. This would enable comparison with the approved list of eligible expenditures and provide the opportunity to highlight potential anomalies prior to disbursement. This would also provide a point of comparison to the program when site monitoring visits are completed and when outcome reports are reviewed, to determine if funds were spent as planned. Alternatively, if such due diligence is not feasible, it is recommended that the program consider whether changes to its terms and conditions may be required to enable due diligence activities (e.g. allow for recipient audits to be completed).

Management Response	Action/Timeframe
In the first three years of the program, institutions were required to submit a lengthy request form outlining how they were planning to spend their indirect costs grants. Given the detail provided, staff could identify planned expenditures that weren’t eligible and have the institutions make adjustments and resubmit their request form. The process required extensive human	Management justifies its earlier decision to simplify the request form due to our knowledge that universities have extensive budget processes and that the decisions on how to spend their indirect costs grants are made in consultation with many senior administrators. Given that the indirect costs grants are an entitlement to universities and are not awarded through a competitive

<p>resources (mainly in the form of overtime for the senior program officer). During the same three years, it was also observed that the reported expenditures at the end of each fiscal year differed very slightly from the planned expenditures. It was decided by management to reduce the workload on the institutions by simplifying the request form.</p>	<p>process, we believe that it would be counter-productive to return to the lengthy request form. Institutions can make better use of their time by focusing on providing more detailed and informative annual outcomes reports.</p> <p>In addition, the Treasury Board of Canada’s new Policy on Transfer Payments indicates under Section 5.2.1 that administrative requirements on applicants and recipients must be proportionate to: the level of risk specific to the program (moderate as per section 7.2.1 of the Risk-based Audit Framework); the materiality of funding; and the risk profile of applicants and recipients.</p> <p>The risks are rated as moderate because of the nature of the program and its relatively modest contribution to the indirect costs of research; the total budget of \$315 million is shared among 125 institutions; and institutions receiving indirect costs grants are eligible either because they have signed an MOU with the agencies, or because they qualify under Schedule 9 of the MOU.</p> <p>Management will therefore maintain its current practice of requiring only the existing simplified request form.</p>
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2.4. Site Monitoring Visits

2.4.1. Findings

The audit team noted that the program has developed a formal schedule of site monitoring visits to be completed. Given the terms and conditions of the program, site monitoring visits are for monitoring purposes as opposed to formal recipient audits. Having said that, coverage extends to both performance and financial monitoring, and a series of questionnaires are used to undertake the visit. Following the site monitoring visit, the institution is sent a management letter outlining the broad findings of the site monitoring visit.

As noted previously, the audit found the site monitoring visits were postponed in January 2008—this was due in part to the staffing vacancy within the ICP administrative team and to avoid the potential for site visits to duplicate efforts of the impending evaluation exercise.

2.4.2. Recommendations

It is recommended that the schedule of site monitoring visits recommence, as these visits are an important component of the program to enable ongoing due diligence by management (regardless of whether other initiatives such as audits or evaluations are being conducted) and continuous improvement of the program.

<i>Management Response</i>	<i>Action/Timeframe</i>
Personnel shortages as well as the late selection of case studies for the evaluation were the reasons why the visits were postponed in 2008. The site visits will recommence as soon as the performance analyst position has been filled. The schedule will be adjusted to take into consideration the senior program officer's workload in her last year of employment and the findings of the sixth-year evaluation.	The schedule for site visits has been set for 2009-10. The senior program officer and the program analyst will visit 26 institutions.

It is also recommended that the notes from site monitoring visits be collated into a summary report that would serve to identify trends and issues requiring corrective action and required follow-up activities.

<i>Management Response</i>	<i>Action/Timeframe</i>
The notes from the site visits carried out from December 2006 to December 2007 have been transcribed by a term employee in the CPE division. They have been provided to the consultants who were hired to carry out the sixth-year evaluation. The 2007-08 work plan for the performance analyst included the preparation of a summary report. Unfortunately, the secondment of the performance analyst to Industry Canada as of December 2007 made it impossible to carry out all the activities outlined in the work plan.	The notes from the site visits were provided to the evaluation consultants and have since been saved in the corporate files.

2.5. Performance Measurement and Reporting

2.5.1. Findings

In today's public sector environment, it is important for programs to be in a position to demonstrate results and value. It was noted that the program's RBAF/RMAF document contains eight performance measurement areas, a primary data source for which are the annual outcome reports received from institutions. Progress has been made by the ICP administrative team in developing and revising the format of the outcome reports and this development process remains ongoing. There is a mix of quantitative and qualitative indicators for each performance measurement area. Based on the program's practices, performance measurement results are to be collated and summarized for the purpose of inclusion in an annual report to the minister.

The eight performance measurement areas and examples of their key indicators are detailed as follows:

<i>Performance Area</i>	<i>Example Indicators</i>	<i>Data Source</i>
Contributions to the provision of well-equipped research facilities	<ul style="list-style-type: none"> • Research space per researcher • Proportion of grant spent on facilities • Qualitative descriptions of facilities 	Outcome reports
Contributions to the provision of research resources	<ul style="list-style-type: none"> • Proportion of grant allocated to research resources • Qualitative description of contributions 	Outcome reports
Contributions to the management and administration of the research enterprise	<ul style="list-style-type: none"> • Number of full-time equivalents in management and administration • Number of applications to granting agencies • Proportion of grant allocated to management and administration 	Outcome reports Granting agency databases
Ability to meet regulatory requirements and international accreditation standards in research	<ul style="list-style-type: none"> • Status of compliance with policies • Number of FTEs devoted to meeting requirements • Qualitative descriptions 	Outcome reports
Contributions to the transfer of knowledge including commercialization and management of the intellectual property generated by research activities	<ul style="list-style-type: none"> • Number of FTEs • Proportion of grant allocated • Qualitative descriptions 	Outcome reports
Contributions to the attractiveness of Canadian research environments	<ul style="list-style-type: none"> • Number of researchers • Total research revenue • Qualitative assessment 	Outcome reports Stats Can
Compliance with regulatory requirements	<ul style="list-style-type: none"> • Status of compliance • Qualitative descriptions 	Outcome reports
Contributions to the transfer of knowledge and commercialization of results	<ul style="list-style-type: none"> • Number of patent applications • Number of license agreements • Qualitative assessment 	Outcome reports Stats Can Interviews

It was noted that the program provides primarily qualitative descriptions of results in its annual report to the minister, using the outcome reports as the basis for that reporting. All performance measures (including the more quantitative measures) are not formally tracked, monitored and reported on by the program.

In addition, it was noted that, while there is no formal requirement to report to the minister on the outcomes and benefits of the program, ICP management recognizes that this is good practice and an opportunity to demonstrate the impact and value of the program, and as such has produced an annual report to the minister each year since the inception of the program in

2003, up to 2006. The 2006-07 report, however, remains in draft format and the process of preparing the 2007-08 report is yet to commence.

2.5.2. Recommendation

It is recommended that the program review its established performance measures to ensure an appropriate mix of outputs and outcomes are tracked, and that a more formalized process be put in place to collect, analyze and report on all identified performance measures. In doing so, it is also recommended that targets be established for each of the performance measures to enable the program to self-assess its performance.

<i>Management Response</i>	<i>Action/Timeframe</i>
The indicators as identified in the RMAF were originally the result of negotiations between the program management and Treasury Board analysts in the early days of the program. The indicators underwent minor revisions after the mid-term review of 2005 but continue to present challenges. These quantitative indicators are difficult to track and the program has no guarantee that institutions are using the same approach to calculate the figures. Consequently, although we can retrieve the information from the database, we have not attempted to analyze it. The consultants hired to carry out the sixth-year evaluation will look into the matter and hopefully be able to make useful suggestions regarding the nature of the indicators and ways in which we can ensure a consistent approach within institutions to provide the data.	The sixth-year evaluation provided little advice on this matter. Management has therefore committed to embark on a series of consultations with universities and other stakeholders to review the current indicators and the questions in the reporting form.

It is also recommended that all performance measures be reported upon in the annual report to the minister, and that the 2006-07 and 2007-08 reports to the minister be completed on a timely basis.

<i>Management Response</i>	<i>Action/Timeframe</i>
It should be noted that there is no formal program requirement to produce annual reports to the minister. The secretariat is currently reviewing the nature, content and timing of the performance reports that it produces. The goal is to produce relevant, timely and accurate reports. The implementation of a data quality framework for the program data and the full staffing of program positions will help ensure this goal is achieved. Some delay in reporting is to be expected given the time lag in receiving reports from universities.	Both the 2006-07 and the 2007-08 progress reports are now posted on the website. The 2008-09 outcomes reports from universities are due at the end of June 2009. Analysis of these reports will commence during the summer and a draft 2008-09 progress report is expected to be ready by November 2009. The plan for further performance reports will be developed in winter/spring 2009. Discussions will be initiated in the near future regarding the content and focus of future progress reports.

2.6. Strategic Governance and Risk Management of the Program

2.6.1. Findings

As noted previously, adequate and effective governance of government programs is a key priority, particularly in terms of being able to demonstrate accountability and transparency, and appropriate due diligence over distribution of public funds.

The Treasury Board Policy on Transfer Payments states that the government is committed to ensuring that transfer payments are managed in a manner that respects sound stewardship and the highest level of integrity, transparency and accountability. In addition, the government seeks to ensure that transfer payment programs are “designed, delivered and managed in a manner that is fair, accessible and effective for all involved—departments, applicants and recipients—all of whom have important contributions to make in achieving the objectives of the government and in furthering Canadian aims.”

Through this audit, it was noted that the program has a variety of processes in place to administer the program on a day-to-day basis. The audit team did note, however, that more strategic governance and risk management processes to enable the ongoing management of the program and ensure it is achieving its objectives and meeting expectations for use of public funds, could be strengthened. The program has discussed putting in place an operational management committee which would take on this role. Such strategic governance and risk management processes should provide for regular and effective oversight on the following types of topics:

- management of the ongoing risks associated with the program with appropriate reporting to stakeholders;
- adequacy of the overall design of the program—challenging practices and arrangements where necessary; and
- extent of value-added by the program.

2.6.2. Recommendation

It is recommended that mechanisms be put in place to allow for greater operational governance and risk management of the program through a process of continuous assessment of the risks facing the program, the ongoing value of the program and the achievement of its objectives.

<i>Management Response</i>	<i>Action/Timeframe</i>
The action plan for the performance measurement function of the program does provide for continuous assessment of the risks facing the program, the ongoing value of the program, and the achievement of its objectives. Activities and outcomes to date were not obvious to the auditors because of the absence on staff of the performance analyst and the lack of a summary report on the site visits carried out so far.	In the absence on staff of a performance analyst, management will develop a three-year business plan to identify future directions to be pursued to ensure the program achieves its strategic objectives.