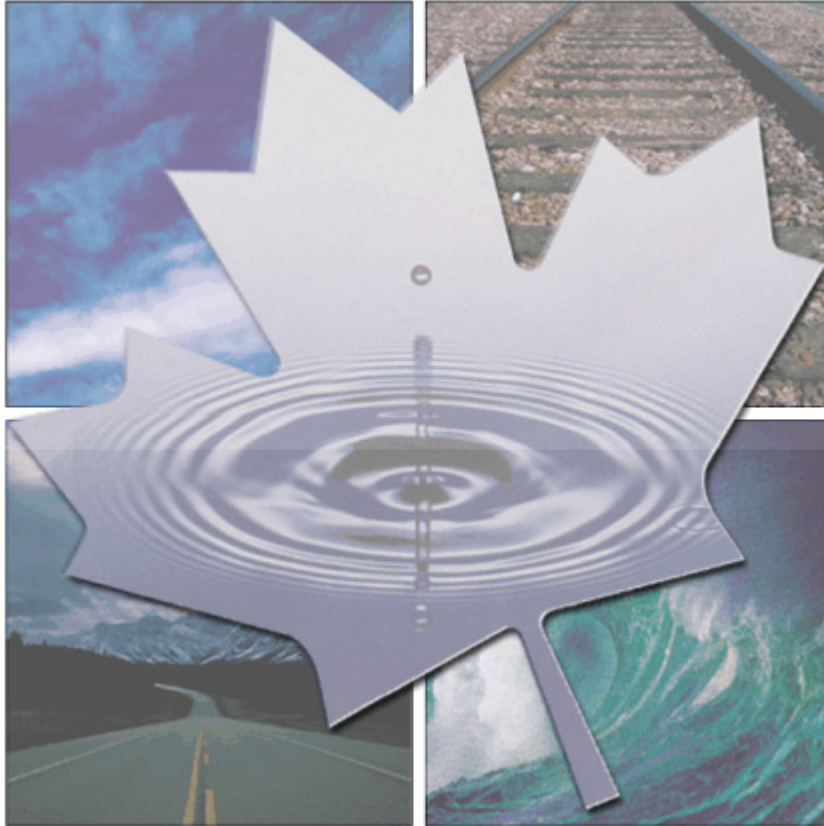


Audit and Advisory Services
Integrity, Innovation and Quality



**Audit of Oversight of Crown Corporations, Shared
Governance and Other Organizations**

September 2015

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1. EXECUTIVE SUMMARY

The Minister of Transport's portfolio which includes Transport Canada, 12¹ Crown corporations, 42 shared governance organizations and three administrative agencies is currently one of the largest and most diverse in the federal government.

The promotion of good governance in Crown corporations and other arm's length entities was identified in the Department's 2013-14 Corporate Risk Profile as one of the measures that will ensure that Transport Canada's policies, programs and activities will meet the long-term needs of the transportation system.

The Audit of Transport Canada's Oversight of Crown Corporations, Shared Governance and Other Organizations was included in our 2014/15-2016/17 Risk-Based Audit Plan. Our audit objective was to assess the effectiveness of the mechanisms in place to manage the relationships between Transport Canada and the Crown corporations, shared governance and other organizations in the Minister of Transport's portfolio. While recognizing that organizations outside of the Department are also involved in the management of this relationship, our audit focused on whether the Department itself has effective processes in place to support the Minister with respect to portfolio responsibilities. We assessed the processes for appointments, performance evaluations and review of corporate plans as well as looked at the controls in place over payments to Crown corporations within the Department.

Through our audit findings we can provide assurance that there are processes in place to manage the relationship between the Minister and the Transport portfolio. While there are processes in place, they should be more effective. As a result, the Department needs to make improvements to these processes to better support the Minister in carrying out portfolio responsibilities.

The Department's approach to supporting ministerial responsibilities associated with the oversight of Crown corporations needs to be clearly defined with roles and responsibilities, authorities and shared accountabilities articulated and documented. Opportunities must be further explored to provide increased support to the Minister's office in the decision making process with respect to portfolio appointments, performance evaluations of CEOs and corporate plans. Document management and information security practices must be improved to ensure adherence to departmental policies. Finally, guidance on how to process payments to Crown corporations is needed to ensure a consistent approach is followed.

¹ At the time of the review period for this audit, there were 12 Crown Corporations in the Transport Portfolio. On Feb 1, 2015, the Blue Water Bridge Authority was amalgamated with the Federal Bridge Corporation Limited.

We are confident that, by addressing these areas, the Crown Corporations and Portfolio Governance Directorate will be in a position to leverage more fully the potential of its support role to the Minister for the oversight of portfolio responsibilities.

STATEMENT OF CONFORMANCE

This Audit conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of an external assessment of Internal Audit's *Quality Assurance and Improvement Program*.

Signatures

Signed	2015-09
_____ Dave Leach (CIA, MPA) Director, Audit and Advisory Services	_____ Date
Signed	2015-09
_____ Martin Rubenstein (CPA, CIA, CFE) Chief Audit and Evaluation Executive	_____ Date

2. INTRODUCTION

AUDIT OBJECTIVE

Our audit was carried out as part of Transport Canada's 2014/15 -2016/17 risk-based audit plan to provide assurance that there are mechanisms in place to help the Minister effectively manage the relationship between Transport Canada and the Crown corporations, shared governance and other organizations² in the Minister's portfolio.

AUDIT APPROACH

As part of this audit we consulted with senior management and key departmental officials involved with portfolio coordination including the Crown Corporations and Portfolio Governance Directorate, Aviation Security, Marine Policy and Corporate Finance. We also consulted with Treasury Board Secretariat officials.

We reviewed documents related to portfolio coordination and gathered and analyzed data on the effectiveness of processes and mechanisms in place.

In order to also gain the perspective of Crown corporations, we reached out directly to representatives of all Crown corporations within the Minister's portfolio via a questionnaire on the adequacy and sufficiency of the portfolio coordination role Transport Canada performs. Of those, four large and two smaller Crown corporations provided feedback.

AUDIT CRITERIA

Our audit criteria followed four lines of inquiry.

- 1. The Department, within its limited role, supports an appointments process that demonstrates transparency and openness, and identifies qualified candidates to provide effective oversight.**

For this line of inquiry we looked at the Department's support role in the overall appointments process, which includes:

- GIC and ministerial appointments that follow established procedures and are documented.
- GIC and ministerial appointments that are based on established qualifications, are transparent, and are open to all Canadians.
- Competent candidates being identified for the Minister's consideration when applicable.

² Administrative agencies include the Canadian Transportation Agency, the Ship-Source Oil Pollution Fund and the Transportation Appeal Tribunal of Canada.

- GIC and ministerial appointment recommendations being made to the Minister in a timely manner.
- Reappointment and replacement recommendations that follow established processes, are based on performance, are documented, and are communicated in a timely manner.
- Appointments and reappointments being staggered to provide continuity and experience.

2. There is an effective and documented Crown corporation leadership performance management process in place to provide advice to the Minister on leadership performance.

We focused on whether the Department, in working with the Privy Council Office (PCO), ensures:

- Performance evaluations for heads of Crown corporations clearly demonstrate performance against established objectives, and are provided to the Department on a timely basis.
- Performance is reviewed and a recommendation is provided to the Minister as input into annual performance evaluation process administered by PCO.

3. There is an effective corporate plan review process that ensures the stated objectives and strategies achieve the Minister's expectations for each Crown corporation.

We examined whether the Department, in its support role working with central agencies, ensures:

- There is an established process for the review of corporate plans.
- There is evidence of a thorough review and constructive feedback given on corporate plans.
- Corporate plans are reviewed within the established timeframe.
- Portfolio managers have the necessary expertise, knowledge, and tools to effectively review corporate plans.
- There is a process in place to allow the Minister to communicate/set out the expectations for the Crown corporations.

4. Payments to Crown corporations comply with relevant policies, procedures and the corporate plan.

We looked at whether within the Department:

- There is a payment process and if it is being followed.
- There is a formal and documented year-end payment verification process and if it is being followed.

- There is a process to ensure compliance with TB's Directive on the *Use of the Consolidated Revenue Fund for Crown Corporations*.

REPORT STRUCTURE

For each finding, which we have presented in order of importance, we include important contextual information, what we expected to find followed by our overall finding supported by specific observations and recommendations. The last section of the report is management's action plan to address the audit recommendations.

DEPARTMENTAL CONTEXT

Within the Government of Canada, the Minister of Transport is responsible for the activities of a portfolio that includes Transport Canada, 12 Crown corporations³, 42 shared governance organizations and three administrative agencies (see Appendix A). This portfolio is currently one of the largest and most diverse in the federal government, representing one third of all Crown corporations.

Crown corporations are distinct legal entities wholly owned by the Crown that operate at arm's length from Ministers and public servants in a commercial environment. While they are not subject to the government's human resource and administrative policies, they are still ultimately accountable, through the appropriate Minister, to Parliament for the conduct of their affairs⁴ (due diligence, transparency, and fairness). Part X of the Financial Administration Act (FAA) outlines the controls and accountability framework for Crown corporations.

Ministers are ultimately accountable to Parliament for the overall effectiveness of Crown corporations in their portfolio, in addition to being answerable for all activities of the Crown corporation, including its day-to-day operations. A Crown corporation's Board of Directors is accountable to the responsible Minister for the stewardship of the corporation. The chief executive officer (CEO) of the corporation is accountable to the Board of Directors.

Shared governance organizations are corporate entities without share capital (i.e. without shares) for which Canada, either directly or through a Crown corporation, has a right to appoint or nominate one or more members to the governing body. The shared governance organizations do not report to Parliament. A Minister's role is limited to the authority to appoint or nominate one or more members to the governing body of the organization.

³ At the time of the review period for this audit, there were 12 Crown Corporations in the Transport Portfolio. On Feb 1, 2015, the Blue Water Bridge Authority was amalgamated with the Federal Bridge Corporation Limited.

⁴ Sec. 88 of the *Financial Administration Act*

Administrative agencies such as the Transportation Appeal Tribunal of Canada are independent, quasi-judicial bodies that operate at arm's length from the responsible Minister. They are established by an act of Parliament to perform administrative, research, supervisory or regulatory functions of a government nature.

Part of the Minister's responsibility is to promote coherence and foster cooperation amongst the portfolio organizations with a view to facilitating good governance, coordinating policy, legislation and programs, and being accountable to Parliament and the public while respecting the statutory based relationship between the entities and the Minister.

As the Minister's senior policy advisor, the Deputy Minister is responsible for providing the broadest possible expert advice and support to the Minister in fulfilling these overall portfolio responsibilities.

Within the Department, there are several branches that in turn provide portfolio support to the Deputy Minister. The Corporations and Portfolio Governance Directorate provides portfolio support for most Crown corporations except Marine Policy is responsible for overseeing Ridley Terminals; Aviation Security provides support for CATSA, Programs Group provides support for the Windsor Detroit Bridge Authority, and Marine Safety is responsible for the regulations pertaining to the four pilotage authorities. Each of these groups assigns a portfolio manager to provide advice to the Deputy Minister (through senior departmental officials) on the affairs of their assigned Crown corporations. This may include the review of and/or involvement in:

- corporate plans and budgets,
- approval and tabling of corporate plan summaries,
- regulatory submissions,
- monthly payments to the Crown corporations, and
- financial and parliamentary reporting.

In addition, the Crown Corporations and Portfolio Governance Directorate housed within the Policy group supports the Minister via the Deputy Minister by:

- administering and supporting the appointment of chief executive officers (CEOs), presidents, chairs and directors to Crown corporations, and directors to other organizations within the portfolio;
- analysing strategic and business management issues, developing options and providing advice to the Crown corporations and the Minister on matters of governance and corporate business management;
- preparing briefings, Treasury Board (TB) submissions for corporate plans, structured communications, correspondence, regulatory submissions, memoranda to cabinet, and legislative advice; and

- facilitating the performance management program for CEOs/presidents of Crown corporations.
- Central agencies including Treasury Board Secretariat and PCO are key partners to the Department in its support role to the Minister for the oversight of portfolio management.

3. FINDINGS AND RECOMMENDATIONS

PROCESS FOR THE REVIEW OF CORPORATE PLANS

Context

Crown corporations are distinct, legal entities wholly owned by the Crown and operated at arm's-length from Ministers and public servants in a commercial environment. The legislation, and especially the policy and guidance surrounding Crown corporation governance, is vague on the definition of "arm's-length".

Although Crown corporations have specific mandates they can also play a role in advancing broader government priorities. Ministers may use a "letter of expectation" to communicate those priorities and their expectations to Crown corporations. Such letters can also be an opportunity to inform the Crown corporation's annual corporate planning process, overarching public policy priorities, and broad strategic goals.

The Government can also provide broad policy guidance and influence and direct the activities of Crown corporations by issuing directives under section 89 of the FAA and approving corporate plans under section 122. Moreover, it can review and change the legislative mandates of a Crown corporation. However, the issuance of specific directives and changing of mandates are processes generally reserved for addressing major issues or implementing significant changes. Conversely, the review and approval of the corporate plan on the recommendation of the Minister (based on the Department's advice) to Treasury Board (via the Treasury Board Secretariat) is the mechanism that provides the Government with the most direct control to influence Crown corporation activities on a regular basis. Indeed, the review of the Crown corporation's corporate plan is a vital control in ensuring that a Crown corporation's activities are in accordance with its mandate and aligned with government priorities. Appendix B highlights the key steps, purpose, and positions that should be involved in the corporate plan review process.⁵

⁵ Internal audit developed this expected practice based on interviews with the Crown Corporations and Portfolio Governance Directorate, other Department OPIs, TBS; review of current corporate plan review processes in place within the Department; and a review of Crown corporation governance supporting documentation.

Departmental Process

Crown corporations develop their annual corporate plan to establish corporate objectives, operational plans, and priorities in accordance with their mandate and the government's priorities. The corporate plan is first reviewed and approved by the Crown corporation's Board of Directors and then forwarded to the Minister for review and recommendation for approval by the Governor in Council (GIC). The Department is responsible for the review and submission of the corporate plan as part of a Treasury Board submission. The corporate plan is considered final once the GIC approves it and, given that this authority had been delegated to Ministers, it is effectively final upon Treasury Board approval.

What We Expected

Given the importance of corporate plans, we expected the Department to undertake a robust, coordinated and consistent review of each corporate plan amongst all stakeholders to ensure the following:

- business activities described in the corporate plan are aligned with the Crown corporation's mandate as well as government priorities and expectations;
- new initiatives and funding requests make good business sense and are properly substantiated with supporting analysis and valid assumptions;
- plans are developed in accordance with Treasury Board Secretariat requirements; and
- plans are compared year over year for consistency as well as to assess the adequacy and appropriateness of performance targets, progress against performance targets, identified risk and mitigation strategies, and capital investment plans and strategies.

What We Found

The Department is not leveraging the full potential of its support role in reviewing the corporate plans.

Treasury Board Secretariat does provide guidance and criteria for developing and reviewing corporate plans. Documents such as the *Key Considerations for Drafting a TB Submission*⁶ and the now-archived *Corporate Plan Checklist*⁷ provide guidance and criteria for drafting a submission and practical questions relevant to reviewing corporate plans. Treasury Board Secretariat has indicated to the Crown Corporations and Portfolio Governance Directorate that it is preparing a new guidance document to be applied to Crown corporations.

⁶ Treasury Board Secretariat, *Key Considerations for Drafting a TB Submission* <http://www.tbs-sct.gc.ca/tbs-pct/dgw-dDir/dsub-eng.asp>

⁷ Treasury Board Secretariat, *Corporate Plan Checklist* ARCHIVED <http://www.tbs-sct.gc.ca/gov-gouv/tools-outils/checklist-verification-eng.asp>

The Crown Corporations and Portfolio Governance Directorate has also developed a manual⁸ for its portfolio managers that includes guidance on the review of corporate plans. We found that the guidance provided by the Crown Corporations and Portfolio Governance Directorate, albeit generic and limited on how to review corporate plans, is aligned with that of TBS and indicates that portfolio managers should “be rigorous, thorough and challenging while at the same time reflecting an understanding of the arm’s length relationship⁹.” We would flag, however, that the manual does not provide examples of what is meant by “challenging”, does not define how the arm’s length relationship should be taken into account, and is still in draft form with no specific requirement for portfolio managers to adhere to it.

In our review of six of the 12 Crown corporation files, we found that in general Transport Canada’s review of the corporate plans was consistent with the Crown Corporations and Portfolio Governance Directorate’s criteria. All files reviewed contained comments on the areas of risk assessments, performance measurements, and capital expenditures but most comments were editorial in nature and focused on the corporate plan presentation rather than content. We did not see evidence of a more substantive review that would challenge the appropriateness of the plans by questioning the assumptions being made, ensuring planned activities are consistent with government priorities and expectations, scrutinizing the sustainability of new initiatives, and ensuring plans make good business sense in that they are cost-effective and generally ensure there is sufficient and appropriate information to support the details of the corporate plan.

We also consulted with Treasury Board Secretariat (TBS) analysts and selected Transport Canada senior management who expressed the view that the Department should perform more due diligence to substantiate the merits of the corporate plans being submitted to TBS. In contrast, portfolio managers within the Crown Corporations and Portfolio Governance Directorate told us that they do perform some due diligence, framed by the FAA and government decisions as articulated in Memoranda to Cabinet, for example. They also indicated that, given the independence of Crown corporations, it may not be appropriate in the context of the review of a corporate plan to prescribe detailed content or the means by which a corporation will meet the government’s objectives/direction.

In response to our questionnaire, some Crown corporations indicated that the Department needs to play a more robust role in the corporate plan exercise, provide more lead time to them to respond to departmental requests, and consult them early on at the working level in the development of the corporate plan.

⁸ Office of Crown Corporation Governance, *Corporate Plans and Operating and Capital Budgets for Crown Corporation - Manual for Portfolio Managers. DRAFT April 2014 created in October 2011*

⁹ CCG Corporate Plans and Operating and Capital Budgets for Crown Corporations - Manual for Portfolio Management, Section – How to Conduct Analysis, p. 22

DEFINING AND COMMUNICATING EXPECTATIONS

Context

The corporate plan review process relies on input from multiple parties from outside the Department. Consequently, early engagement with a Crown corporation and with central agencies such as TBS is critical to ensuring clear communication of government expectations and priorities is provided to the Crown corporation to incorporate in its corporate plan.

What We Expected

We expected the Department to coordinate and facilitate stakeholder engagement and collaboration, including setting clear expectations related to activities, priorities, and timelines around corporate planning, starting at the outset of each fiscal year and continuing throughout the year to help ensure the timely approval of corporate plans.

What We Found

There is no consistent approach to defining and communicating government objectives and departmental expectations to Crown corporations.

Our interviews with TBS and feedback obtained from Crown corporations indicate that early engagement does not always occur. A review of files related to the Department's review of corporate plans identified inconsistencies in how the reviews are conducted and documented, and demonstrated that guidelines in the internal departmental manual are not generally being followed.

There are a number of challenges within the corporate plan development and review process both for a Crown corporation and for the Department. For example, Crown corporations are required to develop their corporate plans well in advance of knowing their budget for the next fiscal year, making it challenging to plan activities. For their part, portfolio managers from the Crown Corporations and Portfolio Governance Directorate indicated that some Crown corporations are not comfortable with providing a draft corporate plan to the Department until their Board of Directors has approved it, making it difficult for the Department to provide input in the early drafting stages.

Survey results from our questionnaire to Crown corporations indicate that there is a need to have ongoing and regular interactions with the Department in order for expectations to be appropriately communicated.

ROLES AND RESPONSIBILITIES

Context

As described at the outset of the report, the Crown Corporations and Portfolio Governance Directorate does not house all the policy expertise necessary to provide support for the effective oversight of portfolio responsibilities. Rather, there are other areas within the Department as well as the central agencies with whom the Crown Corporations and Portfolio Governance Directorate must liaise and collaborate.

What We Expected

We expected well documented and understood roles and responsibilities for all stakeholders involved in the oversight of Crown corporations and other organizations. In order to provide the Minister with coherent policy advice and recommendations, we expected that the Crown Corporations and Portfolio Governance Directorate would have the primary responsibility to facilitate, coordinate, and consolidate a “departmental position”, drawing on input from relevant departmental and central agency expertise.

What We Found

Roles and responsibilities for Crown corporation portfolio management within the Department are not well understood or defined.

There are two documents within the Department that describe the roles and responsibilities of stakeholders. The *Corporate Plans and Operating and Capital Budgets for Crown Corporation - Manual for Portfolio Managers* outlines the roles and responsibilities for Board of Directors and central agencies, and “*Transport Canada Responsibilities Associated with Crown Corporations*”, considered an evergreen document but currently not up to date, broadly outlines the roles and responsibilities for Crown corporation governance in the Department. For each lead and secondary organization it provides information on recurring processes such as appointments and the development of corporate plans, gives an overview of general principles of governance including board composition and interdepartmental roles, and provides policy advice specific to the entity with respect to private sector and stakeholder relations.

Although both documents outline roles and responsibilities, neither contains a comprehensive list of all stakeholders involved with the Crown corporations including a description of each stakeholder’s key roles and responsibilities. Moreover, these documents do not describe in sufficient detail the key activities, including a robust review function that we would expect the Crown Corporations and Portfolio Governance Directorate portfolio managers and other departmental officials to perform when reviewing corporate plans.

In addition, departmental officials expressed differing views regarding their roles and responsibilities when dealing with Crown corporations, and cited some examples where confusion amongst the various branches in the Department resulted in delays in providing timely advice.

To improve the corporate plan review process and ensure well defined and communicated expectations and roles and responsibilities of all stakeholders, we recommend the following.

Recommendation

- 1) A governance framework, should be developed that defines for each Crown corporation:
 - a) the Department's approach to supporting ministerial oversight responsibilities;
 - b) the process for developing, reviewing and approving corporate plans, which would include early engagement with all stakeholders to facilitate communication and understanding of expectations and priorities, and ongoing engagement throughout the process; and
 - c) roles and responsibilities and shared accountabilities within and external to the Department required to carry out effective oversight.

APPOINTMENTS PROCESS

Context

PCO is responsible for establishing and administering policies and services that promote high quality GIC appointments. This includes recruitment, succession planning and selection, as well as providing advice on governance, the application of legislation, conflict of interest and political activities. PCO also manages the GIC Appointments website and provides documentation to the Prime Minister's Office on the timeliness of appointments and the gender and diversity of appointees.

In support of the Minister, Crown Corporations and Portfolio Governance Directorate in conjunction with its colleagues at PCO supports the appointment of qualified individuals to the portfolio positions of CEO, Chair, and Director of a Board who are responsible for the day-to-day operations of the entity.

Within the Minister of Transport's portfolio, there are 231 GIC appointments that are made by the Governor General on the advice of the Privy Council on the recommendation of the Minister. The other 97 appointments, comprised mainly of positions for harbour masters and wharfingers as well as airport authorities (see Appendix C) are ministerial appointments that are made on the advice, support, and consultations with departmental and external officials.

What We Expected

We expected the Department to have effective and timely processes to support ministerial appointments and Minister's recommendations for GIC appointments.

What We Found

There are opportunities for the Department to optimize its support role in the appointments process.

The Crown Corporations and Portfolio Governance Directorate has established procedures to exercise its support role for GIC and ministerial appointments. It was evident from our review that the Crown Corporations and Portfolio Governance Directorate provides input and support to establishing qualifications and helping to ensure an open and transparent process to identify competent candidates for GIC and ministerial appointments. Although controls are in place to identify expiring positions and notify the Minister's office of upcoming appointment requirements, the Crown Corporations and Portfolio Governance Directorate could be more proactive in identifying to the Minister potential GIC and ministerial appointees who meet employment equity criteria such as women and visible minorities when it meets with the Minister's Office on a weekly basis to review the status of vacancies.

Recommendation

- 2) The Crown Corporations and Portfolio Governance Directorate should explore opportunities to provide additional support to the appointments process to help improve its timeliness and the diversity of appointees.

PERFORMANCE MANAGEMENT PROCESS

Context

The Performance Management Program for CEOs of Crown corporations is administered by PCO. The program objectives and guidelines are outlined in the *Performance Management Program for Chief Executive Officers of Crown Corporations Guidelines*.¹⁰

Under this program, the Chair of the Crown corporation is responsible for establishing a performance agreement with the CEO in consultation with the Minister to ensure the priorities and expectations for the year ahead are appropriately reflected. Based on the results achieved by fiscal year end, the Board of Directors makes a recommendation on the performance award to be given to the CEO. In doing so, the Chair must seek the views of the Minister on the performance

¹⁰ Privy Council Office, *Performance Management Program for Chief Executive Officers of Crown Corporations Guidelines*, December 2011 version

assessment and recommended performance rating. The Deputy Minister via the Office of Crown Corporation and Portfolio Governance supports the Minister in this responsibility by providing advice on how accurately the performance evaluation reflects shareholder expectations, the results achieved and the associated proposed rating.

Process

Under previous PCO guidelines, four months were allocated for the receipt, processing and submission of performance evaluation ratings to PCO. Crown corporations had three months after their fiscal year-end to provide the Minister with the CEO's performance evaluation. The Crown Corporations and Portfolio Governance Directorate then had one month to coordinate the review of the performance evaluation which includes reviewing the appropriateness of performance ratings based on the PCO guidelines and making recommendations to the Minister for final sign off and onward transmittal to PCO. PCO has recently changed this timeline to three months in total.¹¹

What We Expected

We expected to find that the departmental performance evaluation process followed PCO's *Performance Management Program for Chief Executive Officers of Crown Corporations Guidelines*. We also expected that, in reviewing CEO performance assessments, departmental portfolio managers were taking into consideration not only the Board's opinion on performance but also departmental officials' input.

What We Found

Current PCO timeline requirements are not being met.

Performance evaluations clearly demonstrate performance against established objectives. These performance evaluations are reviewed, input is sought from other branches within the Department where appropriate, and a recommendation is submitted to the Minister as input into PCO's annual performance evaluation process. Transport Canada officials take between 24 and 82 days to process a performance evaluation. The overall total processing time varied between 6.4 and 8.3 months from a Crown corporation's fiscal-year end to the time the Minister signed off and the evaluation was provided to PCO. Thus, neither the old nor the new PCO guidelines are being met.

¹¹ Privy Council Office, *Performance Management Program for Chief Executive Officers of Crown Corporations Guidelines*, Last Updated December 2014

Recommendations

- 3) Performance evaluation processes should be reviewed to streamline the time taken to consult with departmental officials and the time taken to provide a recommendation to the Minister.
- 4) PCO should be consulted to determine if published timelines for performance evaluation reviews are realistic.

INFORMATION AND SECURITY MANAGEMENT***Context***

Although we did not have a specific audit criteria focused on the management of information, in the course of examining the corporate plan review process we identified some issues that warrant management's attention. Most of the information to which the Crown Corporations and Portfolio Governance Directorate is privy is classified as protected or above. Consequently, as part of our overall auditing, in our review of departmental documents and processes related to portfolio coordination we took into account how the Crown Corporations and Portfolio Governance Directorate handles such information. Under departmental guidelines, "Protected C" and "Classified" documents are to be stored on removable media and locked in a security-approved container, and "Protected B" documents are to be stored on Transport Canada's electronic infrastructure with encryption.

What We Expected

We expected to find information resources of business value (official records) saved to the appropriate security level and in a trusted corporate repository.

What We Found

The Crown Corporations and Portfolio Governance Directorate does not follow document management practices under TC's Information Management Directive or its guidance on the handling of classified and protected information.

The Crown Corporations and Portfolio Governance Directorate does not have standard operating procedures that provide guidance as to which documents to retain and where to appropriately store them.

Contrary to the Department's information security protocols, the Crown Corporations and Portfolio Governance Directorate is retaining unencrypted "Protected B" and "Classified" documents on a shared drive. From our interviews, we learned that some information that is considered to be an official record and, therefore must be saved in a trusted corporate repository,

is being retained in personal email folders. These e-mail folders are not considered to be a corporate repository. There is an additional risk of losing and accessing corporate information from these e-mail folders, for example, when an employee departs and their e-mail files are deleted or when an employee is on extended leave and their email files are not readily accessible. Interviewees also indicated that they often communicate with Crown corporations verbally but do not always document those discussions to be saved in the corporate repository.

Recommendation

5. The Crown Corporations and Portfolio Governance Directorate should establish measures to ensure it adheres to the Department's information management and security requirements.

PROCESS FOR PAYMENTS TO CROWN CORPORATIONS

Context

As part of their review of the Crown corporations' annual corporate plans, the Department and Treasury Board Secretariat review the related operating and capital budgets to ensure that the annual forecasts of cash requirements are supported by appropriate documentation. Based on this review, Transport Canada prepares the annual Treasury Board submission requesting appropriate approvals for the following year. Pursuant to the approved Treasury Board submissions and corporate plans, Parliament provides funds to the Department for payment to the Crown corporations. For Crown corporations that receive funding in advance of actual expenditures, monthly invoices are submitted to the Department requesting funding for the following month based on forecasted net cash requirements. Payments must comply with the Treasury Board's Drawdown Policy for Crown Corporation Funding that states that payments should not exceed the Crown corporation's "short-term need for funds to carry out the businesses and activities outlined in annual corporate plans."

What We Expected

To ensure that a consistent approach is followed in making payments to Crown corporations, we expected to find that there were desktop procedures in place and that the payments to Crown corporations followed Treasury Board's Drawdown Policy which is a part of the *Directive on the Use of the Consolidated Revenue Fund for Crown Corporations*.

What We Found

Payments to Crown corporations comply with relevant policies, procedures and the corporate plan. However, with one exception there are no desktop procedures to help ensure a consistent approach is followed.

With the exception of documentation to process payments to CATSA, there are no guidelines for portfolio managers outlining how to analyze each monthly payment or what to do if it is suspected that funds are being requested above current actual needs. Rather, portfolio managers rely on knowledge they gain by reviewing past transactions and consulting their departmental colleagues. Consequently, there is no consistent approach to processing payments across Crown corporations.

While portfolio managers were aware of the Drawdown Policy it was not clear that they were or would be applying the policy to the payments process. Portfolio managers understand that a Crown corporation's funding request should not exceed its real need in the short-term. However, if they encountered situations where there were significant and/or continuous excessive cash balances throughout the year, it was not clear to them what their role was in challenging funding requests. We also made this observation in our 2008 Audit of Payments to Crown Corporations of VIA Rail and CATSA.

Portfolio managers monitor the funding requests for each period to ensure the invoice amounts do not exceed the Crown corporation's forecasted amount and also verify that the year-end total forecasted funding requirement does not exceed the total annual allotment. However, we did not see evidence, except for in the case of CATSA, of a year-end assessment or reconciliation of actual requirements to the amount of the allotment paid to ensure there was no overpayment based on actual needs.

Notwithstanding the lack of reconciliation reporting, all portfolio managers were confident that they are not paying more than the Crown corporation's entitlement. To ensure no overpayments occur, they rely on such controls as the receipt of a second invoice in mid-April based on actuals, the inclusion of prior year actuals in corporate plans, and the reporting of financial statements as part of the annual Office of the Auditor General audits of Crown corporations. Although we did not find any evidence of overpayments and while such a risk may be low and less significant given that it is one arm of the government giving to another, the Crown Corporations and Portfolio Governance Directorate could consider adopting a year-end reconciliation process particularly for those Crown corporations that receive funding based on estimates or forecasts.

We also confirmed that the Department's financial system does not have any hard controls to prevent a payment above the allotment level. However, this is mitigated by several manual controls to prevent a payment above reference levels. Moreover, the program manager, the Financial Management Advisor and Transport Canada's Corporate Finance branch monitor the spending versus the allotment levels before approving a payment.

Recommendation

- 6) The Crown Corporations and Portfolio Governance Directorate should define criteria and a consistent process to analyze monthly payments to ensure payments meet but do not exceed a Crown corporation's needs.

4. CONCLUSION

We are satisfied that the Department has in place processes to provide advice and support to the Minister in reviewing corporate plans, recommending portfolio appointments, assessing CEO performance evaluations and making payments to Crown corporations. However, to ensure the Department is adequately supporting the Minister, we have made recommendations to improve the effectiveness of these processes. We have recommended that the Assistant Deputy Minister, Policy, ensure that the Crown Corporations and Portfolio Governance Directorate plays a more robust role in the Crown corporation corporate planning cycle, define and communicate departmental expectations and governmental objectives to Crown corporations, and clarify and document internal roles and responsibilities for Crown corporation oversight. Acting within its support role parameters, the Crown Corporations and Portfolio Governance Directorate must also address the appropriateness of the timeliness of advice and support to the Minister for both the appointments and CEO performance evaluation processes. Furthermore, the Crown Corporations and Portfolio Governance Directorate must improve its handling of protected documents and official records to adhere to departmental information management and security policies. Finally, guidance on how to process payments to Crown corporations is needed ensure a consistent approach is followed. We are confident that by addressing these areas the Crown Corporations and Portfolio Governance Directorate will be in a position to leverage more fully the potential of its support role to the Minister for the oversight of portfolio responsibilities.

5. RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

It is recommended that the Assistant Deputy Minister, Policy should ensure that the following audit recommendations are addressed.

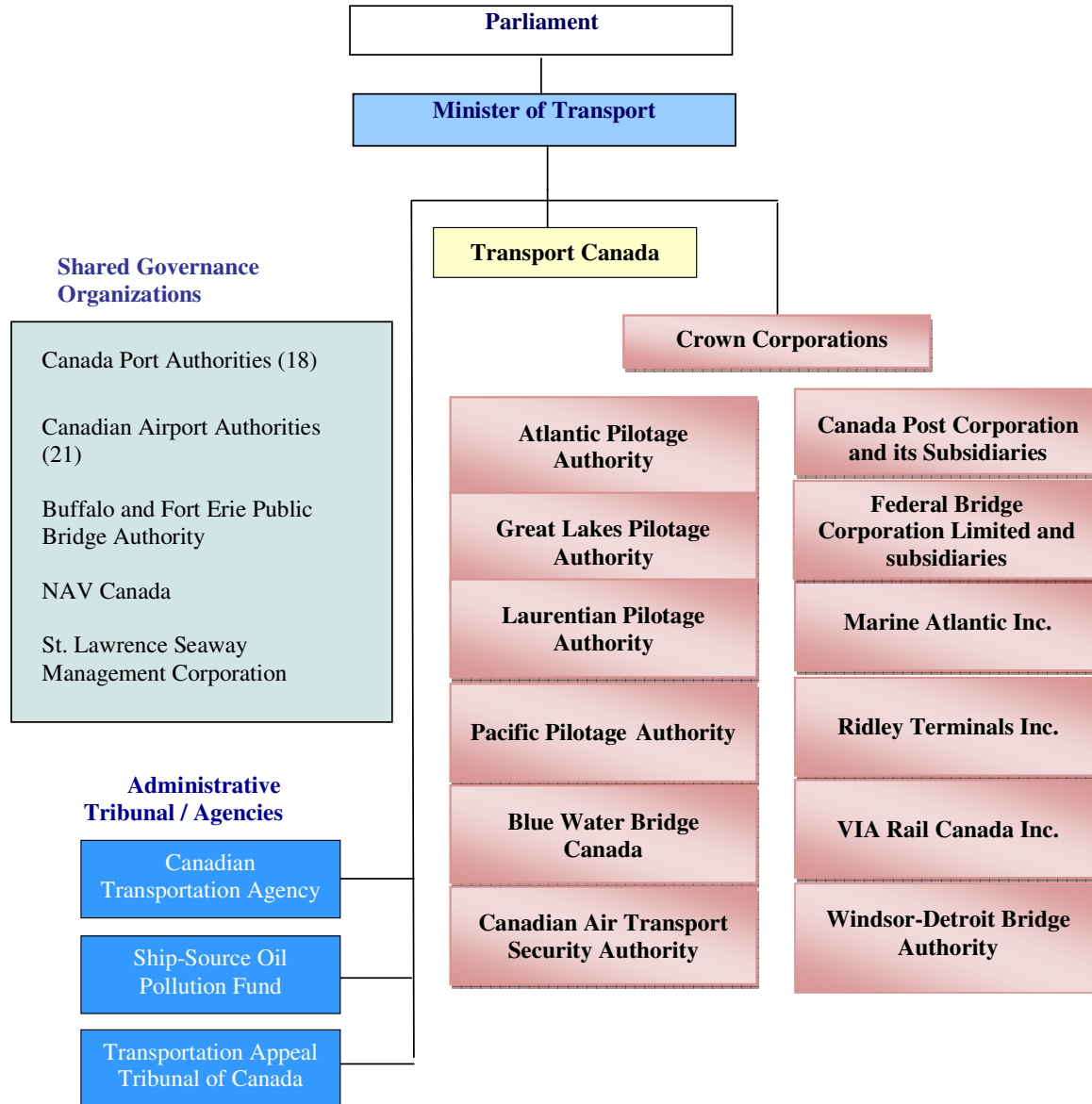
	Recommendation	Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
1.	<p>A governance framework, should be developed that defines for each Crown corporation:</p> <ul style="list-style-type: none"> a) the Department’s approach to supporting ministerial oversight responsibilities; b) the process for developing, reviewing and approving corporate plans, which would include early engagement with all stakeholders to facilitate communication and understanding of expectations and priorities, and ongoing engagement throughout the process; and c) roles and responsibilities and shared accountabilities within and external to the Department required to carry out effective oversight. 	<p>Agreed. The department is developing, in consultation central agency officials, as well as with the Crown corporations, a governance framework to clarify its approach to oversight responsibilities. The framework will articulate: the Department’s approach to supporting ministerial oversight responsibilities; the process to manage the corporate planning and approval (and related) processes; and, the roles and responsibilities of all parties in the oversight and governance of the Crown corporations. The framework will also include such elements as governance principles, other roles and responsibilities (such as with PCO), issuance of directives and letters of expectations, and authorities for appointments.</p> <p>To balance the need for consistency across the portfolio with the unique nature of each Crown corporation, annexes will be developed to define each Crown’s specific relationships, and roles and responsibilities of their specific partners.</p> <p>In the context of this work, the Crown Corporations and Portfolio Governance Directorate will work with TC Corporate Finance and with TBS to delineate roles and responsibilities in the development, review and processing of corporate plans with a focus on appropriate due diligence and</p>	October 2016	DG, Crown Corporations and Portfolio Governance

	Recommendation	Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
		challenge function so as to eliminate duplications, and strengthen and streamline the process. This roles and responsibilities module will form part of the broader governance framework and will be adopted/promulgated as soon as it is complete.		
2.	The Crown Corporations and Portfolio Governance Directorate should explore opportunities to provide additional support to the appointments process to help improve its timeliness and the diversity of appointees.	<p>Agreed. The Crown Corporations and Portfolio Governance Directorate will:</p> <ol style="list-style-type: none"> 1) in consultation with PCO and as part of transition advice to new Ministers as directed by PCO for its briefings on the appointments process suggest improvements to better support the process; 2) present the recommended appointments process to the new Minister and staff , with an emphasis on the departmental services available to support the Minister in his or her appointment responsibilities; and, 3) recommend to the new Minister’s office that weekly appointment meetings continue to be held with the Crown Corporations and Portfolio Governance. 	November 2015	DG, Crown Corporation and Portfolio Governance
3.	Performance evaluation processes should be reviewed to streamline the time taken to consult with departmental officials and the time taken to provide a recommendation to the Minister.	<p>Agreed. The directorate will carry out a process mapping exercise with a view to improving and streamlining the steps of the process within its control, while maintaining or enhancing the quality of outputs.</p> <p>Implement streamlined process within Transport Canada.</p>	March 2016	DG, Crown Corporation and Portfolio Governance

	Recommendation	Management Action Plan	Completion Date (for each action)	OPI direct report for each specific action
4.	PCO should be consulted to determine if published timelines for performance evaluation reviews are realistic.	Agreed. The Crown Corporations and Portfolio Governance Directorate will engage PCO in discussions on the published timelines.	December 2015	DG, Crown Corporation and Portfolio Governance
5.	The Crown Corporations and Portfolio Governance Directorate should establish measures to ensure it adheres to the Department's information management and security requirements.	Agreed. The Crown Corporations and Portfolio Governance Directorate will develop and implement an information management protocol that is consistent with the TBS and departmental information management and security policies. Document management training including use of RDIMS will be provided to the directorate. IM/IT will be engaged to consider short-term solutions until the new GCDOCS becomes available.	March 2016	DG, Crown Corporation and Portfolio Governance
6.	The Crown Corporations and Portfolio Governance Directorate should define criteria and a consistent process to analyze monthly payments to ensure payments meet but do not exceed a Crown corporation's needs.	Agreed. The Crown Corporations and Portfolio Governance Directorate will work with Corporate Finance on adapting the procedures used for CATSA to other Crown corporations in the portfolio as required.	February 2016	DG, Crown Corporation and Portfolio Governance

6. APPENDICES

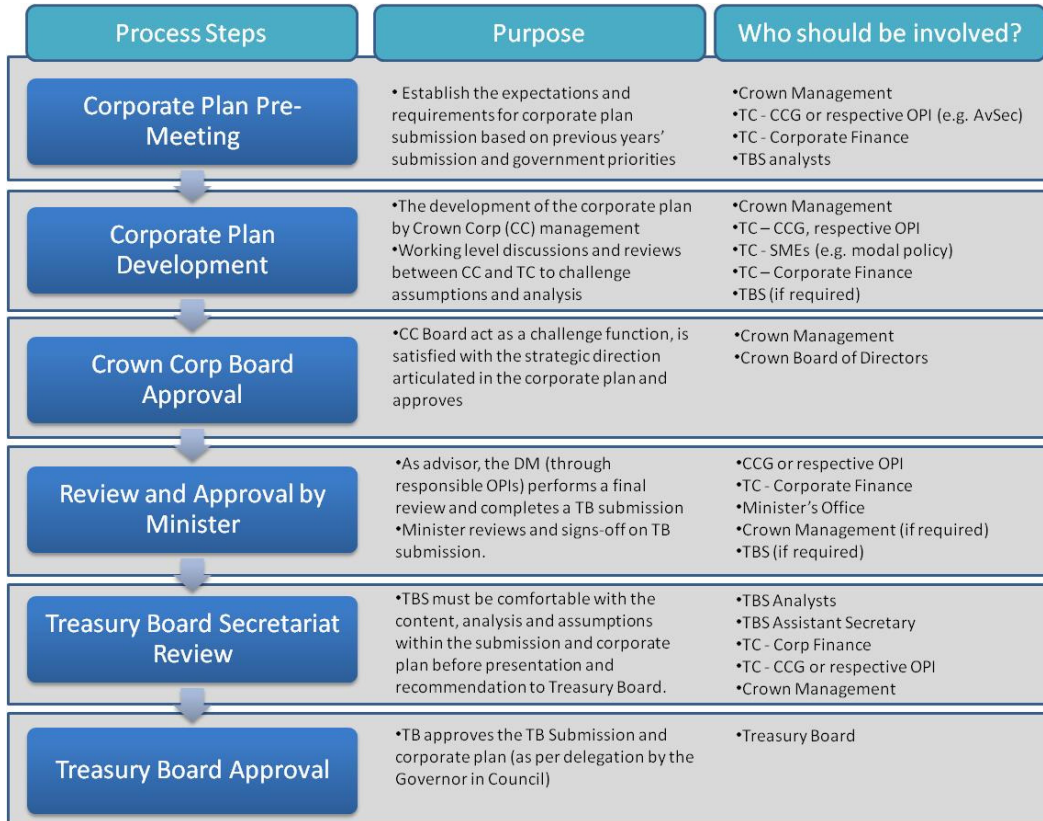
APPENDIX A – TRANSPORT PORTFOLIO¹²



¹² After the audit started the Blue Water Bridge Authority was amalgamated with the Federal Bridge Corporation Limited on Feb 1, 2015.

APPENDIX B – EXPECTED CORPORATE PLAN PROCESS

We developed the following expected process based on interviews with the Crown Corporations and Portfolio Governance Directorate, other departmental officials, and TBS, a review of current corporate plan review processes in place within the department, and a review of Crown corporation governance supporting documentation.



APPENDIX C – TRANSPORT PORTFOLIO APPOINTMENTS

