



“PLEASE RECONCILE THE 64¢ DIFFERENCE”

Submission to the Blue Ribbon Panel
Reviewing Grant and Contribution Programs
on behalf of the Treasury Board of Canada

By

Canadian Policy Research Networks

September 15, 2006

(SUBMITTED ELECTRONICALLY)

ABOUT CPRN

Canadian Policy Research Networks was founded in 1994 by Judith Maxwell, one of Canada's leading thinkers and commentators on social and economic issues. It emerged from the remnants of the Economic Council of Canada as a new kind of think tank with a mission to create knowledge and lead public dialogue and debate on social and economic issues important to the well-being of Canadians such as: work and workplace issues; family issues; health; and public involvement/citizen engagement of how Canadians can become more involved in a democratic society. CPRN's goal is to help make Canada a more just, prosperous and caring society for all Canadians.

Dr. Sharon Manson Singer succeeded Judith Maxwell as President in February 2006. Ms. Maxwell remains affiliated with CPRN as a Research Fellow.

CPRN's unique contribution is to be a catalyst for ideas and action and to inform the policy debate at all levels of government. It broadens the canvas for policy thinkers in all sectors of society, based on a clear understanding of both economic and social fundamentals.

CPRN's trademark is its ability to help policy makers and citizens debate the values, policies and frameworks that will help the country to cope with social *and* economic transformations. CPRN bridges the gap between academic research and government policy by synthesizing and translating academic research into a form that is useful and useable by governments, the private sector and voluntary organizations.

By working this way, CPRN has created a unique voice in the policy research community in Canada, one that has been honoured three times by the policy community with the Citizen Engagement Award in 1999, the Knowledge Broker Award in 2001 and the Arthur Kroeger College Award in Public Discourse in 2003. A recent external evaluation of CPRN conducted by SDC cited the high quality of its research work. All of CPRN's research products are available free of charge on its bilingual website www.cprn.org

Since its inception, CPRN has been funded through a combination of federal grants, private sector donations and contract research work with governments at all levels, foundations, the NGO sector and to a small extent, the corporate world.

WHY CPRN HAS A STAKE IN THIS PANEL'S WORK

The federal government is CPRN's biggest single client for its research products. Over the last six years we have invoiced, on average, roughly \$1 million a year, representing 37% of our revenue.

Over that time, our business relationship with the federal government has evolved from largely contractual arrangements whereby an agreed-upon price would be established through negotiation for a clearly defined deliverable, to the more complex, and very cumbersome Contribution Agreement process. In that same six year period, CPRN has had to double its project management staff from two to four people and purchase

sophisticated accounting software to cope with the additional financial tracking, reporting and audit requirements which are part of the Contribution Agreement process.

It is CPRN's opinion that with the adoption of the Contribution Agreements as the primary funding mechanism for federal government project work, the "*appropriate balance between oversight and flexibility*"¹ has been lost, and needs to be restored.

In addition, it is CPRN's strongly held view that the Contribution Agreement framework under which most government departments now contract for research work produced by CPRN is replete with "*unproductive controls or ineffective reporting requirements respecting transfer payments that do not serve to strengthen accountability and may create an undue administrative burden on those managing grant and contribution programs as well as applicants seeking to access them*"².

No one in the not-for-profit sector objects to being accountable for the expenditure of public funds. We act as trustees of taxpayer's money when retained to provide a service to government which, in CPRN's case, is the provision of high quality social policy research that is made readily accessible to all Canadians. We are more than willing to account for how funds were spent. We contribute to that accountability and transparency by placing our annual Audited Financial Statements on our website, though the posting of our Annual Report.

However, those of us who work on a daily basis with government departments have paid the price since the HRDC scandal in 2000, in terms of the excessive and unreasonable measures which have been put in place when contracting with government. The impact of these measures has been well-documented in reports such as those produced by the Canadian Council on Social Development (*Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations*), excerpts of which have been included in the Consultation Paper issued by the Blue Ribbon panel, and need no restatement here.

We are hopeful that the work of the panel will result in a realignment of the accountability pendulum, which, in our view, has swung too far in the wrong direction in recent years, to the detriment of those in the NFP sector. We hope that this submission will assist the Panel in assessing the issues under review, especially as they relate to the contribution element of the Grants and Contributions program.

WHY THE CURRENT CONTRIBUTION AGREEMENT REGIME IS COUNTER PRODUCTIVE

- Contribution Agreements are based on a relationship of distrust. There is an implicit assumption that the organization providing the service to the government is not going to handle public funds with appropriate diligence, and therefore the need to implement complex and detailed reporting requirements and audits in order to prove how the funds were spent.

¹ Excerpted from the Terms of Reference for the Independent Blue Ribbon Panel/TBS website: http://www.tbs-sct.gc.ca/media/nr-cp/2006/0606_e.asp#bk1

² Ibid

- Contribution Agreements as currently structured do not allow for adequate recapture of an organization's overhead and administrative costs, therefore projects funded by this contractual relationship inevitably lose money for the organization, which creates sustainability problems in the not-for-profit sector.
- Contribution Agreements require organizations to have sophisticated and costly accounting systems and programs in place, and the staff to run them in order to be able to adequately track and report on expenses incurred.
- Contribution Agreements do not allow an organization to recover the costs in developing a research proposal, as costs incurred before the Contribution Agreement is signed by the Minister are not eligible for reimbursement. *(For example, CPRN has currently invested in excess of \$40,000 in labour costs in its preparation of a multi-year research proposal for Health Canada. Meetings, discussions and negotiations regarding same have been going on since December 2005, and have still not been resolved as of the time of writing this submission. The accepted business ratio of investment in proposal development to funded contract is 5%. It often costs CPRN much more than that.)*
- Contribution Agreements are structured so that the organization must estimate expenses, including labour costs, which are to be incurred over a particular time period. Often it is very difficult in the research business to forecast these expenses to the precise nature demanded by the reporting forms. Departmental contract officers regularly demand detailed explanation of differences in what was projected to be spent, and what actually was spent, again incurring substantial labour costs for the supplier.
- There is no differentiation in reporting requirements for a Contribution Agreement valued at \$10,000 and a Contribution Agreement valued at \$100,000, meaning that smaller projects require the same amount of administrative processing as larger projects, thus making the small project very uneconomical. *(It is not uncommon with smaller projects to have the costs of preparing a project application and then monitoring and reporting the expenses amount to between 20-30% of the value of the Contribution Agreement.)*
- Contribution Agreements which require an external (3rd party) audit reduce the amount of funds available to produce the actual product.
- Contribution Agreements which require an internal (departmental) audit incur substantial labour costs for the organization in the preparation of the material. These are costs which cannot be recouped from the project's funding as the books have effectively been "closed" on the project by the time the audit takes place. *(See Appendix 1 for the list of information we were required to assemble and have available for a recent departmental audit. The internal*

cost to CPRN of preparing these materials and participating in the audit was eight working days and was not recoverable from the project budget.)

- Many Contribution Agreements stipulate “site visits” by departmental staff to the contractor’s premises, usually involving filling out an extensive questionnaire involving everything from “what is your bank account number” to “what accounting software do you use.” *(This site visit regimen is applied to CPRN despite the fact that it has been providing high quality research reports to dozens of government departments for more than ten years. We have experienced site visits from staff from two different divisions of the same department on consecutive days, each armed with the same questionnaire.)*
- In projects funded by different levels of government, it is not uncommon for the contractual paperwork from provincial and municipal funders to be a concise three to four pages long while the federal department Contribution Agreement form is four times longer, sometimes for lesser dollar amounts than the other levels of government are contributing into the project.
- Contribution Agreements may violate privacy law, in that exact salary and benefit information, normally provided only to Revenue Canada, of clearly identifiable staff working on a project must be supplied to the funding department where CPRN has no assurances of appropriate security for this personal and confidential data.
- Contribution Agreements place no value on the knowledge transfer that takes place after the project is completed and which, in CPRN’s case, is a substantial public good which flows from the research projects that are funded by government departments.
- Perhaps the most problematic aspect of Contribution Agreements is that all the effort that goes into the financial management, documentation, tracking and reporting has absolutely nothing to do with, and adds nothing to, the quality of the actual product being produced for the government.

The issues raised by the Contribution Agreement structure are exacerbated by the fact that the Government of Canada is far from being an ideal client to deal with. As examples, CPRN has experienced situations where the following has occurred:

- A research project is approved at the higher levels of a department with agreed-to delivery dates. However, it then takes 3-5 months for the signed contract or contribution agreement to arrive, with no change in the deliverable timelines. As Contribution Agreements do not allow payment for work undertaken before the CA is signed, CPRN is thus ensnared in the Catch 22 situation of not being reimbursed for any work undertaken in an effort to maintain original delivery milestones.

- CPRN has been specifically contacted by a federal department to do a research project, submits a proposal, and begins the initial work expecting the contract or CA to arrive shortly as the project was initiated by the department. As we begin the work, the concept of the proposal is changed, often several times, thus altering the nature of the research to be done but timelines remain unchanged.
- We have gone through the above mentioned process a number of times, only to have the project subsequently cancelled, and as there has been no signed contract, we have had to make a case to be reimbursed for the work undertaken in good faith.
- Invoices are paid late. We have experienced delays anywhere from six months to a year after the project is completed and the billing sent out. CPRN, a small not-for-profit organization, is thus put into the position of using its cash flow from other sources and its line of credit to cover outstanding expenses incurred in doing the project work as we await payment.

There are other many other examples we could cite, but being limited to ten pages for the submission restricts the extended narrative. However, we trust that our degree of frustration has been adequately conveyed.

WHAT CAN BE DONE TO FIX THINGS?

We did not want this submission to be a litany of complaints without some potential solutions. To that end, we offer these suggestions to the Panel for consideration:

- Ensure that contracts and Contribution Agreements are the same for all federal government departments. Currently, there are variations, department to department.
- Differentiate the amount of detail required for project financial reporting into dollar levels of under \$50,000, \$50-100,000 and over \$100,000. The lesser the project amount, the less detail required.
- Create a task force involving not-for-profit organizations who deal with government to establish more meaningful and valid guidelines for charging overhead costs, to ensure adequate recovery of the core infrastructure costs required to maintain an organization. It is imperative to move away from ludicrous requirements for organizations to have to calculate the “per staff/per hour/per square foot costs” for premises and apply similar convoluted formulae to other overhead costs.
- Establish a simple “Better Business Bureau” seal of approval process, whereby an organization that consistently has done good work is exempted from time consuming (and unnecessary) site visits when engaged under

contribution agreements. This would be different than the PWGSC process, as some of the services provided by the not-for-profit sector do not fall under the Standing Offer categories.

- Give organizations the opportunity to file an updated Profile document each April, the beginning of the government's fiscal year, containing key tombstone information. Make this information broadly accessible (to all federal departments) in a data base, so that small organizations don't have to repeatedly respond to the lengthy background questionnaire which accompanies most Contribution Agreements.
- Give serious consideration to implementing a risk assessment approach and maybe the occasional random audit (like Revenue Canada) rather than spending all this "accountability time" on every project, especially low-cost and low-risk ones.

There is an old saying in business that you are only as good as your client. A client that knows what they want, who is professional in their business dealings, and who treats the supplier with courtesy and respect will in turn receive superb service from a supplier.

We hope the process being led by the Panel will lead to a cultural change whereby the focus and emphasis will be less on the administrative side of the ledger, i.e. how the money has been managed, to the outcome side of the ledger, to look at the quality of the product and whether the government has received good value for the investment it has made through its Contribution Agreement. We would hope that the cultural change would also have an effect on the government's business practices as a whole.

This submission is titled "***Please reconcile the 64¢ difference.***" We used this phrase because it actually happened to CPRN in a Contribution Agreement. There was a sixty four cent difference between what we said we *were going* to spend during a reporting period, and what we *actually spent*. We were contacted by the department in question, and asked to explain and re-submit our reconciliation report so that the two numbers matched. As an audit firm might say, what is the degree of materiality here?

The work of the Blue Ribbon panel comes none too soon.

Respectfully submitted
Canadian Policy Research Networks Inc.

For additional information concerning this submission, please contact:

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Appendix 1

(Excerpted from an e-mail received from a federal department regarding a Contribution Agreement audit for a project of less than \$50,000. We have edited out any reference that would tie this audit to a specific department)

Following your e-mails dated July 7 July 11, 2006, I am confirming the date of August 21, 2006 to complete the on-site financial monitoring of the above mentioned file. We have established that the financial monitor will be conducted on the claim submitted for the period of January-March 2006.

All originals of the following documentation will be required for the on-site visit.

1. General ledger (the GL should pertain only to the specific project and specific period selected and should not be the complete General Ledger of the Organization).
2. Receipts and invoices (including copy of airline, train and travel tickets, parking, travel claims, taxi, accommodation and contracts)
3. Accounts payable and receivable records
4. Check register
5. Petty Cash register
6. Bank statements and cancelled checks
7. Payroll journals and pay stubs
8. Receiver General remittances
9. Table of the deduction of Mandatory Employment Related Costs (MERCs) charged to (dept name)
10. Back-up documentation for your in-kind and cash contributions as well as in-kind and cash contributions from other sources

Please ensure that all costs listed on the claim summary and detail sheets reimbursed through (departmental name) funding appear on the General Ledger.

Specific Information Required

Salaries

Please provide payroll journals, copies of pay stubs and cancelled cheques for individuals on the wage costs detailed sheet.

Clarification will be required on per diems for individuals as they differ from the Schedule B of the Contribution Agreement as well as the other project number XXXXXX.

MERC's

Please provide breakdown of how the total of MERC's was arrived. For example, please provide the rate of EI, CPP, WSIB, Vacation, etc.

Verification of MERC's rates for the period of October-December 2005 will be necessary in order to verify if MERC's were charged at the appropriate rates due to certain individuals that may have reached their maximum contributions during that time.

Professional Fees

Please provide original invoices and cancelled cheque for (contractor name).

Materials and Supplies

Please provide all original invoices and cancelled cheques for costs indicated on the detailed sheet under this category.

Rent

Please provide copy of rental agreement and details on how the percentage of rent is charged to the project.

Other General Project Costs

Please provide original invoice and cancelled cheque for translation indicated on the detailed sheet under this category.

Receiver General Remittances

I will need to view remittances and proof of payment for payroll remittances to the Receiver General.

In-Kind Contributions

The same amounts appear on the claimed to (department name) and Recipient and Other Sources sheet. Please clarify the amounts of your in-kind contributions.

General Questions that will be asked during the on-site visit

1. Have any expenses occurred prior to the beginning of the project (August 29, 2005).
2. Is there a separate bank account set up for this project? If no, please indicate what the separate coding structure is.
3. Is there any interest earned on advances that have been forwarded?
4. Are any known "donated" materials claimed as an expense?
5. Are there prepaid expenses such as insurance or rent?
6. Does the project have a petty cash fund? If yes, please indicate the amount and how often it is reconciled?

Payroll and Staff

7. Is payroll processed internally or externally? If externally please indicate by which organization.
8. Are wages advanced? If yes, indicate the amount and frequency of reconciliations.
9. How many hours are in a normal work week?
10. Has compensation for overtime been claimed?

11. Are employees paid by cheque or by direct deposit?
12. Have T-4 slips been prepared for salaried employees for the taxation years recovered by the project?

Receiver General and GST Remittances

13. Are current deduction tables being used for Receiver General remittances?
14. Is a record maintained to record GST/HST?
15. What is the percentage of your GST/HST rebate?
16. Has GST/HST rebate submissions been sent to CRA?
17. Are payroll remittances submitted integrally for the organization or under a distinct number for the project?
18. Indicate the frequency in which remittances are sent to the Receiver General for payroll?
19. Have late remittance penalties been charged to the project?

Cheques

20. Is a cheque register kept to record all cheques issued.
21. Are cheques numbered electronically or manually?
22. How often is a bank reconciliation performed?

Travel Policy

23. Do travel rates fall within Treasury Board guidelines? Please indicate the per diem rates for meals and incidentals.

Cash Receipts

24. Are there records showing the deposit of other sources?
25. Are contributions from other sources in accordance with the contribution agreement?

If you require further clarification or have questions on this matter, please do not hesitate to contact me at the number indicated below and I look forward to meeting you.

Regards,
