



Stimulus spending and beyond

Keys to success for
managing spending
today and in the future

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Thinking beyond the short term

In the wake of the global financial crisis, governments around the world have been working overtime to inject stimulus funds into their national economies. Canada is no exception. In its 2009 budget, the federal government announced the creation of an Economic Action Plan that proposes to inject approximately \$32 billion into a wide range of programs – from infrastructure and post-secondary education to human resources, skills development, tax relief and direct industry support.

Already, the federal government has started allocating stimulus dollars, bolstered in many cases by provincial matching programs. And, already, the challenges have begun. Funders are struggling to set the criteria that will allow them to identify optimal investment opportunities, while recipients struggle to meet those criteria. To ensure the highest levels of transparency and accountability, both funders and recipients must bolster their monitoring and reporting systems. Similarly, they must strengthen their operations and program management capacities to handle the massive surge of projects envisioned by stimulus spending.

The real tension, however, lies in the need for stimulus funds to have a measurable short-term impact, leading to a perception that the funds must be invested too quickly to put the appropriate controls into place. This is a dangerous trap. To ensure stimulus spending meets its economic and social objectives, both funders and recipients need the tools to invest this money quickly and wisely. Reaching this goal requires you to do more than adopt robust governance practices. It also requires you

to understand the entire stimulus investment lifecycle – from program design, assessment and funding to performance monitoring and results reporting. Some elements of this lifecycle apply predominantly to funders, while others are more relevant to recipients. Either way, you need to know the end-to-end accountabilities and responsibilities of all parties to the process. This will help to ensure that Canada's stimulus dollars are spent appropriately and effectively. It will also enable funders and recipients to put processes into place that will guide their decision-making well beyond the two-year term of most stimulus spending.

Despite the massive amounts of stimulus funding available, the country's investment needs exceed this short-term infusion. By adopting a stable management control framework today, funders and recipients will be well placed to strengthen our country's economic foundation for years to come.



Paul Macmillan
Public Sector Industry Leader
Deloitte

Under pressure

Challenges associated with stimulus spending

As stimulus funding is based on temporary, targeted and tailored investments, it presents unique challenges.

- Due to the unprecedented scale of the announced spending, many funders and recipients lack the administrative, transparency and accountability processes needed to manage it effectively. These concerns are well founded. Capital projects traditionally face large risks, often resulting in cost overruns, time delays and even outright fraud and corruption. Poorly managed projects waste tax dollars, trigger front-page headlines and cost people their jobs and often their reputations.¹
- The complexity is staggering, with provinces, cities, universities, hospitals, transit commissions and others clamouring for a piece of the pie. In the face of these demands, governments under pressure to fund projects swiftly may choose those with limited returns, rather than investing in projects that can deliver a more lasting impact. Or they may simply lack the insight to identify projects that are stimulative in nature.

- The public auditors are keeping a watchful eye. As Canada's Federal Auditor General, Sheila Fraser, said, "In all our audits, the criteria we use are based mainly on the government's own rules. Should the government decide to modify its normal processes in delivering the Economic Action Plan, we would expect the rationale to be clearly documented and accountabilities to be clear."²
- Many funders and recipients lack the capacity to scale up their processes to meet the unique demands presented by this temporary and targeted spending. This will make it difficult for both parties to effectively deliver on the program.

Meeting these challenges requires funders and recipients to strengthen their compliance programs, as well as their operational capacity, and to do so immediately. This paper explains how.

¹ William D. Eggers, Tiffany Dovey and Shalabh Kumar Singh, *Going Beyond Compliance: Effectively managing stimulus funds today, while creating more lasting business value tomorrow* (Deloitte Research, 2009).

² <http://www.ottawacitizen.com/business/fp/warns+Tories+ready+defend+stimulus+spending/1417087/story.html>

Funders should ask

Has your organization received additional resources to administer the stimulus investments? If so, how do you plan to manage the increased activity?

What accountability requirements have been established for your stimulus investments? How is your organization ensuring these requirements are adhered to?

What timing constraints have been placed on your stimulus investments, both in terms of allocating and spending the money?

How is your organization communicating and marketing your stimulus program(s)?

How is your organization tracking and communicating results/outcomes of your program?

Recipients should ask

What have you done to request stimulus money? Do you have the resources and expertise necessary to make the application?

What commitments (job targets, spending timeframes, cost sharing) has the government required of your organization as a condition of receiving funding?

What are the reporting and other requirements of the government stimulus funding?

What is the form of agreement between your organization and the government?

The stimulus investment lifecycle

Understanding the end-to-end process

To overcome the risks and potential pitfalls associated with stimulus spending, funders and recipients must build an effective governance framework. This requires an understanding of the role all parties play in allocating and investing the funds and then monitoring and reporting on project performance. In essence, they need a solid grasp of their respective stimulus investment lifecycle. These lifecycles are typically comprised of the following four phases:

Program design

Designing an effective stimulus funding program starts by assessing your capacity, processes and controls to deliver on the program. This capacity will vary greatly. Government organizations with experience running established funding programs, for instance, are more likely to have existing policies and governance frameworks they can adapt as they allocate stimulus dollars. Organizations without this experience or recipients that suddenly find themselves responsible for managing a vastly increased capital budget, may need to engage in more intensive program design. Either way, funders and recipients should ensure that their program is designed to identify all key risks, streamline eligibility and approval decisions, assign and track all accountabilities and establish critical performance measures.

Assessment and funding

During the second phase of the stimulus investment lifecycle, governments need to put criteria in place to help them identify projects that will truly stimulate economic recovery. Only by developing these criteria can funders begin to appropriately market their stimulus programs, analyze investment opportunities and grant funding approval. On the flipside, a clear articulation of funding criteria allows recipients to determine their eligibility for program funds and submit relevant and targeted funding applications.

Performance monitoring and compliance

The only way to ensure that stimulus funds are spent appropriately and that the projects they fund meet their targets is through ongoing performance monitoring. Achieving this aim can be harder than it sounds. Funders can only measure recipient performance if recipients have documented internal controls and processes to monitor their own operations. As they build this capacity, recipients will need guidance regarding the types of information and reports their funders require. To be effective,

The stimulus investment lifecycle for funders

Phase 1

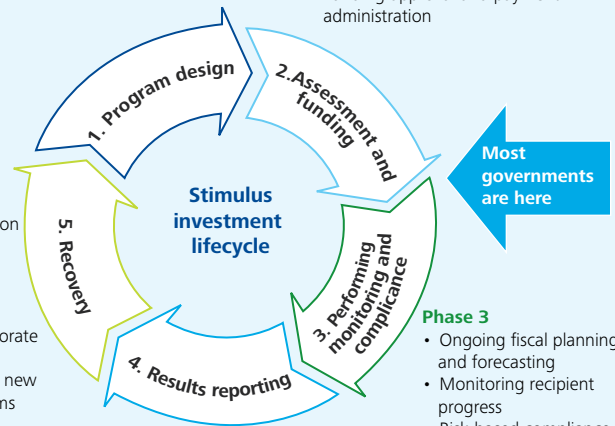
- Program policy development
- Planning/risk identification
- Governance design and program delivery capacity analysis
- Eligibility, approvals and accountability framework
- Program performance measures

Phase 2

- Communications and marketing
- Client relationship management
- Application process
- Investment analysis/application due diligence, including eligibility and risk assessment
- Funding approval and payment administration

Phase 5

- Summative evaluation
- Reallocation/ deployment of resources to longer-term priorities
- Capture and incorporate learnings/systems/ methodologies into new or renewed programs



Phase 3

- Ongoing fiscal planning and forecasting
- Monitoring recipient progress
- Risk-based compliance auditing

Phase 4

- Value for money analysis
- Progress reporting

these activities should extend beyond fiscal planning and forecasting. To ensure projects remain on track, funders also need the ability to conduct risk-based audits to determine if recipients remain in compliance with key performance metrics.

Results reporting

To meet stakeholder, regulator and taxpayer demands for transparency, recipients of stimulus funds need to provide their funders with sufficient performance details to support ongoing results reporting. Because stimulus funds are intended to have a short-term, measurable impact on the country's economic performance, funders and recipients must be able to clearly demonstrate their progress and link that to financial results.

The stimulus investment lifecycle for recipients

Phase 1

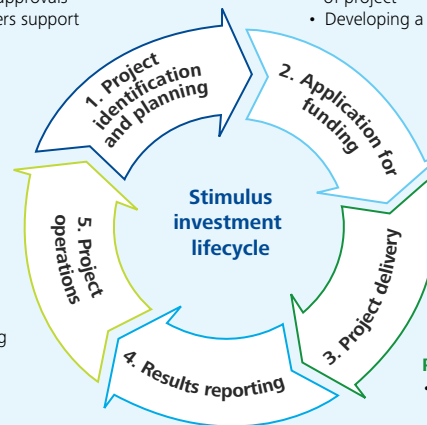
- Identifying the 'right' project
- Obtaining internal approvals
- Aligning stakeholders support

Phase 2

- Demonstrating 'stimulative' nature of project
- Developing a compelling application

Phase 5

- Transitioning from delivery to management
- Establishing long-term operating framework



Phase 3

- Complying with accountability requirements
- Progress reporting – to funders and key stakeholders

Phase 4

- Complying with accountability requirements
- Progress reporting – to funders and key stakeholders

The keys to

SUCCESS

As funders and recipients pass through each phase of this stimulus investment lifecycle, they will need to engage in a wide array of ancillary activities. However, to maximize their chances for program success, they must:

1 Engage in robust program governance

2 Adopt an efficient investment analysis and due diligence methodology

3 Develop a well-defined management control framework

4 Conduct effective risk-based monitoring and auditing

5 Assess value for the money invested and report on their results

6 Enhance their program management

1

Robust program governance

Setting rules and accountabilities

The size, complexity and pace of stimulus programs means that most program owners and fund recipients will need to expand and strengthen their oversight accountabilities and processes. Failure to lay the appropriate groundwork can lead to problems. If information does not flow effectively, funders and recipients will be hard pressed to demonstrate program compliance and may not even have early warning of potential project failure. If members of your governance or oversight committees lack the appropriate skill sets, they may not know what questions to ask to uncover project challenges or get failing projects back on track. And if roles and responsibilities for accomplishing these tasks are not clearly articulated, you may find there is no one to hold accountable if a project derails.

How to respond

If you are a program owner

- Clarify the enabling authority and legislative mandate under which you plan to advance stimulus funds
- Set up processes that help you identify appropriate stimulus recipients so you can make intelligent decisions quickly
- Identify internal and/or third-party resources capable of helping you administer your stimulus program to ensure funds advanced deliver a citizen benefit
- Define roles, responsibilities and accountabilities for monitoring, executing and reporting on key program activities
- Establish a continuous accountability cascade to ensure information flows seamlessly between the enabling authority, your organization and fund recipients
- Articulate the recourse you plan to exercise to ensure recipients adhere to their program commitments, i.e. the right to audit, etc.

- Build timelines for obligating funds and awarding grants, as well as progress reports, into your master schedule at the outset
- Determine what data will be collected, how often, what format it will take and how it will be separated from non-stimulus funds in financial systems

If you are a fund recipient

- Develop the procedures and policies you need to align your stimulus spending with your funding authority's program mandate
- Decide how you plan to balance your ongoing day-to-day responsibilities with the need to manage an influx of stimulus dollars – particularly if you currently lack the internal resources to manage this type of program
- Identify internal and/or third-party resources capable of helping you execute on your stimulus program commitments
- Establish a governance or oversight committee to help you develop clear program objectives, define realistic timelines and pinpoint critical project milestones

Realizing the benefits

By clearly defining the goals of the stimulus program in advance, funders and recipients will be better placed to:

- Make intelligent decisions more quickly
- Deliver funds and invest funds received in a more timely manner
- Build transparency and accountability into the disbursement and use of tax dollars
- Enhance reporting back to both public and private stakeholders
- Demonstrate that stimulus dollars are delivering on their promised benefits

2

Investment analysis and due diligence

Identifying optimal opportunities

Despite the federal government's investment commitments, stimulus funds are still finite. As a result, program owners must make difficult decisions about how to direct their stimulus dollars, while recipients will need to work to uncover all potential sources of funding. Ultimately, any investment made in one industry or company may divert money away from a second industry or company – heightening the need for funders to make informed decisions. This means engaging in an efficient analysis of not only a particular recipient or investment opportunity, but also of the market or sector in which that entity operates. After all, seemingly strong investment opportunities may exist within failing sectors – an external environment that can potentially drag down even the most promising ideas.

How to respond

If you are a program owner

- Review your funding applicant's market and industry by conducting due diligence about their sector's market conditions and competitive environment
- Conduct entity-level due diligence by reviewing your applicant's customers, management, financial performance, operations and investment/business plan

If you are a fund recipient

- Identify all potential sources of stimulus funding
- Determine if your proposed project qualifies under your funder's criteria
- Identify the factors that potential funders consider most critical and determine what evidence/business case you have to explain your need to funders

Solutions in action

To stimulate tourism in Ontario, the provincial government arranged for a comprehensive Ontario Tourism Competitiveness Study, which extensively reviewed the tourism industry to:

- Uncover market-related trends and opportunities
- Understand the industry's size and growth
- Identify market segments and demographics
- Identify the structural challenges in the industry that constrained success
- Assess the quality, appeal and competitiveness of the existing product base
- Review the role(s) of government in supporting the industry
- Highlight industry-specific regulations, including the potential for future regulatory changes
- Benchmark the local industry against best-in-class competitors

With the study in hand, the province gained the market insight needed to make critical policy and investment decisions and established baselines for measuring investment return and other go-forward considerations.

3

Well-defined management control framework

Mitigating program risks

As an exceptionally wide-reaching and ambitious initiative, stimulus funding is subject to a myriad of risks. Insufficient documentation or accountability structures can compromise the ability of program owners to meet their management (and audit) requirements. Failure to identify and map key risks and mitigating controls can leave organizations exposed to sanction. And inadequate mechanisms to track stimulus funds can result in excessive rework to determine if the monies reached their intended destination. This challenge was prevalent when U.S. agencies failed to put appropriate controls in place before providing funding to Iraq, resulting in expenditures of \$20 billion tracked on Excel spreadsheets.³ While the risks to recipients differ, they are no less urgent. Absent a defined management control framework, fund recipients may find themselves unable to appropriately execute on their project commitments or track their results.

How to respond

Both program owners and fund recipients need to create a documented control framework to:

- Define your management process and control objectives for the program throughout its lifecycle
 - Identify key program risks, as well as tactics and controls for mitigating them
 - Map your program structure to audit criteria and/or funder expectations
- Track the specific control activities implemented by the program
 - Clarify project roles, responsibilities and accountabilities
 - Assess performance to identify program strengths, weaknesses and gaps
 - Test your process and system controls for design and operating effectiveness

Realizing the benefits

Documenting your end-to-end management control framework positions both funders and recipients to:

- Identify continuous improvement opportunities throughout the program lifecycle
- Get early warning of potential project obstacles and avoid last minute surprises
- Appropriately address key risks related to stimulus spending
- Develop an “audit ready” product for any audit or funder requirements

³ William D. Eggers, Tiffany Dovey and Shalabh Kumar Singh, *Going Beyond Compliance: Effectively managing stimulus funds today, while creating more lasting business value tomorrow* (Deloitte Research, 2009).

4

Risk-based monitoring and auditing

Tailoring your assessments

Stimulus funding missteps can deliver severe blows – not only to program funders and recipients, but to Canada’s economy at large. To mitigate this risk, it is patently clear that funders need to carefully monitor and audit recipients to ensure stimulus dollars are spent appropriately. Yet, given limited resources, limited capacity and limited time, funders simply cannot afford to over-audit. Striking the appropriate balance requires program owners to apply more intensive monitoring to higher-risk recipients, while reducing the effort for lower-risk recipients and programs. This may require funders to rethink their traditional approaches to risk management and auditing in recognition that, in the world of risk-based auditing, one size does not fit all.

How to respond

If you are a program owner

- Identify the key risk factors related to your program’s recipients and determine appropriate criteria for assessing those risks
- Risk-rank the various activities you identified to determine the high, medium and low risks at each stage of the funding process
- Adopt an audit approach that tailors your efforts to the risk profile of each program and recipient
- Don’t make risk management a one-time exercise. Because risk drivers change as a project progresses, you need to develop and deploy new strategies to meet these evolving threats
- Limit over-auditing by adopting exception-based management reporting

If you are a fund recipient

- Structure your program to align with your funder’s monitoring and auditing regime, so you will be better able to deliver the information required without continuously reinventing the wheel
- Understand the risk levels of your own organization and project. This will help your funder determine the extent of monitoring your project requires

Realizing the benefits

A risk-based monitoring and auditing regime can help funders and recipients:

- Meet their monitoring and auditing requirements in a cost-effective manner
- Mitigate and manage the potential risks associated with stimulus projects
- Reduce the administrative burdens associated with auditing (or being audited)

5

Assessing value and reporting results

Ensuring funds are spent as intended

While the challenges related to identifying appropriate programs and allocating funds are significant, those related to program oversight and reporting may be even more onerous. To provide the legislature and taxpayers with appropriate progress reports, funders need to understand not only how to measure results, but also which results to measure. For their part, recipients need to account for the money received and demonstrate how they are using those funds to achieve the goals of the government's stimulus program.

This is a tall order that requires resolution well in advance of an announced audit. However, those that do it well will be ideally placed to comparatively assess the value created by their stimulus programs, while meeting an auditor's formal value for money assessment criteria.

How to respond

If you are a program owner

- Clarify the performance expectations of your fund recipients to ensure they align with program goals and objectives
- Set key performance indicators that will both allow you to assess progress and highlight potential obstacles
- Calculate direct program costs and avoided costs to ensure your reports reflect the full value of your program(s)
- Measure outcomes beyond financial savings by also having recipients track the social, environmental and stewardship implications of stimulus-related projects

If you are a fund recipient

- Carefully review the accountability and reporting requirements contained in your funding agreement and set up appropriate systems for meeting those requirements
- Ensure your project is structured to deliver on your funders' and the federal government's expectations
- If you do not have them already, put systems and processes in place to measure the ongoing financial, social and environmental performance of your stimulus-related project(s)



Strategic management

Delivering on the project within the timeframe

Although many recipients are under the impression that their efforts stop after they receive funding approval, in truth, that's when the real work begins. After granting funding, program owners expect their projects to deliver returns in an exceptionally short timeframe – in this case, within two years. To meet those aggressive timelines, recipients need the appropriate expertise to keep the project moving according to funding requirements. This means recipients must often scale up their own operations, resources and project management capabilities, while funders must take steps to ensure that recipients do not short-circuit the process.

The relationship between program owners and fund recipients is thus quite symbiotic. The responses listed below illustrate how both sides need to leverage consistent project management best practices to ensure optimal effectiveness.

How to respond

If you are a program owner

- Adopt proven methodologies that can help you effectively manage your stimulus program
- Identify each element in the program's lifecycle in advance to ensure you can deliver on all project requirements
- Ensure your procurement and communications processes adopt realistic timelines
- Determine how to integrate your efforts with other funding programs and initiatives and collaborate where appropriate
- Make sure you have the right resources in place when needed by identifying your human resource requirements and establishing appropriate staffing, development and transition processes

If you are a fund recipient

- Adopt proven project management methodologies that can help you properly schedule your project deliverables
- Take the time to assess what organizational capabilities exist or procure the appropriate expertise to ensure projects can be completed within the timeframes promised
- Look beyond recovery. Because stimulus spending creates legacies, recipients will often need to maintain jobs, manage assets and deploy dedicated project resources for many years to come. To do this effectively, it's essential to build a management framework that allows you lay the foundation for ongoing growth, rather than simply "borrowing" from future programs to fund current projects

Solutions in action

After receiving stimulus funding, one post-secondary institution realized that it needed additional internal resources to meet its aggressive project commitments and timeframes. As such, it took the time to review its current position and identified the managers and contractors it needed to build its facility and design processes for governing its new relationships. As a result, the institution built a defensible action plan for optimizing its investment returns.

Partnering for recovery

Canada's Economic Action Plan sets out significant targets for reducing the tax burden on Canadian individuals and businesses, stimulating spending that creates jobs, helping individuals and industries hardest hit by the recession and strengthening the financial system to improve access to credit.



As program owners seek investment opportunities that align with those goals and recipients structure programs to meet them, every stakeholder must proactively seek to put processes in place to maximize the chances of success.

The extent of your organization's effort will depend on the level of your program's maturity, your experience managing funding programs and the strength of your back-end monitoring and reporting systems. Yet, regardless of the current state of your processes, one thing is clear – you cannot leave your stimulus investment program to chance. You must put solutions in place to ensure robust program governance, effective due diligence, a well-defined management control framework, risk-based monitoring and auditing, targeted results reporting and strong program management.

No matter where you are in the stimulus investment lifecycle, you will want to consider the following as you work towards meeting the government's stimulus funding objectives.

Strategic planning and guidance

- Program governance, policy and process design
- Project evaluation methodology and toolkits
- Management control frameworks
- Program performance measurement frameworks
- Risk modeling and assessment
- Reporting frameworks

We're in this together

As the country continues its effort to weather ongoing economic turbulence, stimulus funders, recipients and private sector stakeholders must work together to spur a rapid and lasting recovery.



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