
Report on the Small Tenures Program Review

Ministry of Forests and Range

Distribution

Executive Summary Only

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Internal Audit & Advisory Services

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Abbreviations

BCCFA	BC Community Forest Association
FBCWA	Federation of BC Woodlot Association
FIA	Forest Investment Account
FIRS	Forest Investment Reporting System
LBIP	Land Based Investment Program
LBIR	Land Base Investment Rationale
RPF	Registered Professional Forester
STIR	Small Tenures Investment Rationale
STP	Small Tenures Program
the ministry	Ministry of Forests and Range

Executive Summary

The Small Tenures Program is one of the provincial land-based programs that provide funding for eligible forest management activities and extension initiatives specifically targeted at Woodlot Licenses and Community Forest Agreements.

The program is delivered through a provincial lead association model. The Federation of BC Woodlot Associations has been the administrator of the Small Tenures Program of the Forest Investment Account for the past three fiscal years. The Federation of BC Woodlot Associations has an agreement with the Ministry of Forests and Range to manage and audit the program, and is responsible for contract administration, approval of work plans, compliance with standards, and program reporting.

Eleven Lead Woodlot Associations and the BC Community Forest Association are responsible for the facilitation of planning and delivery of projects on a regional and district-wide basis under the overall direction of the Federation of BC Woodlot Association. The eleven lead woodlot associations act on behalf of 25 woodlot associations (815 licensees) while the BC Community Forest Association acts on behalf of 10 active community forest agreements.

The Ministry of Forests and Range requested that Internal Audit & Advisory Services conduct a review of the Small Tenures Program. The purpose of this review was to assess the efficiency and effectiveness of the program delivery structure. Specific review objectives were to evaluate the adequacy of program planning, service delivery processes, operational controls, and the reporting of achieved results. Our fieldwork was performed in June and July 2006.

Overall, we found the effectiveness and efficiency of the Small Tenure Program was restricted by the level of program funding. The small budget compromises the ability to achieve program objectives and affects the level of planning, monitoring and reporting.

We also found the program is too small to achieve economies of scale, and stakeholders see the administration of small, straightforward projects as time-consuming, overly complex and uneconomical.

Opportunities exist to strengthen the program, without increasing funding, by considering a different delivery model, one more closely linked to other existing land-based activities, and that clearly targets the unique needs and priorities of woodlots, community forests and major licensees.

We wish to express our appreciation to the Ministry of Forests and Range management and staff, the Federation of BC Woodlot Association, the BC Community Forest Association and Woodlot Associations and their members for their co-operation and assistance during the course of this review.

David J. Fairbotham
Executive Director
Internal Audit & Advisory Services

January 12, 2007

Introduction

The Forest Investment Account (FIA) is a provincial government mechanism for promoting sustainable forest management in British Columbia. The Small Tenures Program (STP) – FIA is one of the provincial land-based programs that provide funding for eligible forest management activities and extension initiatives specifically targeted at Woodlot Licenses and Community Forest Agreements.

The objectives of the STP are to:

- actively foster sustainable forest management; and
- improve the public forest asset base by carrying out eligible activities on Crown land.

The STP is delivered through a provincial lead association model. The Federation of BC Woodlot Associations (FBCWA) has been the administrator of the STP of the FIA for the past three fiscal years. The FBCWA has an agreement with the Ministry of Forests and Range (the ministry) to manage and audit the STP, and is responsible for contract administration, approval of work plans, compliance with standards, and program reporting.

For efficiency, 11 Lead Woodlot Associations and the BC Community Forest Association (BCCFA) are responsible for the facilitation of planning and delivery of projects on a regional and district-wide basis. The 11 lead woodlot associations act on behalf of 25 woodlot associations (815 licensees) while the BCCFA acts on behalf of 10 active community forest agreements.

The ministry requested that Internal Audit & Advisory Services conduct a review of the Small Tenures Program.

Purpose

The purpose of this review was to provide ministry executive and the Strategic Policy and Planning Branch with an assessment of the efficiency and effectiveness of the STP delivery structure.

Scope and Objectives

The scope of the project included a review of STP planning, delivery, reporting and evaluation processes. In addition, we reviewed a sample of projects funded under the STP in 2005/06, as well as planning, contractual, operational and reporting information.

Specific objectives were to:

- assess whether program priorities are developed and strategies are in place to achieve program objectives;
- assess the efficiency and effectiveness of processes and methods of service delivery;
- assess whether controls are in place to identify and manage risks to achieving objectives; and
- assess whether program results are accurate and serve to indicate whether intended results were achieved.

Fieldwork occurred during June and July 2006.

Comments and Recommendations

1.0 Program Accountability

We reviewed the Small Tenures Program (STP) purpose and assessed the effectiveness of program planning to address the objective “to actively foster sustainable forest management and improve the public forest asset base”. This included reviewing whether approved projects have clear performance measures in support of program objectives, assessing whether roles and responsibilities of all parties were clearly defined, and whether priorities and strategies were clearly communicated to all parties.

Overall, we conclude that there is an accountability framework in place to support the achievement of program objectives. However, resources for planning, monitoring, and reporting may not be adequate to support the achievement of program objectives based on the current funding allocation method. The Ministry of Forests and Range (the ministry) and the Federation of BC Woodlot Association (FBCWA) may want to consider a more strategic allocation of STP funding to minimize the funds allocated to administering the program, and to maximize economies of scale and the achievement of program objectives.

Licensees informed us that the program has been adequately communicated. However, clarifying roles and responsibilities of program stakeholders, and improving communications between stakeholders would further strengthen the program.

1.1 Program Purpose and Objectives

The purpose of the program is to deliver high priority, cost-effective forest productivity and sustainability investments by licensees operating on crown land. We found the program is too small-scale to have a significant impact on the landscape, compromising the ability to achieve program objectives. As a result, investments to date have been mainly limited to the reforestation of backlog areas on crown land, largely as function of limited resources available for planning and development activities.

While these projects have been successful, and licensees are satisfied with the results, only straightforward projects with developed standards have been carried out. The program would most likely benefit from a broader suite of eligible project options more suited to small tenure holders.

Since the program is small, licensees may not consider it a high priority. For example, in the central interior, incremental woodlot management is not a priority at this time for those licensees dealing with beetle kill. Three Lead Woodlot Associations located in the central interior did not have an approved work plan for 2005/06 and, based on financial information; program spending was \$193,334 less than forecast (22%).

The STP and the Land Based Investment Program (LBIP) for major licensees share a similar purpose, objectives, activities and planning processes, potentially resulting in an overlap. To maximize the utilization of resources available through the small tenure program, the ministry could consider combining LBIP and STP investment rationale processes. This should lead to gains in efficiency and effectiveness by developing a joint planning process resulting in one plan at the Timber Supply Area or district level.

Investment rationales for major licensees, woodlot licensees and community forest licensees would be updated annually as appropriate. Combined LBIP and STP investment rationale processes could lead to gains in efficiency and effectiveness by:

- identification of key priorities;
- identification of opportunities to coordinate activities;
- increased communication and information sharing;
- reduced administration related to number of contracts, reports, payments;
- achievement in economies of scale resulting in increased ability to monitor and provide guidance and advice to project recipients;
- opportunities to transfer funds between program as appropriate; and
- opportunity to address timing issues.

In addition, key activities focused on woodlots, community forests and major licensees could be identified and prioritized in a given year resulting in greater gains, more focused resources and a more significant impact on the land.

Recommendations

We recommend the ministry:

- (1) **combine LBIP and STP investment rationale processes, and facilitate a joint planning process with investment rationales for major licensees, woodlot licensees and community forest licensees; and**
 - (2) **prioritize key activities focused on woodlots, community forests and major licensees.**
-

Ministry Response

- (1) *Starting in 2007/08, Community Forests and Woodlots will be included under FIA LBIP administration. Community Forest management objectives, issues and eligible activities will be included under the LBIP Land Base Investment Rationale (LBIR). A provincial Woodlot Investment Rationale will be prepared, and alignment between the LBIRs and Woodlot Investment Rationale will be encouraged.*
- (2) *Focussed funding is currently assigned under the LBIP for forest health, forest inventory, fertilization and timber supply analysis. With Community Forests under the LBIP and participating in the LBIR process, there will be increased clarity around prioritized activity for the management units included in the LBIR(s). The new Woodlot Investment Rationale should also bring clarity to strategic priorities, and potentially focus (part of the) funding within the woodlot allocation.*

1.2 Plans, Priorities and Strategies

Program planning and prioritizing takes place on several levels:

- multi-year Small Tenures Investment Rationales (STIRs) and annual work plans at the lead association level; and
- project-based activity plans.

STIRs are in place for each of the STP recipients (i.e., Lead Woodlot Administrators); however, they are considered by the recipients as too high level and general to be effective in identifying program priorities. In addition, we found that:

- Some strategies as outlined on the STIR's are outdated. For example, the reforestation of backlog areas has been largely completed.
- Delivery fees are inadequate to ensure effective planning required to update STIR's and to develop standards for new projects and more complex, non-traditional projects.
- STP recipients would like the ability to carry out research and development of standards for innovative projects to meet emerging needs.

STP recipients also develop an annual work plan based on varying levels of consultation with woodlot associations, licensees and calls for proposal. However, resources are inadequate to ensure sufficient planning and consultation takes place. As a result, only simple, off-the-shelf projects are recommended and approved. Complex, innovative proposals tend to be discouraged.

The program would benefit from a responsive process or mechanism to provide direction with respect to the eligibility of new or emerging priorities and projects. As well, to encourage the creation of new projects, the Federation of BC Woodlots Association (FBCWA) and/or the British Columbia Community Forest Association (BCCFA) could play a role in the development of standards for new, leading edge projects, for example, the use of non-timber forest products.

Eligible Activities

Eligible activities for the program are established and constitute the basis for the STIR document. However, it still remains unclear to lead coordinators and licensees what constitutes an eligible activity.

We were advised that many of the eligible activities are geared to the major licensees as it is not feasible to carry out activities such as mapping and inventory within the confines of a small value project.

In addition, licensees and STP recipients see the program as inflexible and emerging priorities such as responding to beetle epidemic and aftermath of the beetle infestation in the central interior, and boundary issues on the coast, are not considered eligible.

Recommendations

We recommend the ministry:

- (3) clarify eligible program activities;**
 - (4) establish a process for innovative projects to be reviewed and discussed thereby allowing them to move forward if appropriate; and**
 - (5) encourage the Federation of BC Woodlot Association and BC Community Forest Association to play a role in the development of standards for new, leading edge projects.**
-

Ministry Response

- (3) Eligible activities will be reviewed in preparation for Community Forests and Woodlots to be included under the LBIP Administration starting in 2007/08.*
- (4) The LBIP has an established process for innovative projects that will be eligible for Community Forests and Woodlots beginning in 2007-08.*
- (5) The ministry will work with the FBCWA towards identifying activities unique to woodlot tenures that can be considered within FIA eligibility criteria including, as needed, development of standards to address new or emerging issues.*

1.3 Performance Management

Program high level objectives are established and output-based results are consistently measured and reported. In addition, performance measures, although they are administrative in nature, have been developed, including:

- timelines for completion of approved projects;
- review of project completion summaries and invoices;
- cheque preparation; and
- submission of financial reports.

Developing a set of performance measures that inform whether program objectives have been achieved would further strengthen the program management. Performance measures could include:

- impacts on timber values;
- impacts on production values (reclaiming site production);
- sustainable forest management outcomes or impacts; and
- increased participation of woodlot tenures.

Recommendation

(6) We recommend the ministry develop performance measures to determine whether program objectives have been achieved.

Ministry Response

(6) Performance measures for the LBIP will be reviewed with the new administration agreement for the program currently being negotiated.

1.4 Roles and Responsibilities

Based on our interviews with STP recipients and ministry staff, we found a varying degree of awareness and understanding of roles and responsibilities. Roles, responsibilities and expectations are outlined in the recipient agreements; however, there is no discrete set of roles and responsibilities or expectations to serve as guidelines for licensees. As a result, we were advised that incomplete or incorrect information, such as project proposal details and measurements are often submitted by licensees.

In addition, many of the stakeholders we interviewed are unclear of the role the ministry takes in the delivery of the program. A set of well-defined roles and responsibilities outlining key expectations of the STP recipients, licensees, and the ministry can serve to enhance program effectiveness and efficiency.

We found STP recipients perform a significant amount of the work required for project approval and are seen by licensees as playing a valuable role in the delivery of the program including planning, paperwork and supervision. Many licensees who had received funding played a very small role in the program.

The STP recipient developed the proposal, negotiated the details leading to project approval, conducted the hiring of contractors and administrators to complete the project, and submitted project completion reports.

STP recipients carry the risk that they may not be reimbursed for planning and consultation activities already carried out when annual work plans are not approved or when projects' results are not adequately achieved (based on standards). As a result, STP recipients become risk-averse, are unwilling to invest time in project planning and development activities, thereby impacting the ability of the program to fully maximize its objectives.

Recommendation

We recommend the ministry:

- (7) develop a set of roles and responsibilities outlining key expectations of the STP recipients, licensees and the ministry; and**
 - (8) reimburse Small Tenures Program recipients for activities completed in good faith.**
-

Ministry Response

- (7) Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. Roles and responsibilities for all recipients under LBIP are outlined in the Recipient Agreements between the Lead Administrator (PricewaterhouseCoopers[PwC]) and the Recipients (BCCFA, FBCWA). In addition, an information session to introduce the LBIP to BCCFA and FBCWA will also be provided, including clarification of roles and responsibilities within the program.*
- (8) Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. Cost guidelines under the LBIP outline eligible delivery allowance and project costs.*

1.5 Communications

Based on our interviews with program stakeholders, we found that program priorities and strategies have been communicated to licensees through electronic and regular mail, at woodlot association meetings, and through an annual "call for proposals. In addition, program priorities are discussed at annual general meetings, on a variety of websites, and in the Woodland Almanac.

However, participation among licensees remains marginal perhaps because of the small size of the program and the licensees' attention to current priorities such as dealing with pine beetle infestation. As a result, we found a small set of licensees submitting proposals annually and although generally funded most years and satisfied with the program, the vast majority of licensees do not participate.

STP recipients advised us that there is limited communication among them. Regular conference calls or meetings to discuss issues and share information or best practices do not occur. Better coordination and communication is needed between lead associations in order to enhance program effectiveness and efficiency. STP recipients should be encouraged to find economies of scale and share best practices on a regular basis as a minimum.

Based on our interviews with Regional ministry staff, we found the program is not given a high priority. They are aware of the issues facing small tenure holders, but do not stay apprised of individual project activities, program results, or outcomes.

Recommendation

(9) We recommend that the Administrator provide opportunities for the sharing of information between Small Tenure Program Recipients, the Federation of BC Woodlot Associations, and the ministry.

Ministry Response

(9) Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. The Administrator for the LBIP (PwC) provides regular updates to all participants in the LBIP, and ministry staff involved in the program. This information is posted on the administrator's website. Sharing of information occurs on an informal basis through the administrator's Investment Managers, and the ministry as needed. More formal communication through conference calls, forums, workshops will be scheduled depending on business needs.

2.0 Processes and Methods of Service Delivery

Overall, we found the program size restricted the program's ability to achieve effective economies of scale. Additionally, delays in the announcement of approved projects impacts program efficiency and effectiveness.

We reviewed the cost effectiveness of the program delivery structure to determine if maximum dollars were expended on project activities and whether fair and transparent procurement processes are followed. Additionally, we reviewed whether mechanisms were in place to ensure timeliness, and the achievement of intended results.

2.1 Cost Effectiveness

The program was provided a 2005/06 budget of approximately \$875,000 targeted to 823 woodlot licenses and 11 community forests. Based on the size of this budget, it is difficult for the program to achieve cost effectiveness through economies of scale, given the average allocation per licensee ends up being approximately \$1,050 per tenure holder. Based on year end reports, a total of 50 projects received funding of \$677,977 averaging approximately \$13,560. Delivery fees and administration fees amounted to approximately \$128,815 leaving an average of \$10,980 per project for “on the ground” activities.

We found that all projects, irrespective of size, are subject to similar standards and planning requirements making it difficult to achieve economies of scale. For example, costs associated with standards, supervision, assurance and reporting requirements for a \$10,000 spacing project are substantially the same as for a \$50,000 project. As a result, STP recipients end up developing their own means of achieving economies of scale such as only recommending higher value projects or projects involving multiple stakeholders.

Given the size of the program, the administration is seen by STP recipients and licensees as onerous and overly complex involving numerous key stakeholders in the delivery of the program including the FBCWA, Woodlot Associations, STP recipients, project supervisors, and on-the-ground contractors.

Based on the 2005/06 financial statements, FBCWA received 4.5% of total project allocation and lead woodlots received 13.4% for service delivery allowances including project supervision of actual program expenditures. Total cost to deliver projects amounted to approximately 19% of total project expenditures resulting in a 4:5 efficiency ratio.

Recommendation

⁽¹⁰⁾ We recommend the ministry streamline the administration and delivery of the program.

Ministry Response

(10) Towards identifying efficiencies and effectiveness in service delivery of FIA investment, an understanding has been reached that will consolidate the STP with the LBIP starting in 2007/08. Community Forests and Woodlots will be included under the LBIP administration agreement with PwC. This will realize immediate efficiencies in project tracking and reporting, and auditing. Dialogue between Community Forests and Woodlots and other LBIP recipients will be encouraged to identify further opportunities for economies of scale and efficiencies in project planning and implementation.

2.2 Timeliness of Project Activities

We found the project lifecycle to be compressed resulting in a majority of program activity occurring in January and February. The timeline for approval and funding also has the potential to compromise project selection and quality.

In prior years, project recipients were not typically notified of project approval until the third quarter of the year, and project activity typically did not start until the fourth quarter. As a result, additional allocations are not always received in time to make use of the money. In addition, worthwhile projects may not go ahead when the timing is poor. Project quality may be compromised when timelines for completion are unrealistic.

We also found that while there is the ability to undertake larger, multi-year projects recognizing that continuation of the project is subject to the availability of funding and to annual review processes, most STP recipients were not aware of this.

Recommendations

We recommend the ministry and the Administrator work together to:

(11) ensure that annual work plans and the selection of approved projects are completed in the first quarter; and

(12) communicate that multi-year project are offered subject to an annual review and the availability of funding.

Ministry Response

- ⁽¹¹⁾ *Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. Investment schedules can be submitted as early as April 1, 2007 by the BCCFA and FBCWA to PwC via the Forest Investment Reporting System (FIRS) for approval.*
- ⁽¹²⁾ *Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. An introduction to the LBIP for participants in the BC Community Forest Association and the Federation of BC Woodlot Associations will be provided in a training session in February 2007. At this time, information around topics such as program funding allocation and logistics for multi year projects will be provided.*

3.0 Operational Controls

Overall, we observed that risk-based plans and operational controls are in place and are being followed. However, delivery fees are inadequate to support the monitoring of projects increasing the risk that project results may not be satisfactory and program objectives not achieved.

We assessed whether lead delivery associations followed a risk-based approach and identified the risks and mitigating controls in support of program objectives. Additionally, we assessed whether the STP recipients are following controls and whether project activities are monitored to ensure program/project objectives are achieved.

3.1 Risk-Based Plans

The FBCWA has an annual risk based audit plan where independent auditors typically audit four projects per year and advise recipients of the results.

Controls have been identified and high-risk projects are prioritized according to budget, expertise, and experience. Several licensees advised us that the risk to the ministry or value for money not being achieved is low, as many licensees are Registered Professional Foresters (RPFs) and it is in their best interest to ensure projects are successful.

3.2 Processes, Policies and Procedures

There are adequate operating controls in place including:

- agreements with each lead;
- cost guidelines;
- longer term planning documents (STIRs), annual work plans developed projects submitted and approved by the FBCWA;
- performance measurement framework projects based on ministry standards such as pruning, spacing standards, and seeding standards;
- project completion summaries with professional sign-off (RPF);
- invoicing, and hold-back amounts;
- approval and completion check lists; and
- payments made on the basis of results achieved.

Operational controls help to ensure program objectives are achieved and enhance efficiency and effectiveness, although, there may be opportunities to streamline program administration by following a risk-based approach to the project completion reporting. For example, certification by qualified professionals such as Registered Forest Technicians may serve to reduce program administrative costs.

Recommendation

⁽¹³⁾ We recommend the ministry develop a risk-based approach to project monitoring, and consider allowing certification of standard projects by qualified professionals such as Registered Forest Technicians.

Ministry Response

⁽¹³⁾ Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration and Recipient Agreements will outline roles and responsibilities for participation in the LBIP. Each recipient is responsible for project implementation, including project monitoring as required. In addition, there is a formal performance and financial auditing process for LBIP.

Project certification by qualified professionals is in place for LBIP. Starting in 2007/08 the list of “certifying professionals” will be expanded to include Professional Agrologists and Registered Forest Technologists.

3.3 Monitoring of Project Activities

All projects require submission of project completion summaries, professional certification, cost guidelines, and a completion checklist as a quality assurance control. There is currently no requirement to submit project progress reports, and under the current funding allocation method, delivery fees are inadequate to support monitoring of projects.

Incorporating a risk-based monitoring approach for high risk projects would strengthen existing controls, and increase the likelihood that significant issues will be dealt with in a timely manner.

Recommendation

⁽¹⁴⁾ We recommend the ministry adjust delivery fees to provide for a risk-based approach to monitoring of high risk projects.

Ministry Response

⁽¹⁴⁾ Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. Cost guidelines for LBIP recipients include allowances for project quality control of approved activities.

4.0 Program Reporting

Overall, we found that approved project results are collected, and reported to the FBCWA by STP recipients. Reported results are accurate and fair given that project completion summaries receive professional attestation from a RPF. However, results are not evaluated and are not used to assess ongoing program relevance.

Program reporting is limited to output-based results of projects such as the numbers and types of projects funded, number of hectares spaced, seedlings planted, or recreation trails maintained.

Delivery fees should adequately provide for the analysis or assessment of program issues or results achieved and their impact on the advancement of program objectives. Delivery fees cover minimal reporting only and do not adequately provide for the analysis or assessment of program results. Consequently, there is no overall assessment of program results or evaluation of program efficiency or effectiveness.

Recommendation

(15) We recommend the ministry ensure program reporting includes the assessment of program results achieved and their impact on the advancement of program objectives.

Ministry Response

(15) Starting in 2007/08, Community Forests and Woodlots will be included under LBIP administration. As program recipients, the Federation of BC Woodlot Associations and BC Community Forest Association will report on LBIP investments throughout the project planning and implementation cycle via the LBIP Forest Investment Reporting System (FIRS).

The LBIP achievements will be reported out by the program administrator (PwC) quarterly and annually. A comprehensive annual report is prepared by PwC.