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Audit of the Ontario Community Futures Program

Final Report

Audit and Evaluation Branch

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1.0 Executive Summary

The audit of the Ontario Community Futures Program (CFP) was undertaken at the request of Program management.

The objectives of the audit were to assess:

- ▶ the adequacy of CFP's management control framework and practices, including its risk management strategies and practices and information used for decision-making and reporting purposes;
- ▶ compliance with the TB Policy on Transfer Payments, general compliance by recipients to terms and conditions of agreements and the adequacy of management efforts to determine compliance; and,
- ▶ the actions taken by CFP to address related recommendations arising from a November 2000 audit of FedNor.

The scope of the audit included all Community Futures Development Corporations (CFDC's) administered by FedNor during the fiscal years 2000-01 to 2002-03. The scope of the audit excluded reviews of contribution agreements made under the Knowledge-Based Innovation Program that were administered by FedNor.

This audit took place during the months of January and February 2004.

Main Findings

FedNor management and staff have been successful in delivering the Program within the terms and conditions of the Program. Program staff are dedicated and want to provide the most effective and efficient service to their clients.

The Community Futures Program (CFP) has a clearly-defined management control framework that has assisted FedNor and Industry Canada to deliver the Program at both the program and project level in a cost-effective manner and that the Program complies with appropriate acts, regulations and policies. The Program has established key controls that define the roles and responsibilities of all parties involved in the Program; its policies, guidelines and processes are well documented and provide guidance and direction to the Program's recipients and to their clients; and the Program's decision-making process is clearly outlined and transparent. Efforts are underway at a Program level to finalize the Result-Based Management and Accountability Framework (RMAF) and the Risk-Based Accountability Framework (RBAF), both of which will serve to and mitigate Program-level risks and complement existing operational risk management tools and practices.

The audit has concluded that, although the Program has established a process that requires each CFDC to report quarterly on their activities, there is a need to undertake more analysis on the information provided in these reports. Further, some of the information provided in the CFDC reports may not be

supported by accurate data, in particular the job creation numbers that are being attributed to the Program. It is noted that the data/information and the basis on which this information is collected and reported has not been subject to detailed systematic examination.

The audit identifies changes that should be made to the Program's systems, practices/processes, such as the monitoring of overall payments at a Program level to ensure that the authorized spending limits for the Program are not exceeded, which may assist in the delivery and administration of the Program.

The audit noted that the Community Futures Program generally complies with the requirements of the Transfer Payments Policy. Efforts are underway to achieve full compliance with the Policy, in particular through the completion of the RMAF and RBAF as previously noted. Some other instances of non-compliance to the Program's Terms and Conditions were also noted, notably as they relate to requirement to include a clause indicating that any payment to be made is subject to there being an appropriation by Parliament for the fiscal year in which the payment is to be made and a clause addressing the use of lobbyists pursuant to the Lobbyist Registration Act. Program management is aware of the situation and, in consultation with the other regional development agencies, has begun a process to revise the Program's terms and conditions to ensure that they meet all the requirements of the Transfer Payments Policy. It is anticipated that this process will be completed in the near future. The audit did note that since July 2000, the overall quality of the individual agreements entered into with the CFCDs had improved.

A detailed review of contribution agreements for the individual CFCDs found compliance with the Program's Terms and Conditions. Amendments made to the Terms and Conditions of the recipient agreements were properly authorized and supported by appropriate documentation. In some instances where information required from the recipient was incomplete or was missing from the contribution agreement file, there was evidence of appropriate follow-up action taken by Program management to obtain the required information.

Program management has taken appropriate action to address the applicable observations and recommendations made in the 2000 audit of the FedNor Program. Increased emphasis should, however, be placed on the monitoring of individual CFDC's investment activities to ensure that expected Program results are achieved.

2.0 Introduction

2.1 Authority

The audit of the Ontario Community Futures Program (CFP) was undertaken at the request of Program management.

2.2 Audit Objectives

The objectives of the audit were to assess:

- ▶ the adequacy of CFP's management control framework and practices, including its risk management strategies and practices and information used for decision-making purposes the adequacy of the information used for decision-making and reporting purposes;
- ▶ compliance with the Treasury Board Policy on Transfer Payments, general compliance by recipients to terms and conditions of agreements and the adequacy of management effort to determine compliance; and
- ▶ the actions taken by CFP to address related recommendations arising from the November 2000 audit of FedNor.

2.3 Audit Scope and Approach

The scope of the audit included all Community Futures Development Corporations (CFDC's) administered by FedNor during the fiscal years 2000-01 to 2002-03. The audit scope excluded reviews of contribution agreements made under the Knowledge-Based Innovation Program that was administered by FedNor.

This audit took place during the months of January and February 2004.

The following approach was used in carrying out the audit:

(I) Review of the Program's documentation - relevant Program documentation was reviewed in order to gain a sound understanding of the Program's Terms and Conditions, its policies, procedures and reporting mechanisms as well as the roles/responsibilities of its management and staff.

(ii) Review of previous audit and evaluation reports - recent audit and evaluation studies/ reports were reviewed to gain familiarity with all issues, opinions and points of view affecting the Program.

(iii) Interviews were conducted and consultations were held with Industry Canada and FedNor management and staff - interviews and consultations allowed the auditors to gain an in-depth knowledge of the Program's processes, procedures and operations.

(iv) Review of Treasury Board Transfer Payment Policy - the Treasury Board Transfer Payment Policy that became effective June 1, 2000 was reviewed and analyzed in order to determine the Program's degree of compliance with this policy.

(v) Reviewed the Program's draft Results-Based Management Accountability Framework (RMAF) -

the CFP RMAF was reviewed and analyzed in order to ensure that it complied with Treasury Board requirements and that it will assist the Program to establish adequate management control and reporting frameworks.

(vi) Establish audit criteria and an audit program to undertake the audit - specific audit criteria and an audit program were developed to assess the soundness of the Program's management control framework; risk management strategies and practices and the information used for decision-making and reporting its activities.

(vii) Review of the Program's Project Files - a detailed audit of 38 Program contribution agreements was undertaken. These agreements included 28 contribution agreements for operating expenditures, seven contribution agreements for CFDC investment agreements and three contribution agreements for capitalization of the CFDC's funds.

(viii) Follow-up of audit dated November 2000 - the audit observations and recommendations made in the Program audit dated November 2000 were reviewed and followed up on to ensure that appropriate action(s) had been taken to address the issues or areas of concern identified in the report.

2.4 Audit Criteria

Audit criteria define the standards of performance and control against which CFP activities were to be assessed. They were expressed in terms of reasonable expectations for these processes and practices to achieve program results and objectives. The criteria were selected based on: our knowledge and experience with grants and contributions programs; by reference to legislative and regulatory requirements; by reference to standards, policies and practices followed by CFP and, to professional literature. In particular, we referred to Treasury Board's Policy on Internal Audit, the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing and the Treasury Board Policy on Transfer Payments.

The detailed criteria for the audit, which were discussed with and agreed to by CFP management, are presented in Appendix A of this report.

2.5 Appreciation

The auditors would like to thank the various individuals and organizations that participated in this audit for their co-operation and assistance.

3.0 Background

In 1995, the Community Futures Program was transferred from Human Resources Development Canada to Industry Canada and to the three regional development agencies (Atlantic Canada Development Agency – ACOA, Community Economic Development for the Regions of Quebec – CED, and Western Diversification – WD and FedNor. In May 2000, the Program was allocated \$90 Million in supplementary funding over a five year period of which approximately 40% was allocated to FedNor.

The Community Futures Program (CFP), a community economic development program:

- helps rural communities to develop and implement a long-term community strategic plan leading to the sustainable development of their local economy;
- helps CFDCs foster the establishment, expansion, competitiveness and stabilization of small business in the community by providing counseling, advice, information and referral services to local businesses and entrepreneurs; and
- supports CFDCs in providing access to capital for small business financing by operating locally governed funds that can provide loans, loan guarantees or equity investments for business start-ups, expansion or stabilization.

In Ontario, the CFP is administered by Industry Canada/FedNor who, in turn, support the Community Futures Development Corporations (CFDC's) which have been established to provide services at the local community level. There are currently 61 CFDC's operating throughout non-metropolitan Ontario that are supported by FedNor offices located in Ottawa (Ontario South); Sudbury (Ontario North-East); Sault Ste. Marie (Ontario North-Central) and Thunder Bay (Ontario North-West).

Each CFDC is incorporated as a non-profit organization governed by a local volunteer board of directors who represent the local community's interests. With federal contributions and the guidance and support of FedNor's/Industry Canada Community Economic Development (CED) officers, local CFDCs pursue their own priorities and strategies for development by creating and implementing a strategic community plan in co-operation with their partners. Each CFDC employs professional staff to work with their partners to assemble, co-ordinate, plan and complete projects that build the foundation for a stronger local economy as envisioned in the community plan.

4.0 Detailed Audit Findings

4.1 Design and operation of the Community Futures Program Management Control Framework

The Community Futures Program (CFP) has established a clearly-defined management control framework that supports the cost-effective delivery of the Program at both the program and project level.

A management control framework establishes the organization's policies and procedures that are used to reasonably ensure that: the program achieves its intended results; resource usage is consistent with the organization's mission; the programs and its resources are protected from waste, fraud, and mismanagement; applicable laws, regulations and directives and guidelines are followed; and reliable and timely information is obtained, maintained, reported and used for decision making by the organization.

The audit found that the Community Futures Program (CFP) has established a clearly-defined management control framework that supports the cost -effective delivery of the Program at both the program and project level in compliance with appropriate acts, regulations and policies. Key program-level controls that have been established include clearly defined the roles and responsibilities of all parties involved in the Program; well documented Program polices, guidelines and processes which provide guidance and direction to the Program recipients and to their clients; a clear, transparent and open decision-making process; as well as the establishment of Program criteria that identifies eligible recipients, the conditions under which funding can be provided and the amount of funding that can be made available. In addition, there was evidence of due diligence being exercised in relation to decisions concerning the approval of funding for prospective recipients.

At the time of the audit, the Program, in consultation with the other regional development agencies, was in the process of finalizing a Results-based Management and Accountability Framework (RMAF) that establishes and describes the Program's objectives, its accountability framework and its requirements for reporting and evaluation. Our review of the draft RMAF found that it generally complied with the requirements of Treasury Board and should satisfy Program requirements.

The Program was also developing a draft Risk-Based Audit Framework (RBAF) that identifies key Program-related risks and mechanisms that could be used to mitigate these risks. The audit did not permit a detailed review of the RBAF as it was only provided to the auditors after completion of the audit fieldwork. However, a subsequent review of the RBAF noted that, although there are several inherent risks in the Program, these risks can to a large extent be mitigated and that overall, the Program was considered as a low risk.

At a project level, the Program has developed and implemented a number of essential controls over each funded project which assist Program management to ensure that the funds received by the Program recipients are, in fact, used to achieve established Program objectives. We noted, for example, that a rigorous a risk-assessment process was undertaken and followed by the Program for

each project prior to funds being approved for allocation to the project; each funded project is required to report quarterly on its activities; all projects are required to prepare and submit annual audited financial statements; and that there was extensive monitoring of CFDC activities by the Program officers. We also found evidence that the individual CFDC project files had been subject to extensive review and analysis by CFP management and staff to ensure that the individual project's Terms and Conditions are complied with.

The audit did note that while the Program has established a process that requires each CFDC to report quarterly on their activities, there is minimal analysis being undertaken on the information provided in these reports. We noted, for example, that of the eight investment accounts reviewed during the audit, four had a bad debt expense ratio that was greater than 10% and, in one instance, the bad debt expense ratio was approximately 35%. The Treasury Board Submission that requested additional funding of \$90 Million and that was subsequently approved by Treasury Board on May 18, 2000, acknowledged that CFDC loans are considered high-risk, however the expected default rates were considered respectable and would range from 3-6%.

In addition, we noted that while reporting requirements may be clear, there is some question as to the fairness and accuracy of information reported. We noted instances of inaccuracies in the reporting of loan applications and approvals (more approvals than applications). Further, CFDCs are required to report on support for new and maintained businesses, but there does not appear to be any reporting of business failures (see related comment re: bad debt expense ratios), as was noted in the annual report for one CFDC reviewed. This raises the question as to the overall accuracy of the job creation numbers reported/attributed to the Program. It should be noted that the audit did not include a detailed assessment of the reliability and credibility of the data/information collected and reported by each CFDC.

Program management and staff have acknowledged that the Program officers have not been and are not currently actively involved in the monitoring of the activities of the individual CFDC investment accounts as they generally rely on the CFDC's judgment and analysis to allocate their individual investment funds. Program management and staff also acknowledged that limited use has been made of the quarterly activity reports that are being submitted by the CFDCs.

The CFDCs, depending on circumstances, are permitted to make transfers between their operating and investment funds; however, these transfers require prior approval by Program management and the fund must be reimbursed promptly. We noted that in three of the files reviewed, the CFDCs transferred funds from their investment fund to their operating fund without proper authorization or that the investment fund was not being reimbursed promptly. Although Program Management were monitoring and following-up on these transfers, there were long delays between the date of the transfer and the date the fund was reimbursed.

The audit noted that the Program has developed a policy manual and an accounting manual that are used to provide guidance and direction to the CFDCs on various aspects of their operations. While these manuals ensure that consistent practices are followed across the various CFDCs, we noted some inconsistencies in the manner in which certain transactions are dealt with, for example, the processes/practices followed to recover overpayments made to CFDCs by program officers. In our

opinion, consideration should be given to developing and implementing an operations manual that provides advice and guidance on the processes/practices to be followed by all Program staff, in particular the Program Officers.

We noted that there is currently only one general ledger account established for the Program making it difficult in the Financial System to segregate, record, report and monitor the total payments made by the investment and operating accounts of the Program. While there is evidence that individual payments made for a specific contribution agreement are monitored to ensure that the authorized spending limits for the individual agreements are not exceeded, there was no evidence that total payments made by the Program for all of the funds are monitored and controlled which would ensure that the authorized spending limits for the Program itself are not exceeded.

Industry Canada's system for maintaining data pertaining to Grants & Contributions is CMIS. CMIS is a feeder system to the Financial System for G&C transactions and as such, it contains the detail for each of the funds maintained by the Program. The link to the Financial System G/L is maintained within CMIS. The detailed fund data required to identify a specific G/L whether it is a relationship of one-to-one or many-to-one, originates within CMIS. Therefore CMIS can provide information on the total payments made by the Program for each of the funds within CFP.

In conclusion, the audit found that the Program has in place a well designed framework which promotes the effective achievement of Program objectives. This framework is currently being enhanced through the finalization of the Results-based Management and Accountability Framework (RMAF) and the Risk-Based Audit Framework. However, improvements are required to ensure that accurate and credible information is provided by CFDC's to support decision-making and reporting of Program results.

Recommendations:

1. The Program should ensure that the CFDC financial and activity reports are monitored and that the information contained in these reports is accurate and reliable, with particular emphasis placed on the monitoring of bad debts expense ratios and associated activities of the individual CFDCs.
2. The Program should take appropriate measures to ensure that all transfers between investment and operating funds receive prior authorization and that the investment funds are reimbursed as scheduled.
3. The Program should also consider developing and implementing an operations manual to ensure that consistent practices are followed across the Program by Program staff.
4. The Program should also increase its monitoring of the overall commitments and expenditures made by each of the Program's funds in order to ensure that authorized limits for each fund are not exceeded.

5. FedNor should consider developing a common key identifier for each of its internal systems which would allow the systems to be fully integrated and minimize the efforts required to generate internal management reports on the Program's operations and/or activities.

4.2 Compliance with Transfer Payments Policy

The Community Futures Program generally complies with the requirements of the Transfer Payments Policy. Efforts are underway to achieve full compliance with the Policy.

Effective June 2000, a new Treasury Board Transfer Payments Policy was introduced that required federal government departments/agencies to ensure that there was sound management of, control over and accountability for transfer payments.

This policy required departments/agencies to:

- ▶ establish policies and practices that ensured effective financial and program controls are designed and implemented;
- ▶ exercise due diligence in the selection and approval of recipients of transfer programs and in the management and administration of the program;
- ▶ ensure that effective accounting and other procedures are established to ensure that payment requests meet the requirements of the Financial Administration Act and the Payment Requisitioning Regulations;
- ▶ ensure proper program and accounting records are maintained to provide documentary evidence of decisions made and results achieved and to enable disclosure of the amounts paid to recipients;
- ▶ prepare a results-based management and accountability framework; and
- ▶ ensure capacity exists to deliver and administer the program.

As noted in Finding 4.1 above, several elements of CFP's management control framework respond to the specific requirements of the Transfer Payments Policy and efforts are also underway to finalize the RMAF and RBAF for the Program.

However, the audit noted that the majority of the contribution agreements reviewed did not contain a clause indicating that any payment that was to be made is subject to there being an appropriation by Parliament for the fiscal year in which the payment is to be made or a clause stating that any person lobbying on the applicant's behalf is registered pursuant to the Lobbyist Registration Act. Program management has recognized that its current Terms and Conditions (T&C's) for the Program do not currently comply with all of the requirements of the Treasury Board Transfer Payment Policy and, in consultation with the other regional development agencies, has begun a process to revise the

Program's T&C's to ensure that they meet Policy requirements. It is anticipated that this process will be completed shortly.

It was noted during the course of the audit that, since July 2000, there has been a noticeable improvement in the quality of the individual agreements that been entered into with the CFDCs as agreements since that date provide specific details on the processes that are to be adhered to by all parties to the agreement.

Recommendation:

6. Continued emphasis be placed on revising and approving the Program's Terms and Conditions to ensure they comply with all of the requirements of the Treasury Board Transfer Payment Policy.

4.3 Compliance with Community Futures Program Terms and Conditions

CFP contribution agreements comply with the Program's Terms and Conditions.

The scope of the audit included all Community Futures Development Corporations (CFDC's) administered by FedNor during the fiscal years 2000-01 to 2002-03 and included a detailed audit of 38 Program contribution agreements. These agreements included 28 contribution agreements for operating expenditures, seven contribution agreements for CFDC investment agreements and three contribution agreements for capitalization of the CFDC's funds. The following presents a breakdown of the files reviewed by region:

Region	Administered Through	# Files Reviewed
North West	Thunder Bay	6
North Central	Sault Ste Marie	5
North East	Sudbury	7
OntarioSouth	Ottawa	20

The audit assessed the degree of compliance of the CFDC agreements with the Program's Terms and Conditions, in relation to the request for project funding, proper approval of projects, request for payment (claims) and for monitoring requirements. In virtually all files examined, the agreements clearly identified the recipient, the recipient's objectives, the recipient's eligible expenditures, the length of the agreement, the maximum amount payable to the recipient and the reporting requirements of the recipient. In addition, amendments made to the Terms and Conditions of the recipient agreements were properly authorized and supported by the appropriate documentation.

It was noted during the course of the audit that, in some instances information required from the

recipient was incomplete or was missing from the contribution agreement file; however, in each instance there was appropriate follow-up action taken or was being taken to obtain the required information.

Recommendation:

None.

4.4 Follow-up on observations and recommendations of audit report dated November 2000

In most instances, Program Management has taken appropriate corrective actions to address the observations and recommendations of the 2000 audit report.

In November 2000, Consulting and Audit Canada issued an audit report which assessed the adequacy of FedNor's management control framework and made a number of observations and recommendations, some of which pertained to the Ontario Community Futures Program. During the course of this audit, we followed up on these observations and recommendation in order to assess the adequacy of corrective action taken by Program management.

The following is a summary of observations/recommendations that pertain to the Ontario Community Futures Program there were made in the audit report dated November 2000 and the corrective action(s) taken by Program management.

(i) Recommendation – Cash flow information, in addition to project budget information, should be obtained for all major project-related contribution agreements.

Program Management has developed and is currently using a report that forecasts the cash flow for each contribution agreement.

Conclusion: Program management has taken adequate measures to address this recommendation.

(ii) Recommendation – Risk assessment should be performed prior to the approval of a project and should be a factor in decisions to accept a project proposal. The assessment should be used to determine the claims verification strategy in discussion with the client. Once the risk is assessed, the implications of the risk should be explained and a mitigation strategy proposed.

The audit indicated that a process has been developed and implemented by CFP management whereby all Community Futures Program projects are subject to a risk assessment, the potential implications of the risk are explained and a mitigation strategy to address the identified risk(s) has been developed.

Conclusion: Program Management has taken adequate measures to address this recommendation.

(iii) Recommendation – The decision to advance funds and the amount to be advanced should be based on an assessment of the risk of non-performance or default.

Program Management has taken measures to ensure that the funds to be advanced to a project are appropriate based on the risk assessment that has been undertaken.

Conclusion: Program Management has taken adequate measures to address this recommendation.

(iv) Project monitoring practices should ensure on-site visits occur, as required, and assess outcomes resulting from contributions, in addition to outputs or deliverables.

The Program's officers are currently carrying out on-site visits of the individual Community Future Development Corporations activities, however; as previously noted, there is a need for the Program to increase its monitoring and analysis of the individual CFCD investment account activities to ensure that expected Program outcomes are achieved and to determine, if necessary, why the expected outcomes were not achieved.

Conclusion: Recommendation partly addressed however additional monitoring may be required to better assess the achievement of Program outcomes.

Recommendation:

7. Program Management should place increased emphasis on monitoring of individual CFCD investment activities to ensure that expected Program results are achieved.

Appendix A – Detailed Audit Criteria

1. Assessment of CFP Management Control Framework.

- ▶ The program complies with appropriate acts, regulations, policies and appropriate agreements;
- ▶ The MCF identifies the intended results, ensures that the results achieved are monitored and assessed on a regular basis, and supports sound management practices;
- ▶ The decisions concerning the approval of recipients and of projects respect the concepts of due diligence, namely a sound justification, a reasonable analysis and accountability.
- ▶ The CFP program needs are well-established.
- ▶ Roles and responsibilities are clearly defined for managing and delivery in the program.
- ▶ Performance expectations are clearly stated.
- ▶ Funds are used to achieve the objectives of the program.
- ▶ The procedures used in providing the services are effective.
- ▶ Management can explain how recipients are expected to benefit from funding and to what end.
- ▶ Potential applicants are aware of the program.

Terms & Conditions

- ▶ All financial records pertaining to the program should comply with the reporting requirements set out in the agreement.
- ▶ Information on file must be complete and self-explanatory including evidence of an appropriate level of analysis.
- ▶ Evidence must exist demonstrating a project's merit or the rationale for departmental support.
- ▶ Clear linkages must be evident from the project to the mandate of the program, to one or more policy goals, to one or more strategic objectives, and to one or more planned priorities, if requested in program documentation and guidelines.
- ▶ Due diligence in managing and administering a transfer program is supported by having the proper systems, procedures, resources and controls in place.
- ▶ A communication strategy outlines the best strategies and communications vehicles that will help target specific audiences (i.e. potential recipients and/or beneficiaries) in the most timely and cost-effective manner.
- ▶ A single person should not select and approve a new grant or contribution agreement, or renew an existing one. In most cases, the decision to approve a grant or contribution agreement has a judgmental component and often involves disbursing significant sums of money to groups or individuals. There is a potential for bias or conflict of interest. A review committee offers many advantages but it may not be practical beyond a certain volume or within given time constraints. In this case, a peer review may be a good alternative.

2. Assessment of Information Used for Decision-making and Reporting.

- ▶ The program reporting framework addresses the program's stated objective;

- ▶ Management reports and information contained in the recipient files are provided in a way that is conducive to their use in the program accountability and decision making-process;
- ▶ The program control framework addresses the management information requirements and expected attributes (verifiable, relevant, complete, etc.).
- ▶ The decision process is clear, transparent and open.
- ▶ Program officers understand who and what is eligible for funding, under what conditions funding can be provided, for what purposes, and in what amounts.
- ▶ Management reporting demonstrates a good knowledge of program performance.

Reporting requirements

- ▶ All reports required in the agreement are produced on time and in compliance with the established agreement's schedule.
- ▶ The information presented in the reports is accurate and reliable.
- ▶ All the required and relevant information is included in the reports.
- ▶ In cases where the recipient did not comply with the reporting requirements, there is evidence that the Program Officer has assured follow-up on issues of concern relating to remedial action or recovery of amount unsupported by audit and that these payments were retained.
- ▶ Management reporting demonstrates a good knowledge of program performance.

3. Assessment of Risk Management Strategies and Practices.

- ▶ The program's key risks are expressed and assessed in specific results-oriented terms related to client needs and program objectives and, are measured and evaluated on a regular basis;
- ▶ Appropriate strategic and operational plans are developed, applied, reviewed, and updated with suitable frequency.
- ▶ Information system is reliable and can generate the required reports quickly and accurately.
- ▶ Accountability of individuals is well-established.
- ▶ Funding is used for the purposes agreed.
- ▶ Problems with project and program performance are resolved quickly.
- ▶ Money owed to the Crown is collected promptly (in the case of repayable contributions).

Terms & Conditions

- ▶ All amendments made to the agreement should follow all the procedures required in the agreement.
- ▶ All waivers of provision of the agreements should be made in writing.
- ▶ The recipient wishing to terminate or opt out of the agreement must follow the steps described in the agreement to do so (when applicable).

Audit reports

- ▶ Audit reports state if the terms and conditions of the agreement has been met.

- ▶ All findings of problems identified in the audit report have been addressed and a follow-up is being done.
- ▶ No potential default situations have been identified in the audit report.
- ▶ Problems with project and program performance are resolved quickly.
- ▶ Each Treasury Board submission for programs or initiatives with transfer payments include a Results-based Management and Accountability Framework (RMAF) dealing with accountability, evaluation and reporting requirements.

4. Assessment of the Adherence to the Treasury Board Transfer Payment Policy.

Minimum content of a program’s terms and conditions should include:

Policy requirements (section 8.1 of the TP policy)	Comments
<p>Summary A short summary of the program or initiative.</p>	<p>The terms and conditions will become a stand-alone document for use by departmental staff. It will be helpful to them in negotiating with potential recipients and in drafting agreements to place the program in the proper context.</p>
<p>Objectives and Results</p> <p>A clear statement of the transfer payment program’s objectives;</p> <p>A clear statement of how the transfer payments further approved program objectives, including identification of expected results and outcomes.</p>	<p>A manager must justify how a particular transfer agreement is linked to and furthers the objectives set out in the transfer program’s terms and conditions.</p> <p>The program or legislative authority to develop or renew a transfer payment program should also be identified in this section to verify that it is in keeping with the departmental mandate.</p>
<p>Eligible Recipients</p> <p>A clear identification of the recipient or definition of the class of eligible recipients. If the intention is to include Crown corporations as qualified recipients, include specific reference to their eligibility.</p>	<p>This component requires special consideration if a class or classes of eligible recipients are being considered. A class may include individuals, for-profit and non-profit organizations.</p> <p>Transfer payments may not be made to other government departments because it would circumvent Parliament and the Estimates process.</p>
<p>Stacking provisions</p> <p>The proposed stacking limits, i.e., specific limits to the total government assistance (e.g., 50% of eligible project costs), and;</p> <p>The method used for determining repayments by the recipient for cases where such assistance exceeds the anticipated funding level.</p>	<p>The terms and conditions should demonstrate that due consideration has been given to stacking. Managers should expect that other government entities may be interested in participating in the funding of a particular project.</p> <p>The percentage of total government assistance (TGA) must be stated explicitly in the terms and conditions.</p> <p>To ensure that a department is only providing the necessary amount to undertake the project successfully, consider the funding amount the recipient is receiving from:</p> <ul style="list-style-type: none"> • other federal government departments, • other government sources (provincial, municipal) and • the recipient is itself contributing to the project.

Policy requirements (section 8.1 of the TP policy)	Comments
	Departments should briefly indicate that they have a monitoring process in place to recover payments made beyond the stacking limit. At a minimum, they should refer by name to their internal process or system.
<p>Application Requirements</p> <p>A description of the supporting material required in an application from a prospective recipient, including a requirement to disclose the involvement of former public servants who are subject to the Conflict of Interest and Post-employment Guidelines.</p>	These details are necessary for departmental officials to apply due diligence: e.g. for determining eligibility, assessing the merit of the project, reviewing the description of the work to be undertaken.
<p>Eligible Expenditures</p> <p>Identification of the type and nature of expenditures considered eligible costs under the contribution program for reimbursements.</p>	The identification of eligible costs provides essential guidance to managers and staff in developing and authorizing projects and agreements.
<p>Maximum Amount Payable</p> <p>The maximum amount payable to each recipient. Justify if not able to identify the maximum.</p>	The maximum amount payable will limit the amount a department can approve to a recipient under the program. Anything greater will require TB approval by separate submission.
<p>Authority to approve, sign and amend</p> <p>The organizational positions, if any, that the minister will delegate authority to approve, sign or amend contribution agreements and the parameters within which this authority may be exercised.</p>	<p>Departments can reference a delegation instrument that is or will be used for the program. These delegation instruments do not need to be submitted with the submission but must be in force at the time of the submission.</p> <p>Do not overlook the need to balance control with efficiency when delegating authorities. Even a one-time only agreement signed by the minister may need an amendment.</p>
<p>Authority to approve payments</p> <p>Where not otherwise specified in the delegation of financial signing authorities, the identification of the organizational positions to which the minister will delegate authority to approve payment.</p>	Delegation of authority to make payments must be stated in the terms and conditions in addition to the delegation for approvals and amendments discussed above. Departments can reference a delegation instrument that is or will be used for the program.
<p>Basis and Timing of Payment</p> <p>The basis and timing of payment (including such details as a schedule of advance and progress payments and applicable holdback provisions)</p> <p>Where advance payments deviate from the TP policy’s requirements, the justification and the associated cost to the government of imputed interest (to calculate imputed interest, take into account the number and amount of advances paid earlier than indicated in the guidelines, the length of time the payment is advances and an interest rate</p>	<p>If advance payments are to be made, departments need to indicate that they will be following the Cash Management Policy. If this is the case, no further discussion is needed.</p> <p>The approval of TB ministers must be obtained, through a Treasury Board submission, for any advance payments that fall outside the policy provisions. Departments must indicate the proposed cash flow schedule, calculate imputed interest and indicate if the department is also seeking Treasury Board approval to retain the imputed interest in the allotted program funds.</p>

<p align="center">Policy requirements (section 8.1 of the TP policy)</p>	<p align="center">Comments</p>
<p>equal to the 90 day Treasury Bill rate).</p>	
<p>Repayable Contributions</p> <p>In the case of a repayable contribution, the conditions or events under which all or part of the contribution is repayable, a description of the process to be used to monitor potential repayments and collect amounts due and the application of interest charges on overdue repayments.</p>	<p><i>This section deals with contributions that are expected to be repaid, and not for contribution overpayments.</i></p> <p>A key element of this requirement is addressing the conditions or events under which repayment would occur as well as briefly describing the process to be used to monitor accounts</p>
<p>Duration</p> <p>The number of years over which it is expected that the terms and conditions will apply and payments will be made, as well as the nature of any program review to be undertaken to assess the transfer payment program's effectiveness prior to any proposed program renewal.</p>	<p>Terms and Conditions do not extend beyond the program's life. They are not required to cover the reporting/audit period that follows a project's termination. For example, if the duration for funding projects ends on March 31, 2003 but project audit reports are required for the next five years, the duration of the terms and conditions is March 31, 2003 and not March 31, 2008.</p> <p>For more on the duration of terms and conditions and their correlation to multi-year agreements and payments, see "Duration of Terms and Conditions—Multi-Year Agreements and Payments" in the Best Practices Annex.</p> <p>The expected time frame for payments must be identified in the terms and conditions. If claims for payment are to be accepted "x" months after the program ends, (excluding Payables at Year End - PAYEs), discuss this with the department's TBS program analyst. Normally, payments outside of PAYE would be made within the time frame of the program terms and conditions.</p>
<p>Due Diligence in Managing and Administering the Transfer Program</p> <p>Assurance that the departmental systems, procedures and resources are in place for ensuring due diligence in approving transfer payments and verifying eligibility and entitlement, and for managing and administering the programs.</p>	<p><i>Departments must exercise due diligence that will stand up to public scrutiny.</i></p> <p>These elements are essential to apply the risk-based audit framework discussed below, and to represent the main elements that will be included in a typical audit.</p> <p>In the case of a renewal, Treasury Board analysts may ask for previous internal audit reports to demonstrate that the department has met its due diligence requirements. If a department's prior audit reports point to weaknesses, the TB program analyst may require evidence that remedial action has been taken.</p>
<p>Accountability Framework and Evaluation</p> <p>A results-based management and accountability framework (RMAF) including: performance indicators, expected results and outcomes, methods for reporting on performance, and evaluation criteria to assess the transfer payments' effectiveness.</p>	<p>The department must demonstrate how it will measure the effectiveness of the transfer payment program. All government spending is subject to evaluation. However, the effectiveness of transfer payments, since they usually do not involve receipt of specific goods or services, can be, or can appear to be, more difficult to substantiate. Design the accountability framework so that the program manager can fully access and analyse the performance indicators, and measure the program's effectiveness in meeting the result commitments.</p>

<p align="center">Policy requirements (section 8.1 of the TP policy)</p>	<p align="center">Comments</p>
<p>Audit Framework</p> <p>A risk-based framework for auditing contribution recipients, an internal audit plan, and a plan to evaluate the transfer payment program, including expected funds to be budgeted for costs related to these requirements.</p>	<p>Every program must be considered for audit, though that does not necessarily mean each program will be audited. A risk-based audit framework provides a coherent and disciplined approach to establish an audit strategy that will be reflected in an audit plan.</p>
<p>Other Terms and Conditions</p> <p>The additional cost of managing and administering the program as well as the source of such funds.</p> <p>When legislation provides that terms and conditions be approved by the Governor in Council, a draft of the appropriate Order in Council.</p> <p>An explanation of any proposed deviation, if any, from the requirements of the transfer payment policy.</p> <p>Any other factors considered appropriate under the circumstances.</p>	<p>A department must acknowledge that it has the capacity to deliver the program under existing reference levels.</p> <p>In addition to calculating the total value of the annual transfer payments to be made under this program, ensure that the funds required to manage and administer the transfer payment program are considered and disclosed. Some programs require much more resources to manage than others, e.g., high dollar value programs that require a high degree of monitoring or programs that must receive and screen a large number of proposals.</p> <p><i>Verify with legal counsel whether your department's legislation requires an Order in Council (Special Committee of Council) for the type of activities that may be carried out within the transfer payment program.</i></p>

AUDIT OF COMMUNITY FUTURE PROGRAM (CFP)

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p><i>4.1 Design and operation of the Community Futures Program Management Control Framework</i></p>			
<p>1. The Program should ensure that the CFDC financial and activity reports are monitored and that the information contained in these reports is accurate and reliable, with particular emphasis placed on the monitoring of bad debts expense ratios and associated activities of the individual CFDCs.</p>	<p>Agreed. The Exceptional Assistant (TEA) software is used to accumulate activity data for the CFDC quarterly report, including Community Economic Development (CED) activities. The software is being refined to improve efficiency and accuracy of information being input. Program delivery officers will be required to review and assess the reasonableness of CFDC reported information. Program officials and CFDCs will be provided the aggregated data for all CFDCs in their regions and Ontario as a whole allowing them to compare their performance. In addition, annual completion of the Investment Fund report will provide performance of the fund including bad debt ratios.</p>	<p>FedNor Delivery Managers, Director Programs and Corporate Services and Field Officers.</p>	<p>Immediate - ongoing</p>

Audit of Community Futures Program

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p>2. The Program should take appropriate measures to ensure that all transfers between investment and operating funds receive prior authorization and that the investment funds are reimbursed as scheduled.</p>	<p>Agreed. A FedNor policy bulletin giving direction and procedures for requests to transfer funds has been updated. In addition, an CFDC accounting manual has been developed that requires auditors to report on all inter-fund transfers. Internal FedNor procedures will include a review of all transfers identified in annual audited financial statements to ensure prior approvals were provided.</p>	<p>FedNor Delivery Managers, Director Programs and Corporate Services and Field Officers.</p>	<p>Immediate - ongoing</p>
<p>3. The Program should also consider developing and implementing an operations manual to ensure that consistent practices are followed across the Program by Program staff.</p>	<p>Agreed and included in FedNor's 2004-05 business plan, building on the current systems of FedNor's Policy Bulletins. The FedNor Community Futures (CF) Program Working Group have started to document specific procedures for a number of activities related to CF. A program operations manual will be developed.</p>	<p>FedNor Policy Unit together with Delivery Managers and Field Officers.</p>	<p>March 31, 2005</p>
<p>4. The Program should also increase its monitoring of the overall commitments and expenditures made by each of the Program's funds in order to ensure that authorized limits for each fund are not exceeded.</p>	<p>Agreed. Monitoring activity is ongoing and has recently included Corporate services and Delivery Managers meeting monthly to discuss commitment levels and cash flow variances.</p>	<p>FedNor Delivery Managers, Director Programs and Corporate Services</p>	<p>Immediate - ongoing</p>

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p>5. FedNor should consider developing a common key identifier for each of its internal systems which would allow the systems to be fully integrated and minimize the efforts required to generate internal management reports on the Program's operations and/or activities.</p>	<p>Agreed. However, this will require assistance from Corporate IT and the systems used for Grants and Contributions as well as departmental accounting systems.</p>	<p>FedNor Director Programs and Corporate Services and IC IT service providers.</p>	<p>March 31, 2006</p>
<p>4.2 Compliance with Transfer Payments Policy</p>			
<p>6. Continued emphasis be placed on revising and approving the Program's Terms and Conditions to ensure they comply with all of the requirements of the Treasury Board Transfer Payment Policy.</p>	<p>Agreed. This is a requirement of Treasury Board for program renewal and will require a Results Based Management Accountability Framework (RMAF) and a Risk Based Audit Framework (RBAF). FedNor is leading this process through a working group including the RDAs and the Industry Portfolio Office.</p>	<p>Director Policy and Planning, FedNor</p>	<p>March 31, 2005</p>

RECOMMENDATION	MANAGEMENT RESPONSE AND PROPOSED ACTION	RESPONSIBLE OFFICIAL	ACTION COMPLETION DATE
<p>4.4 Follow-up on observations and recommendations of audit report dated November 2000</p>			
<p>7. Program Management should place increased emphasis on monitoring of individual CFCD investment activities to ensure that expected Program results are achieved.</p>	<p>Agreed. An annual Investment Fund report, that monitors loss rates and other performance indicators, has been developed and will be an annual requirement for CFDC files. The TEA software system and CFDC Quarterly Report have been reviewed and enhanced to provide more accurate and timely information on individual CFDC investment activities. A reasonableness review will be performed and documented by the FedNor Delivery Officer. Program officials and CFDCs will be provided the aggregated data for all CFDCs in their regions and Ontario as a whole allowing them to compare their performance.</p>	<p>FedNor Delivery Managers, Director Programs and Corporate Services and Field Officers.</p>	<p>Immediate - ongoing</p>