Industry Canada Industrie Canada

Follow- up Audit of Grants & Contributions
Advances, Loans, Receivables and Unamortized Discounts

Final Report

Audit and Evaluation Branch

January 30, 2005

Canada

AUDIT OF GRANTS & CONTRIBUTIONS
ADVANCES, LOANS, RECEIVABLES AND UNAMORTIZED DISCOUNTS

Table of Contents

1.0 Executive Summary

1.1 Introduction

Effective April 1, 2001, the department was required to implement full accrual accounting because of the financial information strategy (FIS). This resulted in significant changes in systems and procedures to ensure that revenues and expenses were properly captured in the period in which they became realizable or payable rather than when funds were received or cheques issued. Departments were required to report specific balance sheet items arising from Grants and Contributions (G&Cs) such as advances, accounts receivable, allowance for doubtful accounts, loans and unamortized discounts.

The Audit and Evaluation Branch (AEB) conducted an audit in 2003 to evaluate monitoring and management of receivables, provide assurance of the integrity of the G&Cs advances, loans, receivable and unamortized discount account balances for the fiscal year 2001-2002 and transactions and opening balances for 2002-2003 including compliance of these assets and contra accounts with the FIS requirements; report on the issues associated with the lack of synchronization of the two main information systems (CMIS & IFMS) used to administer and report on the financial transactions of the G&Cs; and assess the IFMS program/process for calculating the interest due on overdue accounts. The audit report including 15 recommendations was issued in September 2003.

In June 2004, the Audit and Evaluation Branch undertook a follow-up audit to assess the progress that had been made on the 15 recommendations and to provide assurance of the integrity of the G&Cs advances, loans, receivable and unamortized discount account balances for the fiscal year-end 2003-2004. In addition, the follow-up audit also sought to provide assurance that the forecasted cash flows of the G&C programs appear to be reasonable.

As in the original audit, the programs and directorates selected for review in the follow-up audit were: Aboriginal Business Canada (ABC), Federal Economic Development Initiative for Northern Ontario (FedNor and Community Futures), and Information Highway Application Branch (IHAB). Also included in the follow-up audit is Program Policy Management Directorate (PPM) who administers sunsetted programs and the benefits phase projects for Technology Partnerships Canada (TPC). Since the Comptroller is also active in the processing of invoices and payments related to these agreements, we included these activities as part of the audit.

1.2 Overall Assessment

We found that progress had been made in reporting under FIS for receivables, loans and unamortized discount account balances. However, we are unable to provide assurance on the amounts reported for advances, loans and unamortized discount at March 31, 2004 (Refer to sections 5.1 and 5.2).

Many of the fifteen recommendations made in our September 2003 report have been implemented or partially implemented. There were only three recommendations without significant implementation in progress (Refer to section 5.3).

We found the methodology used by PPM and TPC to forecast near term repayments was reasonable and the cash flows forecast for 2004/05, 2005/06 and 2006/07 were reasonable. We have made four recommendations on the process (Refer to 5.4).

2.0 Introduction

Effective April 1, 2001, departments were required to follow generally accepted accounting principles as defined in the Canadian Institute of Chartered Accountants Public Sector Accounting Handbook as part of the government's implementation of the financial information strategy. In making this change, the government moved from cash accounting to accrual accounting. Significant changes in systems and procedures were required to ensure that revenues and expenses were properly captured in the period in which they became realizable or payable rather than when funds were received or cheques issued.

Within Industry Canada, the dollar value of year end closing balances for grants and contributions (G&Cs) advances, loans, receivables and unamortized discounts is significant[1]. The Audit and Evaluation Branch (AEB) conducted an audit of G&Cs as part of its 2002-2003 audit plan to provide assurance of the integrity of the amounts reported in the departmental financial statements for the accounts and contra accounts representing these assets for the year-ended 2001-2002 as well as the opening balances and transactions occurring during the fiscal year 2002-2003. A follow up on the recommendations made in the September 2003 audit report is provided in this report.

3.0 Audit Objectives

The overall objectives of the follow-up audit were to:

1. provide assurance of the integrity of the G&Cs advances, loans, receivable and unamortized discount account balances for the fiscal year ended March 31, 2004;

2. establish the degree to which the updated management action plan of the fifteen recommendations in the audit report (Appendix B) has been implemented; and

3. provide assurance that the forecasted cash flows of repayments under the G&C programs appear to be reasonable.

4.0 Audit Scope and Approach

The audit covered programs within the following branches that give rise to repayable contributions. Branches covered in the audit scope were:

- Aboriginal Business Canada (ABC);

1 Definitions for these terms are provided in Appendix A.

- Federal Economic Development Initiative for Northern Ontario (FedNor) and Community Futures);

- Information Highway Application Branch (IHAB) (Learnware); and

- Program Policy and Management Directorate (PPM) of the Corporate Services Branch, Industry Sector, is responsible for administering sunsetted programs and the benefits phase projects for Technology Partnerships Canada's (TPC). Under the direction of TPC and an annual Memorandum of Understanding (MOU), PPM administers recoveries for part of the TPC program.

Advances from ABC, FedNor, and IHAB were examined in conjunction with the examination of the repayable contributions.

The audit also considered activities in the Comptroller's Branch related to advances, accounts receivable billing and receipts, loan balance reconciliation, interest calculations, expenditures on repayable contributions and year-end financial reporting procedures.

The audit approach included the following activities:

- Interviews with staff at ABC, Fednor, IHAB, PPM, TPC and the Comptroller's Branch;

- Review of procedures for granting and reconciling advances, invoicing clients, calculating interest, reconciling loan balances, reviewing allowances for receivables and loans;

- Testing of year-end balances for advances, receivables, allowance for doubtful accounts, loans, allowance for doubtful loans and unamortized discount;

- Review of files for selected conditional and unconditional contributions in ABC, Fednor, and PPM; and

- Debrief of staff in each program on the results of audit testing.

5.0 Detailed Findings

5.1 Overall Findings

We found significant errors in the amounts reported for advances, loans and unamortized discount at March 31, 2004 but are encouraged by the level of progress that has been made in accounting for and reporting these balances.

While we cannot provide assurance that all amounts receivable had been recorded, we can provide assurance that the amounts that were recorded represented valid receivables at the year-end and that a reasonable allowance for doubtful accounts has been recorded.

We found that twelve of the fifteen recommendations in our audit report had been implemented or steps had been taken toward implementation. In the case of the recommendation made to incorporate changes in the new contribution management system, this could not be accomplished as the new system has been discontinued.

We found the basic forecasting methodology used by TPC and PPM to gather and analyze information on the near term future cash flows is reasonable. The PPM and TPC forecast of repayment in 2004/05, 2005/06 and 2006/07 appear to be reasonable.

5.2 Integrity of Account Balances - Fiscal Year 2003-2004

5.2.1 Advances

At year-end March 31, 2004, the total outstanding advances in the contribution management system were booked as advances for financial reporting. However, under FIS, only advances made in one fiscal year for expenditures in the next fiscal year need to be recorded as advances. Since many of the outstanding advances were for expenditures in the current or previous fiscal years, the $33 million recorded for Advances at March 31, 2004 was significantly overstated. This results in expenditures being understated in 2003-2004 and overstated in 2004-2005.

Of the sample of 22 advances totaling $10.4 million reviewed, 18 advances, totaling $9.6 million were for expenditures to March 31, 2004 and therefore did not meet the FIS definition for financial reporting of advances. Two were partially for expenditures prior to March 31, 2004 and partially for expenditures in the new fiscal year. Only the portion of these two advances related to expenditures in the new fiscal year should have been included in advances for financial reporting under FIS. The two remaining advances were entirely for expenditures in the new fiscal year and were properly reported as an advance under FIS.

An additional concern was noted on all four advances that included amounts for the new fiscal year. These advances included amounts for more than one month of expenditures in the new fiscal year, which contravenes the Treasury Board Secretariat Policy on Transfer Payments. The policy restricts advances to no more than one month of expenditures in the new fiscal year.

Advances of $33 million recorded at year end were based on a list of advances as of May 5, 2004. The list of advances should be generated at or near March 31 of every year.

We are pleased to note the dollar value of outstanding advances has decreased from $78 million to $33 million as a result of efforts to obtain timely reporting from recipients and to reconcile and clear older advances. IHAB, in particular, has made a marked improvement in keeping advances to a minimum and obtaining timely reporting from recipients.

5.2.2 Accounts Receivable

The IFMS financial reporting system maintains a sub-ledger of accounts receivable by recipient. For fiscal year 2003-2004, the closing balance of this accounts receivable sub-ledger was $122 million. The Comptrollers Branch has undertaken a review to reconcile the information in this system to information on outstanding amounts in the contribution management system.

Accounts receivable invoicing is typically processed one month before amounts are due to allow time for the notice to be received and the payment submitted. At year end, this creates a timing issue in that amounts due in the new year are invoiced in the old fiscal year. For the year-end March 2004, an analysis was done to identify invoices that were not due until the new year, and an appropriate year end adjustment was made.

The scope of this audit did not include an extensive review to ensure that all amounts that were due under contribution agreements, had in fact, been invoiced. In the course of reviewing a sample of conditionally and unconditionally repayable agreements, no instances were noted of items that should have been invoiced but were not. Therefore, while we cannot provide assurance that all amounts receivable had been recorded, we can provide assurance that the amounts that were recorded represented valid receivables at the year-end.

5.2.3 Allowance for Doubtful Accounts - Receivables

At year-end March 31, 2004, all receivable accounts were circulated to the responsible program to get input on the likelihood of collection. This methodology generates a much more reliable assessment than the application of a percentage which was used in prior years to estimate an allowance. In future years, it would be sufficient to undertake detailed analysis only on larger amounts, say over $1,000, since these amounts make up the vast majority of the dollar value outstanding. The increased level of accuracy gained by the analysis of accounts receivable under $1,000 does not justify the extra effort required.

We can provide assurance that a reasonable allowance for doubtful accounts ($115 million) was recorded at the year-end.

5.2.4 Loans

A loans sub-ledger has been developed within the IFMS financial reporting system. This is an important first step in determining that all outstanding loans have been recorded in IFMS. An extensive review is underway to reconcile over 300 loan balances between IFMS and CMIS systems.

Our testing of 16 unconditionally repayable contributions found 8 cases where the loan balance in IFMS was understated. The errors were 6% of the total of $59.4 million tested. The causes of the understatement seemed to be either that the loan balance had not been properly set up on the initiation of the IFMS system or that contribution payments since then were not properly coded.

Particularly difficult are agreements where only part of the contribution is unconditionally repayable.

Some subledger accounts within IFMS have negative balances because the repayments recorded in IFMS exceed the amount of the loan recorded in IFMS. Overall loans receivable of $86 million are understated by, at least, the negative balances of $14 million.

The loan repayment schedule in the contribution management system is used to generate the invoice notices as amounts come due. Our testing found several cases where the repayment schedule had not been properly adjusted to reflect actual disbursements that were less than the authorized amounts under the contribution agreement or revisions to the repayment schedule.

We found several contribution agreements that had been improperly classified between conditional, unconditional or mixed. One unconditionally repayable agreement that was improperly classified as conditional resulted in understatement of loans at March 31, 2004 by $500,000. A review of the text of each contribution agreement at the time of final payment would be an appropriate double check on the classification of the agreements in IFMS and CMIS.

Because of the errors noted in testing, we are unable to provide assurance the $86.4 million loan balance at year end is correct.

Recommendation 1:

When the final disbursement is made on any repayable contribution, the Comptroller should check that the agreement has been properly classified as unconditionally repayable, conditionally repayable or mixed. As noted in Recommendation 10 of our September 2003 audit report (see Appendix B of this report), if the agreement is unconditional or mixed, the Comptroller should check that the amount recorded as loans receivable in the financial management system (IFMS) is accurate and the repayment schedule in the contribution management system (CMIS) matches the actual amount disbursed.

Any negative balances should be investigated and adjusted.

5.2.5 Allowance for Doubtful Loans

At year-end March 31, 2004, loan balances were circulated to the responsible program to get input on the likelihood of collection. In some cases, problems arose in identifying the responsible officer or program for loans.

An allowance for collection was recorded if the loan was in default or the program had concerns over the collection of the outstanding amounts.

We can provide assurance that a reasonable allowance for doubtful loans was recorded at year-end.

5.2.6 Unamortized Discount

Unconditionally repayable contributions are typically interest free as long as payments are made as they come due. For financial reporting purposes, the adjustment for unamortized discount reflects the present value of the future repayments and the cost of providing interest free loans. The adjustment is calculated by discounting the future repayments as reflected in the contribution management system using a rate that reflects the government's cost of borrowing.
Under FIS, an adjustment is only required if the amount of the discount is more than 25% of face value of the loan.

The year-end adjustment for March 2002 reflected a discount for all loans, not just those where the discount was 25% or more.

Subsequently, the Comptrollers office reviewed the calculation and made an adjustment for loans where the discount was less than 25%. An analysis is now done on a regular basis to determine if new loans meet the 25% criteria.

Some discrepancies were noted in the mechanics of the calculation but the overall approach was correct. After correcting the calculation, three additional loans exceeded the 25% threshold. After adjustment, the unamortized discount at March 31, 2004 should have been $8.96 million rather than $890,000.

Because of the results of the testing, we cannot provide assurance that balances are correct.

5.3 Implementation of Audit Recommendations

5.3.1 Overview

The full text of the audit recommendations and management's response from the original audit and details of the current status of the implementation are found in Appendix B.

We found that nine of the fifteen recommendations had been implemented and that three more were in the process of being implemented. The new contribution management system has been discontinued so recommendation #14 could not be implemented.

5.3.2 Recommendations implemented

The follow up audit found that the following recommendations had been fully implemented:

Recommendation	Description
4.	Regular review of outstanding advances
6.	Full and Final Payments
7.	Adjust for Receivables no due until the new year
8.	Allowance for doubtful receivables
9.	Loans Receivable subledger
11.	Allowance for doubtful loans - receivable
12.	Unamortized Discount adjustment
13.	Confirm data used in unamortized discount calculation
15.	Approval of suspension of interest

We are pleased with the implementation of the above nine recommendations. We would encourage the continuation of these efforts.

5.3.3 Recommendations partially implemented

The follow up audit found that the following recommendations had been partially implemented:

Recommendation	Description
2.	Understanding of FIS
5.	Advance payments comply with Policy on Transfer Payments
10.	Confirmation of loan receivable data in IFMS

We encourage the continuing implementation of these initiatives.

5.3.4 Recommendation not implemented

The follow up audit found that the following recommendations had not been implemented:

Recommendation	Description
1.	Roles and Responsibilities reviewed
3.	Review of outstanding advances against FIS criteria
14.	Incorporate changes in the new contribution management system

Recommendation 2

We continue to support the three recommendations above made and agreed to by management in the September 2003 report as shown in Appendix B of this report..

5.4 Forecast Cash Flows of the G & C programs

5.4.1 Overview

The third objective of this audit report is to provide assurance that the forecast cash flows of the G & C programs appear to be reasonable. The scope of this review is limited to the near term forecasts (three years) for repayments on repayable contributions. No comment is provided on the long term cash flow forecasts.

Programs within the department monitor the future cash inflows expected from repayable contributions for internal management purposes. Technology Partnerships Canada assesses future cash inflows from its agreements and publishes the near term amounts in its annual reports. Program Policy and Management assess the future cash inflows for all other programs within the department and reports them internally.

5.4.2 Technology Partnerships Canada

The majority of TPC agreements are conditionally repayable with no fixed repayment schedule. Therefore TPC must gather current information on status of each project to determine when the repayment criteria are met and estimate the future repayment year by year.

As the TPC program matures, the portion of the contribution budget that comes from repayments is increasing. Since most contribution agreements are multi year funding, the agreements signed in the current year also depend on funding being available in the following years. Therefore, accurate forecasting of repayments in the near term is critical to managing the program and decision making on contributions.

Repayment formula and likely repayment amounts and timing are considered as part of original investment decision for contribution agreements. These figures (Investment Decision Document (IDD)) are maintained in the CMIS system but are not reliable as repayment forecasts.

As the project proceeds through the work phase, the potential sales revenues and resulting royalties become more clear as the feasibility of the innovation, the market demand for the new product and timing of market introduction are solidified. Contract amendments to defer work schedules also effect the commercialization of the product, which can delay the start of the repayment period.

Some recipients may decide to fully pay their agreement obligations in advance which provides a windfall increase in the repayments in a fiscal year. The decision to repay in advance is often linking to a refinancing or purchase of the company. Therefore, it cannot be forecast in advance although as the portfolio continues to mature, there is a strong likelihood that one or more recipients will repay in advance in any particular year.

The allocation of repayments into government fiscal year ends can be confusing for the recipient. In some annual information update (AIU) that were chosen for review, the recipient had indicated repayments in a government fiscal year that closed before their first repayment obligation.

5.4.3 TPC Forecasting Methodology

Each year, the recipient is asked to provide an annual information update (AIU) on the project including forecast repayments in each of the upcoming government fiscal years for the life of the contribution agreement. These figures are the primary source for forecasts. They are entered in the PRMS database along with other benefits information such as jobs created or maintained; intellectual property; investment leverage; and sustainable development improvements.

The responsible project officer at Industry Canada reviews the AIU forecast repayments and provides a risk assessment of the most likely repayment forecast. They may agree with the recipient's assessment of repayment amount and timing, consider an extended repayment period or reduced payments more likely or, in some cases, advance the repayment schedule.

The Investment Management group within TPC considers the recipient AIU response, the project officer's risk assessment and the other industry data in establishing the overall TPC repayment forecast which is used for internal management and published in the annual report. The primary focus of the Investment Management group's assessment is on the next three years.

We reviewed the methodology used by TPC and found it to be a sound approach to gathering information that would allow the Investment Management group to provide a reasonable near term forecast for internal management and external reporting. We found some areas were improvements could be made to increase the accuracy of the forecast amounts.

Recommendation 3:

At this point in the maturity of the portfolio, a very few projects make up the majority of the repayment dollars in any one year. The Investment Management group within TPC should review the near term (three year) forecast for these projects more than annually to allow for timely adjustments if the outlook for these projects changes.

Recommendation 4:

Errors were noted in the transfer of data as the forecast was compiled. . The Investment Management group within TPC should have a second person trace from the source data to the final forecast total to ensure no mechanical errors have been made.

Discrepancies were also noted where revenue was forecast in a fiscal year before the first repayment due date of the agreement. In the preparation of the forecast, where a first repayment is forecast in the next three years, the Investment Management group within TPC should confirm the first repayment due date falls in that fiscal period and that nothing in the current AIU information or officer information contradicts a payment in that period.

Recommendation 5:

Increasing or advancing the forecasts provided in the AIU should be done with caution. Unless the recipient has failed to provide AIU information or has consistently underreported in prior years, the Investment Management group should use the recipient's forecast as provided or reduced/delayed.

Recommendation 6:

The Investment Management group within TPC should retain documents that provide the detailed support of the annual estimates of cash flow for future reference.

5.4.4 Program Policy and Management

Program Policy and Management assess the future cash inflows for agreements under all programs within IC other than TPC. Approximately 35 to 40% of these near term future cash flows are from unconditionally repayable contributions with fixed repayment schedules. The amounts due in each of the upcoming fiscal years are known. The only issue to be considered is whether the recipient will be able to make the repayment. Agreements that are in default are allowed for in calculating the cash flow forecasts.

The majority of the conditionally repayable contributions are from agreements that have been in the benefits stage for some time. Therefore, the past payment history provides a strong indication of the future cash flow in terms of timing and amount. Future cash flows are reviewed on a project by project basis to assess whether the timing or amount of cash flow will vary from the forecast supplied by the recipient.

PPM staff reviews the forecast on a regular basis throughout the year and make adjustments for the collectability of the future cash flows.

5.4.5 Conclusions

The basic forecasting methodology used by TPC and PPM to gather and analyze information on the near term future cash flows is reasonable.

The PPM and TPC forecast of repayment from contribution agreements for 2004/05, 2005/06 and 2006/07 appear to be reasonable.

APPENDIX A: DEFINITION OF TERMS USED APPENDIX A

Advances: Contribution payments made in advance of expenditure by the recipient. Recipient must provide accounting for use of the funds in accordance with the contribution agreement. For financial reporting under FIS, only advances made in one fiscal year for expenditures to be made in the next fiscal year should be reported as advances.

Accounts Receivable: Amounts due from recipients where the due date has past.

Contributions: These are conditional transfer payments to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited. Should the individual or organization use the transfer payment in the manner specified by the contribution agreement, the government does not expect to receive any goods or services directly in return, to be repaid or to receive a financial return.[2]

Loans: Expenditures on Unconditionally Repayable Contributions that have not yet come due according to the repayment schedule.

Repayable Contributions:[2] These are contributions, where the recipient is expected to repay all or part of the amount or the government expects to receive a financial return. The terms may specify a date or dates for repayment, or may describe the particular time(s) or circumstance(s) that will determine repayment. (PS 3050.07) Repayable contributions are further classified as unconditionally repayable and conditionally repayable. They require separate treatment for recording and reporting under accrual accounting.

a) ***Conditionally repayable contributions*** (CRC) are contributions, all or part of which is repayable, if conditions spelled out in the contribution agreement come into being. Repayments are typically based on a royalty per dollar or per unit sold. The contribution agreements set reporting dates for information to calculate the repayments. Due to the uncertainty over timing and amount of future recoveries, conditionally repayable contributions are not set up as an asset of the department until the amount of the repayment is established and has come due. At that time, the current amount due is set up as accounts receivable.

b) ***Unconditionally repayable contributions*** (URC) are contributions that require repayment without qualification. The contribution agreements contain specific repayment terms that set out the time and amount of payment(s) due. These contributions are interest free as long as the payments are made according to the schedule. Unconditionally repayable contributions are set up as a loan by the department when the expenditure is made. The current amount due is transferred to accounts receivable when the invoice/reminder notice is sent to the recipient.

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[2] Treasury Board Accounting Standard 3.2 – Transfer Payments (Grants and Contributions)

Unamortized Discount: In cases where the unconditionally repayable contribution has significant concessionary terms, such as a low or no interest rate, it shall be accounted for in accordance with PS 3050.20[2] by adjustment for unamortized discount. The discount adjusts for the present value of the future repayments and the cost of providing interest free loans. The adjustment is calculated by discounting the future repayments as reflected in the contribution management system using a “rate” that reflects the governments cost of borrowing (Consolidated Revenue Fund Lending Rate). Under FIS, an adjustment is only required if the amount of the discount is more than 25% of face value of the loan.

2 Treasury Board Accounting Standard 3.2 – Transfer Payments (Grants and Contributions)

APPENDIX B: RECOMMENDATIONS AND MANAGEMENT RESPONSES OF THE SEPTEMBER, 2003 AUDIT REPORT (THE COLUMNS "IMPLEMENTED" & "AUDING FINDINGS REFER TO THE FOLLOW-UP AUDIT)

Recommendation	Management Response (from Comptroller's Branch unless otherwise noted)	Implemented	Audit Findings
1. Roles and Responsibilities: The department reviews the roles and responsibilities related to monitoring the benefits stage of all conditionally or unconditionally repayable contribution agreements with the intended objective of improving the effectiveness and efficiency of these processes and of clarifying the accountabilities for their management.	The Comptroller's Branch has been tasked to review the roles and responsibilities related to monitoring of the benefits stage of all conditionally or unconditionally repayable contribution agreements with the intended objective of improving the effectiveness and efficiency of these processes and of clarifying the accountabilities for their management. Submitted by *the Associate Deputy Minister*	Not Implemented	Review of Roles and Responsibilities has not been implemented at this time
2: Understanding of FIS We recommend that the Comptroller foster an improved understanding of the application of accounting principles and practices required under FIS for G&Cs, both within the Comptroller's Branch and across all implicated sectors	The Comptroller's Branch is aware of the accounting complexities which result from the variety of transfer payments within the department and very supportive of the recommendation to improve understanding of these requirements throughout the Department. Emphasis has been placed on improving the understanding of the transfer payment policy within the Comptroller's Branch by strengthening	Partially Implemented	Steps were taken to correct the calculation of the unamortized discount to correspond to the FIS requirements. Advances were not properly accounted for under FIS at year end March 2004.

	the links between the payment and receivables groups. The Comptroller's Branch supports that in conjunction with the departmental review of the roles and responsibilities noted in Recommendation 1, roles and responsibilities related to the management of transfer payment programs be reviewed to ensure they reflect new accountabilities resulting from the implementation of FIS. Submitted by the Comptroller's Branch		
3. Review outstanding advances against FIS criteria We recommend that the Comptroller's office implement their plan to co-ordinate a review by the relevant programs for the fiscal year ended March 31, 2003 of outstanding advances against the FIS criteria to determine the appropriate year end entry.	As part of the preparation for the implementation of GCMS, all year end entries have been reviewed to determine the appropriate accounting treatment and to ensure they will be processed appropriately in the new system. Submitted by the Comptroller's Branch	Not Implemented	No analysis was done at year-end March 2004 to determine which advances met the FIS criteria.
4. Regular review of outstanding advances On a regular basis, the Comptroller should conduct a review by the relevant programs of outstanding advances in the contribution management system to ensure that appropriate follow up action is taken (obtain reporting from recipient, properly process reporting in	Advances will be reviewed on a regular basis and programs will be informed of action required to ensure the contribution management system accurately reflects the status of outstanding advances. Submitted by the Comptroller's Branch	Implemented	The status of advances is being reviewed periodically. Progress has been made in cleaning up old advances and keeping new advances current. Recipients are allowed no more than two advances outstanding on a

contribution management system, request repayment of unused advances).			contribution agreement.
5. Advances comply with Policy on Transfer payments The Comptroller should ensure that the programs are correctly applying the Treasury Board Secretariat *Policy on Transfer Payments* with respect to advance payments.	The Comptroller's Branch will monitor the issuance of advances by the various programs, especially at year end. At the recent year end, supporting documents were reviewed on a sample basis to ensure the proper application of the Policy on Transfer Payments. Submitted by the Comptroller's Branch	Partially implemented.	Some instances noted of advances for multiple months in the new year. Improvement noted in the consistency of Contribution Agreements with the Policy
6. Full and Final Payments ABC, FedNor and Community Futures should ensure that payments, such as capital contributions to community capital corporations which are full and final payments, should not be recorded as advances unless there are specific reporting requirements that will trigger the advances being cleared. Outstanding advances that represent full and final payments should be adjusted accordingly.	*Management Response Submitted by the ABC* Staff has been advised that capitalization of current and future loan funds to Aboriginal Capital Corporations are to be recorded as full and final payments. Past advance payments to capital corporations will be reconciled and the appropriate explanation to clear any outstanding advances will be posted to the Contributions Management Information System and files. This will be completed by December 31, 2003. *Response submitted by FedNor and Community Futures* FedNor and Community Futures do	Implemented	Older advances are being cleared. New advances are being made for proper time periods.

	record capitalizations as advances until such time as we reconcile the advance contribution. Full and final payments are not recorded as advances but there are very few of these in our capitalization program.		Five of the eight FedNor and Community Futures agreements selected for testing did not have reporting timeframes included in the agreement. Advances had been outstanding for five months or more.
7. Adjust for receivables not due until the new year The Comptroller should review amounts invoiced within 30 to 45 days of the fiscal year end and make a year end adjustment for any amounts not due until the new fiscal year.	The Comptroller's Branch will review all amounts invoiced at year end and make adjustments to reflect amounts due in the appropriate fiscal year. Submitted by the Comptroller's Branch	Implemented	Analysis done at year end March 2004 and proper adjustment made
8. Allowance for doubtful receivables We recommend that the Comptroller implement the plan to have an adequate allowance for doubtful accounts that will cover any doubtful receivables by considering the large dollar accounts receivable balances as of March 31, 2003.	The Comptroller's Branch will consider large dollar receivable balances outstanding at the year end when calculating the allowance for doubtful accounts. Submitted by the Comptroller's Branch	Implemented	Receivables were circulated to program areas at year end for input on collectibility
9. Loans receivable subledger The Comptroller should implement a sub-ledger for loans receivable within the financial reporting system.	The importance of a subledger for loans receivable is recognized by the Comptroller's Branch. The Comptroller's Branch is investigating	Implemented	Loans subledger has been developed.

	options to establish this control mechanism and is hopeful that a solution will be in place for the next fiscal year. Submitted by the Comptroller's Branch		
10. Confirmation of loan receivable data in IFMS When the final disbursement is made on an unconditionally repayable contribution, the Comptroller should check the amount recorded as loans receivable in the financial management system against the actual amount disbursed and the repayment terms in the contribution agreement. At the same time, the repayment schedule in the contribution management system should be checked to ensure it matches the actual amount disbursed.	This requirement will be incorporated into a checklist being developed by the Comptroller's Branch to address issues identified in our review as well as in this audit. This checklist will enhance our ability to place reliance on our financial information at year end. Submitted by the Comptroller's Branch	Partially Implemented	Checklist has been developed but review of files with final payments in 03/04 did not show use of checklist at that time. Recommendation 1 of this report amplifies this recommendation 10.
11. Allowance for doubtful loans receivable We recommend that the Comptroller implement the plan to have all programs review the collectibility of loan account balances to establish the allowance for doubtful loans as of March 31, 2003. This review should consider both the status of amounts that are past due (included in accounts receivable) and any indications that the recipient will not be able to make future payments as they come due.	The Comptroller's Branch agrees that the programs are in the best position to assess the collectibility of loan balances; and plans to implement a review by programs at year end to support the establishment of the allowance for doubtful loans. Submitted by the Comptroller's Branch	Implemented	Loans receivable were circulated to program areas at year end for input on collectibility.

12. Unamortized discount adjustment The Comptroller should exclude loans from the unamortized discount adjustment at year end where the discount is less than 25% of the face value of the loan or have been fully provided under the allowance for doubtful loans.	A review of the year end approach to accounting for unamortized discount will be undertaken to refine the current method used to calculate the unamortized discount. As final payments are made, the determination of whether the discount factor will be applied will be made. This step will be incorporated into the checklist mentioned earlier. Submitted by the Comptroller's Branch	Implemented	Analysis undertaken and equity adjustments made.
13. Confirm data used in unamortized discount calculation On a test basis, the Comptroller should check the data used in the unamortized discount calculation to ensure all unconditionally repayable loans (as recorded in the financial reporting system (IFMS) and the contribution management system) are included and that the repayment schedule reflects the actual amount to be repaid.	As recommendations 12 and 13 refer to the same issue, the management response for both recommendations is shown in recommendation 12. Submitted by the Comptroller's Branch	Implemented	Calculation now done through out the year when final payment on agreement is made. No errors found in data used.
14. Incorporate changes in new contribution management system The Comptroller should address these issues on a priority basis in the new contribution management system.	The new contribution management system is scheduled for implementation in mid-February 2004. While these	Not Implemented	The new contribution management system has been discontinued.

	issues have been raised with those responsible for the design and development of the new system, the new system will not address all of these issues at the time of implementation. They will continue to be identified as enhancements to the new system as funding becomes available. Submitted by the Comptroller's Branch		Therefore, changes could not be incorporated.
15. Approval of suspension of interest In each case where interest is suspended, the Comptroller should ensure the circumstance and the approval by an appropriate level of authority is documented in writing. The Comptroller should also examine the feasibility of calculating all interest (simple and compound) in IFMS to eliminate manual calculations and possible errors.	All instances where interest is suspended must be documented in writing and signed off by the manager. Enhancements to the interest calculation programming within IFMS have been requested but will be considered only at the time of our next upgrade. Submitted by the Comptroller's Branch	Implemented	Interest is only being suspended if accounts need to be reconciled. Supervisor is notified when interest is suspended and reactivated.

Appendix C Management Response

Management Responses from the Comptroller (Recommendations 1 & 2)

Recommendation #1

When the final disbursement is made on any repayable contribution, the Comptroller should check that the agreement has been properly classified as unconditionally repayable, conditionally repayable or mixed. As noted in Recommendation 10 of our September 2003 audit report (see Appendix B of this report), if the agreement is unconditional or mixed, the Comptroller should check that the amount recorded as loans receivable in the financial management system (IFMS) is accurate and the repayment schedule in the contribution management system (CMIS) matches the actual amount disbursed.

Any negative balances should be investigated and adjusted.

Management Response from Comptroller:

Management is in agreement with recommendation #1 and has introduced, as part of our file management procedures, a checklist which provides assurance that: agreements have been properly classified; loans receivables are accurate; repayment schedules in CMIS match the actual amount disbursed; and, whether the Unconditional Repayment Contribution (URC) is subject to a discount calculation. This checklist was applied to all 2004-05 cases.

In regards to the loan portfolio, Financial Services has developed a loans sub-ledger within IFMS as a replacement to reliance on CMIS information. As stated in this follow-up audit, Financial Services is in the process of reconciling 300 loan balances that were not properly set up on the initiation of Financial Information Strategy (FIS.) The problem is amplified as the life cycle of the loan continues. This reconciliation has proven to be an immense challenge for staff. However, results are being realized.

Recommendation #2

We continue to support the three recommendations above made and agreed to by management in the September 2003 report as shown in Appendix B of this report..

Management Response from Comptroller:

Comptrollership and Programs Services Branch (CPSB) supports the recommendation that the department review the roles and responsibilities relating to monitoring of the benefits stage of G&C agreements with the objective of improving the effectiveness and efficiency of processes and of clarifying the accountabilities for management. CPSB will launch a review of collection processes and departmental roles and responsibilities in the first quarter of 2005-06.

In April 2003, AEB recommended that the Comptroller address weaknesses in the synchronization of CMIS and IFMS. The Comptroller responded that these issues would be addressed through the new contribution management system that was under development. Since that time, the project has been cancelled. CPSB is continuing to explore alternative solutions and has mitigated some issues through the development of new reporting tools, leveraging the recently released Grants and Contributions Reporting System. CPSB has also introduced a loans receivable sub-ledger in IFMS.

Finally, CPSB has made progress in clearing and accounting for G&C advances since the commencement of this follow-up audit in June 2004. Over the past few months, FMMD has made a targeted effort in this regard. Our capacity to move forward on clearing the backlog of outstanding advances is constrained by systems limitations (as mentioned above) and the high demand for new advances throughout the year. It is anticipated that closing balances will be significantly reduced by close of FY 2004-2005.

Management Responses from the TPC (Recommendations 3 to 6)

Recommendation #3

At this point in the maturity of the portfolio, a very few projects make up the majority of the repayment dollars in any one year. The Investment Management group within TPC should review the near term (three year) forecast for these projects more than annually to allow for timely adjustments if the outlook for these projects changes.

Management Response from TPC:

In 2005/06 the Investment Management group will conduct quarterly updates of the annual forecast produced at the end of the first quarter.

Status: to be implemented

Recommendation #4

Errors were noted in the transfer of data as the forecast was compiled. The Investment Management group within TPC should have a second person trace from the source data to the final forecast total to ensure no mechanical errors have been made.

Discrepancies were also noted where revenue was forecast in a fiscal year before the first repayment due date of the agreement. In the preparation of the forecast, where a first repayment is forecast in the next three years, the Investment Management group within TPC should confirm the first repayment due date falls in that fiscal period and that nothing in the current annual information update (AIU) information or officer information contradicts a payment in that period.

Management Response from TPC

The support for AIU data entry has been improved to include an additional step in the process before the data is provided to the Investment Officers for their review. The first step continues to be data entry and the second step to be added is verification by another staff member. This additional step will provide a higher level of confidence that the data has been input correctly. The Investment Officer continues to have the opportunity to review the data.

Status: implementation in process

Recommendation #5

Increasing or advancing the forecasts provided in the AIU should be done with caution. Unless the recipient has failed to provide AIU information or has consistently underreported in prior years, the Investment Management group should use the recipient’s forecast as provided or reduced/delayed.

Management Response from TPC

Occasionally the forecasts provided by the client do not reflect the current view and are amended by the Investment Officer. Care will be taken to document the reasons for these changes and to ensure that this documentation is on file.

Status: to be implemented

Recommendation #6

AUDIT REPORT

The Investment Management group within TPC should retain documents that provide the detailed support of the annual estimates of cash flow for future reference.

Management Response from TPC

An improved documentation system is being developed to ensure that the detailed support for the forecasts is complete and easily accessible.

Status: to be implemented