

Audit of Aboriginal Human Resources Development Agreements (AHRDAs)

Project No: 6566/04

Project Team

Director General: J.K. Martin
Director: G. Mongrain
Project Leader: G. Tousignant
Audit Team: G. Muylers
P. Roberts

APPROVED:

DIRECTOR:	<u>G. Mongrain</u> Name	<u>December 15, 2004</u> Date
DIRECTOR GENERAL:	<u>James K. Martin</u> Name	<u>December 15, 2004</u> Date

December 2004

Paper

ISBN: 0-662-41180-3

Cat. No.: HS28-31/2005E

PDF

ISBN: 0-662-41379-2

Cat. No.: HS28-31/2005E – PDF

HTML

ISBN: 0-662-41380-6

Cat. No.: HS28-31/2005E – HTML

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
MANAGEMENT RESPONSE	vii
1. INTRODUCTION.....	1
2. AUDIT FINDINGS.....	7
2.1 Criterion 1: Adequate administrative and financial controls have been designed and implemented.....	7
2.1.1 Agreements clearly identify eligible and measurable activities and the agreement holder’s responsibilities	7
2.1.2 Terms of payments are met	7
2.1.3 Monitoring activities are conducted to ensure compliance with the agreement and to ensure proper use of funds	11
2.1.4 The external audit report meets the expanded audit requirements.	12
2.1.5 The external audit report is used for year-end assessment, identification of issues and implementation of corrective actions as necessary	13
2.1.6 Quality assurance mechanisms are in place.	14
2.2 Criterion 2: There are processes in place to clarify policies, resolve issues, and ensure good communication within HRDC and with potential applicants, partners and stakeholders.....	16
2.3 Criterion 3: Program staff has access to necessary resources, skills, tools and training.....	17
2.4 Criterion 4: There is an accountability structure in place which supports the following indicators.....	20
3. CONCLUSION.....	23
APPENDIX A: AUDIT OBJECTIVES.....	25
APPENDIX B: AUDIT OF ABORIGINAL HUMAN RESOURCES DEVELOPMENT AGREEMENTS MANAGEMENT ACTION PLAN.....	29

EXECUTIVE SUMMARY

The objective of this audit was to provide assurance that the Aboriginal Human Resource Development Agreements (AHRDAs), operating under the Aboriginal Human Resource Development Strategy (AHRDS), are appropriately managed and to provide assurance on the adequacy of controls and practices with respect to sound financial management, good stewardship of resources and effective accountability.

The Aboriginal Human Resources Development Strategy (AHRDS)

In 1999, Treasury Board Secretariat (TBS) approved Human Resources Development Canada's (HRDC)¹ submission seeking approval of the Terms and Conditions for the AHRDS, a five-year program with one of its pillars being the integration of all Aboriginal programming (labour market, youth, persons with disabilities and child care programs) administered by HRDC. The AHRDS was designed to support Aboriginal Canadians in overcoming barriers to labour market participation. With the help of partners, the dedication of many players and the resolve of Aboriginal Canadians, the Strategy was intended to make a positive difference in the lives of individuals, in the well-being of communities and in the prosperity of Canada as a whole.

This new program was part of the Government of Canada's response to the recommendations of the Royal Commission on Aboriginal Peoples. The AHRDS was given a five-year, \$1.6 billion budget to help Aboriginal communities and organizations take on the responsibility of developing and implementing their own employment and human resources programs.

The consolidation of the Terms and Conditions (Aboriginal Labour Market Program, First Nations and Inuit Child Care, Youth Employment Initiatives, and Opportunities Fund for Persons with Disabilities) and the subsequent consolidation of various agreements into one agreement with the recipients who administer programs, were intended to allow for increased policy coherence for clients and practitioners. This provided more flexibility for Aboriginal organizations to shift funds between various types of activities to enable them to best address the individual needs of their clients. This integration therefore resulted in a more streamlined delivery of these programs from the perspective of both recipients and HRDC.

The objective of the AHRDS is to support Aboriginal organizations to develop and implement labour market, youth and child care programs that are designed to address the local and regional needs of Aboriginal people.

The AHRDS programming is intended to:

- Assist Aboriginal individuals prepare for, obtain and maintain employment, thereby resulting in savings to income support programs;

¹ The department name changed to Human Resources Skills Development Canada (HRSDC) following the period of the review (01-02 and 02-03)

- Assist Aboriginal youth in preparing for, obtaining and maintaining employment and in making a successful transition into the labour market, thereby resulting in increased employment; and
- Increase the supply of quality services in First Nations, Inuit communities and Metis, thereby raising the availability of distinct and diverse services in these communities to a level comparable to that of the general population.

The AHRDS is a nationally managed and regionally delivered program and involves partnerships between communities, federal government, provinces, territories and private sector, each with their own role to play in the administration of the Strategy. Cabinet approval of a one-year extension of the AHRDS was given in November 2003. HRSDC must seek TBS approval of new Terms and Conditions for the AHRDS by March 31, 2005.

Aboriginal Human Resources Development Agreements (AHRDAs)

Over the last decade, Aboriginal organizations have assumed increased responsibility for administering and delivering federal government programs, including human resources development programs. The AHRDAs are the key pillar of the broader AHRDS and enable Aboriginal organizations to deliver a wide range of labour market and associated programming to their people. The AHRDS approach builds on the Regional Bilateral Agreement (RBA) model that transferred responsibility for the design and delivery of labour market programs directly to Aboriginal organizations.

In place for 5 years commencing in 1999, 79 agreements have been implemented across the country under the AHRDS and are legally binding arrangements with HRDC. These agreements define the relationship between each agreement holder and HRDC through clauses and schedules that set out the respective roles and responsibilities. These agreements also include program descriptions, the accountability for results, data exchange arrangements, monitoring requirements, annual targets, capacity building/expenditure plans and payment terms. All agreements contain provisions for annual external expanded audits. In addition to the formal agreements between HRDC and the AHRDA holders, 200 sub-agreements have been signed between the AHRDA holders and third-party delivery services, which have resulted in 400 points of service across the country.²

Under the Strategy, national accords were signed with the five national Aboriginal organizations and a protocol has been established for each that provides a framework for the AHRDAs negotiated between HRDC and Aboriginal organizations. These five national organizations are: the Assembly of First Nations; the Inuit Tapiriit Kanatami; the Métis National Council; the Congress of Aboriginal Peoples; and the Native Women's Association of Canada.

² Innovation & Learning for Canadians. *The Aboriginal Human Resources Development Strategy*. Partnering for Progress. p.6

Following the release of the Internal Audit report on HRDC's grants and contributions, a departmental *Six Point Action Plan* was developed to strengthen the management of grants and contributions by HRDC. The Action Plan resulted in changes in the way grants and contributions agreements were written and managed.

It is important to note that the five-year AHRDAs were negotiated and signed before the implementation of the 2000 Action Plan and, therefore, do not include all of the new requirements stipulated in the plan. AHRDS management and staff and AHRDA holders have been operating in a different context than most other grants and contributions programs, due to the fact that the existing formal contribution agreements signed in 1999 with AHRDA holders had a legal status and therefore needed to be adhered to by both parties.

While the five-year AHRDAs were negotiated and signed in 1999, before the implementation of the 2000 Action Plan, it should be recognized that the program authorities have constantly made efforts to be in line with the changes resulting from the Action Plan.

Audit Scope and Methodology

Under the new TBS requirements associated with the renewal or creation of grant and contribution programs, Internal Audit and Risk Management Services' (IARMS)³ annual audit plan schedules audits of HRDC grant and contribution programs on a cyclical basis. In this context, an internal audit of the AHRDS was scheduled for 2003-2004 with a view to providing assurance that the AHRDAs were well managed and identifying recommendations to address weaknesses and major risks.

The audit covered the program management in National Headquarters and in the regions. Four regions were selected based on program activity: British Columbia, Alberta, Ontario, and Newfoundland and Labrador.

The program management framework was assessed using the following approaches:

- A control self-assessment questionnaire was developed by IARMS and submitted to all regional representatives implied in the AHRDS. A response rate of 66% has been received;
- A detailed audit program was developed by IARMS for the review of files;
- Interviews with Aboriginal Relation Office (AYPD)⁴ from NHQ and regional staff involved in the management of the AHRDS program;
- File review of 15 agreements covering the year three and four of the agreements (2001-2002 & 2002-2003);
- Review of the relevant documentation (project file review and gathered information);

³ During the period of the review (01-02 and 02-03) the organization was called Internal Audit and Risk Management Services (IARMS) before March 2004 the name was changed to Internal Audit Services (IAS).

⁴ During the period of the review (01-02 and 02-03) the organization was called Aboriginal Relation Office (ARO), but as of January 2004 the name changed to Aboriginal and Youth Programs Directorate (AYPD).

- Review and analysis of other audit/review projects related to the AHRDA program;
- Presentation of the initial finding at a national workshop of all regional AHRDA coordinators; and
- Analysis of information.

To reach the audit objective, the AHRDS was assessed to determine whether it complied with the following four criteria:

- Adequate administrative and financial controls have been designed and implemented;
- There are processes in place to clarify policies, resolve issues, and ensure good communication within HRDC and with potential applicants, partners and stakeholders;
- Program staff has access to necessary resources, skills, tools and training; and
- There is an accountability structure in place which supports several indicators.

Many of the findings reflected in this report are related to project monitoring requirement for this type of funding arrangements and are not necessarily related to program compliance issues. These funding arrangements provide more operational flexibility to the recipient and reduce the direct control exercised by HRDC over sub-agreements contracted by the AHRDA holder.

Throughout the course of the audit, significant improvements were noted, including implementation of a file certification process. The objective of this process is to certify, on an annual basis, that all AHRDAs are in compliance with the Department's grants and contributions policies, practices, guidelines and terms and conditions. It summarizes the status of each AHRDA and reports on six specific areas to demonstrate sound financial management. Furthermore, ARO had developed a series of guideline bulletins to strengthen controls and to provide clarification, direction and guidance to the regions as issues were identified. National quarterly workshops and bi-weekly conference calls are organized for regional AHRDS coordinators as a means to share information and discuss relevant issues. A financial management workshop was also developed for regions by AYPD and, although not reviewed by IAS, several accountability tools have been developed.

In summary, the audit findings conclude that:

Administrative and financial controls require improvements to strengthen the existing payment process and the audit, monitoring and quality assurance functions. However, the file certification process, implemented in 2002, has resulted in significant improvements to the overall program administration.

The communication process for sharing information internally, particularly with respect to policy and program delivery issues, is working.

Staff has access to the skills, tools, and training needed to support AHRDS delivery, however monitoring tools require enhancements.

The accountability structure requires some improvements. While internal roles and responsibilities are clearly defined, AHRDAs, and their sub-agreement holders, would benefit from clarification regarding their performance expectations.

In order to enhance the overall management of the AHRDS, we have included in this report a series of recommendations (Appendix B) to strengthen program management primarily through clarifying reporting requirements. It should be noted that the audit findings have been shared with AYPD throughout the audit process and corrective actions for many of them have already been initiated.

This internal audit was conducted in accordance with both the Treasury Board Policy on internal audit and with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

MANAGEMENT RESPONSE

The Aboriginal and Youth Program Directorate (AYPD) of Human Resources and Skills Development Canada (HRSDC) would like to thank the staff of the Internal Audit Services (IAS) who conducted and participated in the audit of the Aboriginal Human Resources Development Agreements (AHRDAs).

We agree with the observations raised and endorse the findings of the audit which concluded that the administrative and financial controls and the accountability structure for the Aboriginal Human Resources Development Strategy (AHRDS) required improvements.

The attached action plan has been developed to respond to the recommendations raised in the audit. In many cases remedial actions have already been implemented to address the recommendations raised. This is due, in large part, to new agreement templates which have been developed to support the renewal of the AHRDS effective April 1, 2005. The new agreement templates have been modified to include a strengthened payment process; to clearly outline the obligations/expectations for AHRDA holders, particularly with respect to audit requirements, monitoring and quality assurance functions; and also include strengthened accountability requirements for AHRDA holders, and their sub-agreement holders.

The agreement templates will be supplemented by a companion piece that will provide additional clarification and interpretation to Regions and AHRDA holders. NHQ will also be developing program directives and supporting operational training and tools to further enhance regional delivery of the AHRDAs. Program compliance will be monitored through the enhanced file certification process, the Quality Assurance framework, and the establishment of a joint national/regional Internal Review Committee to ensure national consistency in program delivery.

Overall, the action plan will ensure consistency in program delivery and application and will strengthen program integrity and accountability under the AHRDS.

1. INTRODUCTION

As part of the new Treasury Board Secretariat (TBS) requirements associated with the renewal or creation of grant and contribution programs, Internal Audit and Risk Management Services' (IARMS) annual audit plan schedules audits of Human Resources Development Canada's (HRDC) grant and contribution programs on a cyclical basis. In this context, an internal audit of the Aboriginal Human Resources Development Strategy (AHRDS) was scheduled for 2003-2004 with a view to providing assurance that the Aboriginal Human Resources Development Agreements were well managed and identifying recommendations to address weaknesses and major risks.

The Aboriginal Human Resources Development Strategy (AHRDS)

In 1999, TBS approved HRDC's submission seeking approval of the Terms and Conditions for the AHRDS, a five-year program with one of its pillars being the integration of all Aboriginal programming (labour market, youth, persons with disabilities and child care programs) administered by HRDC. The Strategy was designed to support Aboriginal Canadians in overcoming barriers to labour market participation. With the help of partners, the dedication of many players and the resolve of Aboriginal Canadians, the Strategy was intended to make a positive difference in the lives of individuals, in the well-being of communities and in the prosperity of Canada as a whole.

This new program was part of the Government of Canada's response to the recommendations of the Royal Commission on Aboriginal Peoples. The AHRDS was given a five-year, \$1.6 billion budget to help Aboriginal communities and organizations take on the responsibility of developing and implementing their own employment and human resources programs. Cabinet approval of a one-year extension of the AHRDS was given in November 2003. HRDC must seek TBS approval of new Terms and Conditions for the Aboriginal Human Resources Development Program by March 31, 2005.

The consolidation of the Terms and Conditions (Aboriginal Labour Market Program, First Nations and Inuit Child Care, Youth Employment Initiatives, and Opportunities Fund for Persons with Disabilities) and the subsequent consolidation of various agreements into one agreement with the recipients who administer programs, were intended to allow for increased policy coherence for clients and practitioners. This provided more flexibility for Aboriginal organizations to shift funds between various types of activities to enable them to best address the individual needs of their clients. This integration therefore resulted in a more streamlined delivery of these programs from the perspective of both recipients and HRDC.

The objective of the Aboriginal Human Resources Development Strategy (AHRDS) is to support Aboriginal organizations to develop and implement labour market, youth and child care programs that are designed to address the local and regional needs of Aboriginal people.

The AHRDS programming was intended to:

- Assist Aboriginal individuals prepare for, obtain and maintain employment, thereby resulting in savings to income support programs;
- Assist Aboriginal youth in preparing for, obtaining and maintaining employment and in making a successful transition into the labour market, thereby resulting in increased employment; and
- Increase the supply of quality services in First Nations and Inuit communities, thereby raising the availability of distinct and diverse services in these communities to a level comparable to that of the general population.

The AHRDS is a nationally managed and regionally delivered program and involves partnerships between communities, federal government, provinces, territories and private sector, each with their own role to play in the administration of the Strategy.

National accords were signed under the Strategy with the five national Aboriginal organizations and a protocol has been established for each that provides a framework for the AHRDAs negotiated between HRDC and Aboriginal organizations. These five national organizations are: the Assembly of First Nations; the Inuit Tapiriit Kanatami; the Métis National Council; the Congress of Aboriginal Peoples; and the Native Women's Association of Canada.

The AHRDS falls under two separate funding authorities: the *Annual Appropriation Act* that established the Aboriginal Human Resources Development Program, and section 63 of the *Employment Insurance Act*, which provided for the developmental use of Employment Insurance (EI) funds. Funding is provided under six categories. The funding flows from AYPD to HRDC regional offices, which in turn work in partnership with the AHRDA holders. Funding for the AHRDAs is determined through a National Aboriginal Resource Allocation Model (NARAM) and through regional allocations. A total of \$1.6 billion was made available to the AHRDS from these two sources for the five-year duration (1999-2004), broken down into the following categories:⁵

- | | |
|-----------------------------------|----------------|
| • Labour market programming (LMP) | \$1.06 billion |
| • Urban component of LMP | \$150 million |
| • Child care | \$205 million |
| • Youth programming | \$125 million |
| • Persons with disabilities | \$15 million |
| • Capacity building | \$30 million |

⁵ Innovation & Learning for Canadians. *The Aboriginal Human Resources Development Strategy*. Partnering for Progress. p.5

The annual AHRDS budget is divided among the following types of agreements:

Type of agreement	Number of agreements	Annual funding
• First Nations	50	\$205.4M
• Métis	10	\$54M
• Inuit	6	\$25M
• First Nations /Inuit	1	\$5.6M
• Urban	10	\$25.6M
• National	2	\$4.4M
• Total:	79	\$320M

Following the release of the Internal Audit report on HRDC's grants and contributions, a departmental action plan was developed to strengthen the management of grants and contributions by HRDC.

The Action Plan resulted in changes in the way grants and contributions agreements were written and managed. It is important to note that the five-year AHRDAs were negotiated and signed in 1999 before the implementation of the action plan and therefore, do not include all the new requirements. AHRDS management and staff and AHRDA holders have been operating in a different context than most other grants and contributions programs, due to the fact that the existing agreements signed in 1999 had legal status and limited the degree to which adjustments could be made. However, it should be recognized that the program authority has constantly made efforts to be in line with the changes resulting from the Action Plan.

The Aboriginal Relations Office (ARO) asked the Performance Tracking Directorate to undertake a review of the AHRDAs to determine compliance with HRDC administrative policy, Treasury Board Transfer Payment policy and the Terms and Conditions of the AHRDAs and a report was issued January 2002. Following the report a series of corrective action were undertaken.

Throughout the course of this audit, we noted significant improvements, which include implementing a file certification process. In fact, all the regions were involved in completing a series of templates summarizing the status of each ARHDA as well as reporting on six specific areas to demonstrate sound financial administration of the AHRDAs.

Furthermore, ARO developed a series of guidelines bulletins to strengthen controls and to provide clarification, direction and guidance to the regions as issues were identified.

Aboriginal Human Resources Development Agreements (AHRDAs)

The AHRDAs enable the Aboriginal organizations to deliver a wide range of labour market and associated programming to their people. The AHRDS approach builds on the Regional Bilateral Agreement (RBA) initiative/model that transferred responsibility for the design and delivery of labour market programs directly to Aboriginal organizations. In place for five years commencing in 1999, 79 agreements have been implemented

across the country under the AHRDS and are legally binding arrangements with HRDC. These agreements define the relationship between each agreement holder and HRDC through clauses and schedules that set out the respective roles and responsibilities. These agreements also include program descriptions, the accountability for results, data exchange arrangements, monitoring requirements, annual targets, capacity building/expenditure plans and payment terms. All agreements contain provisions for annual external expanded audits. In addition to the formal agreements between HRDC and the AHRDA holders, 200 sub-agreements have been signed between the AHRDA holders and third-party delivery services, which have resulted in 400 points of service across the country.⁶

Following the preliminary survey phase of this audit that took place in the fall of 2003, IARMS brought to the attention of the Assistant Deputy Minister (ADM) - Employment Programs Branch (EPB)⁷ the following areas of potential risk and vulnerabilities:

- External expanded audit requirements;
- File certification and quality assurance process;
- Administrative costs;
- Holdback;
- Monitoring;
- Data collection; and
- Model project files.

In response ARO has initiated measures to address most of the above issues.

Audit Objective, Scope and Methodology

The objective of the present audit was to provide assurance that the Aboriginal Human Resources Development Agreements (AHRDAs) are appropriately managed. As the AHRDS is a nationally managed and regionally delivered program, the examination phase was conducted at NHQ and in the following four regions: British Columbia/Yukon, Alberta/Northwest Territories/Nunavut, Ontario and Newfoundland & Labrador. Observations and findings resulting from previous audits, reviews and evaluations were considered. The management framework was assessed by the following means:

- Control self-assessment (CSA) of the program by staff involved in the management and administration of AHRDAs;
- Interviews with program staff and management (NHQ & regions);

⁶ Innovation & Learning for Canadians. *The Aboriginal Human Resources Development Strategy*. Partnering for Progress. p.6

⁷ Changed to Employment Programs Operations (EPO) in 2004.

- Examination of relevant documentation;
- File reviews; and
- Analysis of information.

The Terms of Reference were reviewed by an Audit Advisory Committee made up of representatives from ARO, TBS, EDD, Performance Tracking Directorate (PTD), Corporate Affairs and Planning Branch (CAPB), Financial and Administrative Services (FAS) and regional program staff. Subsequently, the Terms of Reference were approved by the Associate Deputy Minister on March 10, 2004.

The CSA questionnaire was administered electronically and involved the participation of all regions, with a 66% response rate. Issues have been identified in conjunction with follow-up interviews and documentation review.

The audit also placed reliance on the findings from file reviews conducted by Performance Tracking Directorate in their January 2002 report on AHRDAs, which examined the first two years of the agreements (99/00 and 00/01). PTD's mandate is to provide assurance that grants and contributions funds are appropriately managed and expended in accordance with program terms and conditions.

We examined years three and four (01/02 and 02/03) of selected AHRDAs. This period ensured that ground already covered by PTD was not re-examined and that adequate time had elapsed to implement program responses. A sample of 15 contribution agreements, which may include sub-agreements, was considered to be sufficient to provide reasonable assurance with respect to the audit objective. The file selection was based on a judgemental sample, taking into consideration a balanced mix between dollar value, representation of various Aboriginal organizations (i.e. Métis, Inuit, Urban and First Nations) and geographical location. Care must be taken when applying the results to regions other than those examined.

The agreement project life-cycle includes seven phases: application, assessment, recommendation and approval, agreement, monitoring, claims processing/payments and close-out. The audit did not examine the application and assessment phases, as potential risks are lower due to the design of the Strategy. In fact, the AHRDA holders and the funding amount were already predetermined. Furthermore, these phases apply to year one of the agreements which is outside the examination period for this audit and had already been reviewed by PTD. As agreements were expiring on March 31, 2004, it was not possible to conduct an assessment of the close-out activities. In addition, the audit did not assess the relevance and accuracy of data used for reporting, as data collection issues were already identified in the Evaluation and Data Development (EDD)⁸ report *Review of Aboriginal Human Resources Development Agreements - Synthesis of Findings*, tabled at the Audit and Evaluation Committee (AEC) meeting in September 2004. However, the audit looked at the use of results information and how it is reported.

⁸ Changed in 2004 to Program Evaluation in the Audit and Evaluation Directorate.

At the end of each regional visit, a formal debriefing session took place during which file review results and preliminary audit findings were presented to regional AHRDS management for discussion and validation. ARO representative(s) were present at each regional debriefing session. In addition, at ARO's request, preliminary audit findings were presented to ARO and the regional AHRDS coordinators for discussion and validation at their quarterly workshop in June 2004.

This internal audit was conducted in accordance with the TBS Internal Audit Policy and with the IIA Standards for the Professional Practice of Internal Audit.

You will find a detailed description of the *Terms of Reference* in *Appendix A* of this report.

2. AUDIT FINDINGS

The major findings of the audit are presented in this section in accordance with the audit objective and criteria.

All regions visited had differences in the implementation of the Strategy and in the management and delivery of AHRDAs. We observed varying degrees of operational flexibilities across the country. Some regions placed more importance than others on some components of the agreement life cycle. Many of the findings reflected in this section are related to unclear project monitoring requirements and are not necessarily related to program compliance issues.

2.1 Criterion 1: Adequate administrative and financial controls have been designed and implemented

As mentioned earlier, the existing administrative and financial controls were designed and implemented in 1999 and do not reflect all the improvements contained in the departmental action plan. Therefore, the control framework will need improvements to comply with the current Grants and Contributions Control Framework.

2.1.1 *Agreements clearly identify eligible and measurable activities and the agreement holder's responsibilities*

All the contribution agreements examined clearly identified annual measurable activities, quantifiable objectives, and expected results. The agreement holder's responsibilities were also clearly stated and generally adhered to, such as:

- The AHRDA holder had prepared and published the required annual report;
- The AHRDA holder and delivery agents had implemented a formal appeal mechanism process;
- The AHRDA holder and delivery agents had developed and implemented a policy to prevent conflicts of interest.

Thus, we conclude that the agreements clearly identify eligible and measurable activities and holder's responsibilities but issues have been identified by EDD related to the credibility of reporting in section 3.4.

2.1.2 *Terms of payments are met*

TBS approval for the AHRDS included an exemption to the TBS *Cash Management Policy* included in the *TB Policy on Transfer Payments* to allow quarterly advance payments. However, the Department still has to determine if an organization is eligible for this provision through the use of such tools as management audits, historical

perspective and judgement. We did not find evidence from the files reviewed that eligibility for this exemption was formally assessed on a regular basis. However, ARO has stated that this eligibility exercise is addressed through internal risk assessments.

Another distinct characteristic of this Strategy is that AHRDA holders may retain any unexpended balance in the Consolidated Revenue Funds (CRF) portion of their budget at the end of each fiscal year and use it to supplement program assistance and administration costs in the subsequent fiscal year. Upon termination of the agreement, any unexpended balances are debts and must be repaid to Canada. However, any unexpended balance in Employment Insurance funds must be returned to the Crown at the end of each fiscal year.

The *Cash Management Policy* included in the *TBS Policy on Transfer Payments* states that transfer payments should not be paid to recipients in advance of need; payments should be timed to correspond as closely as practicable to recipients' cash flow requirements.

In general, the file review revealed that there was compliance with the payment terms outlined in the agreement. However, the following deviation has been noted.

- In most of the files reviewed, we did not find evidence that the quarterly estimated financial requirements in cash flow forecasts were sufficiently challenged by program officials in order to ensure that prudent cash management principles were being followed in accordance with the *TBS Policy on Transfer Payments*.

As a result, there is a risk that AHRDA holders accumulate significant amounts of investments in bank deposits. In one region visited, the practice was to advance the maximum amount possible at the beginning of the fiscal year in order to provide AHRDA holders with the opportunity to generate interest revenue on investments. In our opinion there is evidence that the policy has been interpreted too broadly.

- Further, the required level of supporting documentation for expenditure claims needs to be clarified. Under the existing agreements:

“recipients will be required to provide monthly or quarterly reports on expenditures to HRDC.”

There is no specification related to the contents of the expenditure reports. In addition, a September 2002 memorandum, *Supporting Documentation for Basis of Payment*, created some confusion and inconsistent application across the country related to the documentation to be submitted in support of an expenditure claim. The file review revealed that some project officers required, at a minimum, that AHRDA holders submit general ledgers (GL) with claims, while others did not contain any supporting documentation. The paragraph of the memo that has caused this confusion is the following:

“to avoid placing unnecessary administrative burden upon recipients, the insertion of additional clauses into agreements requesting supporting financial documentation should be avoided”.

- The contribution agreement requires that AHRDA holders submit, for approval by Canada, an expenditure plan for each fiscal year. As required all agreements reviewed contained expenditure plans, including planned expenditures for broad cost categories such as Administration, Capacity Building, Labour Market Partnerships, Employment

Benefits and Support Measures, Urban, Other, Child Care, Youth, Persons with Disabilities. However, the files did not contain a breakdown of planned expenditures within each of these categories or the rationale.

- According to the FAS Policy on Grants and Contributions capital assets acquired with contribution funds must be approved by HRDC and be included in the agreement prior to their purchase. No capital assets can be acquired in excess of what is stated in the agreement without prior amendments to the agreement. All the original agreements examined do not contain this standard clause requiring the pre-approval by HRSD. This clause deters the use of program funds as a means of acquiring assets and ensures that the assets are necessary to complete their required activities in the agreement. Given that the terms and conditions permit capital expenditures of up to one million dollars annually, it is crucial that the department is made aware of planned expenditures.

Furthermore, the file review revealed that the acquisition of capital assets was not included in the annual expenditure plan at the beginning of each fiscal year or in the carry-forward plan. Consequently, the department is unaware of planned capital expenditures. It was only in the expanded audit report that capital asset purchases were listed.

- In most files reviewed the program officers required that all reporting requirements be met prior to the issuance of advances, many AHRDAs were continuously late in submitting quarterly financial reports. Further, the contribution agreement did not specify a time frame for reporting requirements. It should be noted that one region has taken the initiative to issue a letter to all AHRDA holders outlining the reporting requirements and schedule throughout the year.
- The contribution agreement includes the following holdback clause:

“Canada may withhold final payment of up to 10% of its total contribution until the funding period has been completed.”

The files reviewed and interviews revealed that the term “may” provides the opportunity for discretionary application of the holdback provision. As well, the phrase “until the funding period is completed” has been interpreted differently, with some regions applying holdback every year and other regions only applying it in the final year of the agreement. The files reviewed in one region indicated that no provision was being exercised. Further, the wording “up to 10%” provides the opportunity for inconsistent percentage application. The file review revealed that most regions had applied only a \$500 holdback amount in the final year of the agreement. The amount of holdback should correlate with the agreement value. Withholding \$500 for a multi-million-dollar agreement is an insufficient amount withheld from payment to ensure that all conditions of the agreement have been met.

- The contribution agreement permits AHRDA holders to retain any unexpended balance in CRF advances at the end of each fiscal year other than the last. The agreement stipulates that unexpended balances will be deducted from the second quarterly/monthly payment in the subsequent fiscal year unless a revised forecast of cash flow requirements is submitted. Similarly, the ARO Guideline Bulletin 2001-1 explains that any unexpended CRF can be carried forward if there is an approved

expenditure plan in place illustrating how the carry forward will be expended. Otherwise it is to be deducted from the second quarterly advance.

It is unreasonable to expect compliance considering the timing constraints imposed by the existing process: spend the carry forward in the course of the first quarter or it will be deducted from the second quarter/monthly advance. As external audit reports are not due until 90-120 days after the end of the fiscal year, it is impossible to know the exact amount of carry forward until the end of June at the earliest.

The files reviewed revealed that the carry forward amounts were identified in the forecast of cash flow. Only two of the files reviewed had detailed carry forward plans on file that AHRDA holders had submitted.

In light of the previous observations, we conclude that improvements are required to ensure that this criteria is fully met.

Recommendations:

- 1. For renewal, expenditure plans in contribution agreements should require a more detailed description and breakdown of planned expenditures and accompanying rationale. This breakdown should go beyond the broad cost categories of Administration, LMP, EBSM, Youth, etc. AYPD⁹ should require more detailed financial information to facilitate the verification and monitoring of costs incurred against approved planned expenditures. Regions should ensure that cash flow projections submitted by AHRDA holders are based on prudent cash management principles and reflect the immediate cash requirements. This will reduce the risk of AHRDA holders accumulating significant amounts of investments in bank deposits. This requirement should also be clearly indicated in agreements for renewal.*
- 2. AYPD should clarify the required level of supporting documentation to accompany claims and ensure that there is a common understanding and application across the country.*
- 3. For renewal, AYPD should ensure that contribution agreements include the standard agreement clause for pre-approval of capital assets over a pre-defined dollar value, and planned capital asset purchases should be included in annual expenditure plans and carry forward plans for HRSDC approval.*
- 4. AYPD should establish a specific time frame for AHRDA holders to submit quarterly expenditure reports and all other reporting requirements (i.e. audit reports, progress reports, data uploads). This should be included in renewal agreements.*
- 5. AYPD should revise the wording of the holdback clause in order to ensure that there is a clear and common understanding and consistent application of the clause across the country.*

⁹ Aboriginal and Youth Programs Directorate (AYPD) previously Aboriginal Relations Office (ARO).

6. *AYPD should review the carry forward process and establish, for renewal agreements, more applicable timelines for recipients to retain unexpended balances for use for eligible activities in the subsequent fiscal year. AYPD, in consultation with the regions, should develop a detailed national carry forward plan template for use by all AHRDA holders to demonstrate how they will expend the CRF balance. There should be a formal regional process implemented for the review and approval of carry forward plans. AYPD should also track these carry forward plans on a national basis.*

2.1.3 *Monitoring activities are conducted to ensure compliance with the agreement and to ensure proper use of funds*

Financial monitoring verifies that funds are spent as intended in the contribution agreement, and that bookkeeping systems and accounting practices are in place to manage and control departmental funds. The importance of financial monitoring increases with the size, complexity and dollar value of the agreement. These factors can easily take the monitoring of certain types of projects well beyond the expertise expected of most Program Officers. This is the case with AHRDAs, which are considered higher risk as they are multi-year, high dollar value agreements. In addition to these risk factors, in many instances AHRDA holders have sub-agreements with third-party delivery agents to deliver programs and services related to the AHRDA.

Our observations on monitoring are broken down into two categories:

Monitoring conducted at the AHRDA holder level

In most of the files reviewed, monitoring activities conducted at the AHRDA holder level have been carried out in accordance with departmental policies and procedures. These items include the frequency of monitoring, follow-up on progress of activities and costs incurred, and on corrective action taken. We did however, note concerns regarding the departmental monitoring form (EMP 5220) used for the activity and financial monitoring of AHRDAs which will be discussed in **critterion 3**.

During interviews, some program officers pointed out that it would be a beneficial practice to pair a financial officer with a program officer during the monitoring visits, due to the high monetary value of these agreements.

From comments received from the CSA questionnaire, monitoring seems to be a concern for program officers: “We need an internal procedure manual that covers all – how to access and use various systems, how to prepare for a monitor. What is the definition of an on site, off site, and telephone monitor? What is considered a monitor? What to do before processing a claim...” Some program officers also expressed a need for clarification around how much supporting documentation they should provide with monitoring reports.

We were expecting to find more detailed narrative reports in terms of monitoring conclusions/follow-up documentation. Documentation included in most files generally did not identify the appropriate level of analysis or evaluate activity progress in comparison to planned expenditures. We could not find the links that should normally be

found between activities/financial monitoring and results, nor could we find the conclusions stemming from those links. *Recommendation 11* concerning the monitoring form should address the level of documentation to accompany monitoring reports.

Monitoring conducted at the sub-agreement level

Monitoring at the sub-agreement level is generally not performed. We have not been able to provide an assessment on how the funding provided by the AHRDA holders to third parties has been used. Clause 12-d (4) of the contribution agreement between the AHRDA holder and HRDC states, “The management, supervision and control of the programs are the sole and absolute responsibility of the Organization.” The interpretation of this clause by several regions and AHRDA holders is that HRDC does not have the proper authority to conduct monitoring activities at the sub-agreement level. This interpretation puts sub-agreement funds out of the scope of the departmental monitoring that should usually be conducted.

Under the expanded audit clauses in the agreement, there is a requirement that the AHRDA holder’s external auditor must provide an opinion on the effectiveness of the monitoring of third parties conducted by the AHRDA holder. This requirement was met by only 47% of AHRDA holders.

Although monitoring activities conducted at the AHRDA holder level have been carried out in accordance with departmental policies and procedures, there was minimal monitoring at the sub-agreement level. We were unable to assess whether funding provided to sub-agreement holders was monitored to ensure proper use of funds. Therefore, we recommend the following:

Recommendation:

- 7. AYPD should address the issue of monitoring at the sub-agreement level (third-party) and provide clear direction regarding the requirements to ensure they meet the revised Policy on Transfer Payments, effective June 1, 2000.*

2.1.4 The external audit report meets the expanded audit requirements

AHRDS agreements include a requirement for annual external expanded audits, with a corresponding allocation in the budget provided to AHRDA holders to pay for the audit cost. The intent of the expanded audit clauses in the agreement is to provide reasonable assurance to program management that fundamental internal controls are in place, that the AHRDA holder’s financial statements are in accordance with Generally Accepted Accounting Practices, that there is an adequate audit trail and that adjustments are made as required. The process also assesses the adequacy of the AHRDA holder’s internal financial management procedures and controls, determines whether third-party organizations (sub-agreements holders) are adequately monitored by the AHRDA holder, and provides suggestions for improvements. By conducting this exercise annually, the external auditor could follow up on deficiencies identified in previous years.

From the result of our file review, only 47% of the audit reports met all the expanded audit requirements. Also, the CSA results highlighted the fact that only 51% of those surveyed agreed that external audit reports meet the requirements set out in the contribution agreement.

However, we have observed that in February 2004, steps had been taken to address this issue. ARO distributed a suggested letter template to the regions to be sent to AHRDA holders. This was done to ensure that AHRDA holders comply with all the expanded audit requirements for the 2003-04 fiscal years. At the time of this report it was too early to assess the result of the action undertaken.

We conclude that even if steps had been taken to address this issue, there are a significant number of AHRDA holders who are still not compliant with all of the expanded audit requirements. We recommend the following:

Recommendation:

8. *AYPD should strengthen follow-up mechanisms to ensure that AHRDA holder annual expanded audit reports meet all audit requirements of the agreement and are submitted within the prescribed timelines. In cases of non-compliance, appropriate remedial action should be undertaken. AHRDA holder external audit reports should be reviewed by a regional internal review committee with both program and financial expertise. This will ensure that there is appropriate follow up and corrective actions as required.*

2.1.5 *The external audit report is used for year-end assessment, identification of issues and implementation of corrective actions as necessary*

From the files reviewed and the interviews with program officers involved in the management of AHRDAs, we found that the quality of the external audit reports varies across AHRDA holders. There were a few very good audit reports that fully met the expanded audit requirements and that were prepared in a format that was easy to understand, even for those without formal accounting training. On the other hand, half of the audit reports reviewed did not comply with all the expanded audit requirements and were difficult to understand for someone without an accounting background. As a result, in some cases, the program officers did not use them as the main document for year-end assessment.

The lack of a formal accounting/audit guide for external auditors of AHRDA holders and sub-holders has led to inconsistency in the content of the external audit reports. Further, not all regions have implemented appropriate review processes for the audit reports, and follow-up action is not undertaken in cases of non-compliance. Best practices in this area could be shared between regions in order to implement a consistent and effective approach used nationally.

We conclude that improvements are required in the format and the content of the external audit report to be able to use it for year-end assessment, identification of issues and implementation of corrective action. We recommend the following:

Recommendation:

9. *AYPD should develop an accounting/audit guide that is mandatory for use by AHRDA holders and their external auditors. This accounting/audit guide should cover all the various elements related to the financial provisions of the contribution agreements, such as proper definitions of eligible expenditures, chart of accounts, accounting practices to be followed, carry forward provisions and their conditions, holdback provisions, GST rebates and interest revenues, as well as monitoring requirements for AHRDA holders. The guide should also provide the required format for presentation by the auditor to HRSD. We are recommending that this guide be reviewed and endorsed by a professional accounting corporation. By doing so, this will reinforce the use and implementation of the guide by external auditors.*

2.1.6 Quality assurance mechanisms are in place

The following three components of the HRDC Quality Assurance framework were examined:

- Certification process;
- Post-audit functions; and
- Performance Tracking Directorate (PTD).

Certification process

In response to the Performance Tracking Directorate's (PTD) January 2002 review, an action plan was developed and ARO initiated a certification process. The objective of the six step certification process is to certify, on an annual basis, that all AHRDAs are in compliance with the Department's grants and contributions policies, practices, guidelines and terms and conditions. The Assistant Deputy Minister (ADM) Employment Program Branch (EPB) issued a memo to all regions asking for their co-operation and involvement in the AHRDA certification process. Regions responded by completing and sending file certification and quality assurance checklists for all agreements. This file certification exercise was approved by the Regional Executive Heads (REHs) before being sent to ARO. This process provided direction to the regions in the administration and compliance elements required in processing third and fourth quarter advances. The checklist outlines the file requirements to review audited financial statements; quarterly activity/progress reports; quarterly financial reports; uploads of participant data; the status and management of ineligible expenses and overpayments; and the calculation of resources carried forward and plans to minimize carry forward.

The implementation of the file certification process by ARO has resulted in significant improvements to the control framework. Further, the PTD follow-up review stated that the regions were communicating the requested information adequately to ARO. The file review indicated that the regional coordinators were involved in reviewing the certification documents. During the survey phase of this audit, the audit team suggested to ARO some improvements to the existing certification process, the most important element being the analysis of the expanded external audit reports as discussed in 3.1.4. ARO has been receptive to the suggestions and has already implemented them. Improvements to the certification process should be shared with PTD to evaluate the quality of the information.

Post Audits/ Performance Tracking Directorate

The audit revealed that only one of the five regions visited had conducted post audit activities in the period covered by the audit ending 2003. Subsequently, in October 2003, senior management announced the elimination of Post-Audit/Program Compliance activities in the Regions to be replaced with a centralized, redesigned PTD effective April 2004.

At the same time the Department undertook a review of the Grants and Contributions Internal Control Framework and made recommendations to strengthen the framework. In February 2004, four new directives were implemented. One of these directives included the introduction of mandatory audit clause in contribution agreements. This clause now requires all recipients of agreements over \$350,000 to have an independent external audit performed; an exercise the AHRDAs already perform according to agreement requirements. For agreements between \$50,000 and \$350,000 in value, PTD was also tasked with carrying out on-site financial reviews for sample of 50 agreements each fiscal year starting 2004-2005 as well as reviewing an additional sample of 20 external audit reports for agreements over \$350,000. Other directives included segregation of duties, call for proposals and the creation of an internal review committee. At the time of this report, the impact of these initiatives could not be measured for AHRDAs.

PTD's sampling methodology covers all departmental grants and contributions programs, including the AHRDAs, which are reviewed only on a three-year cyclical basis. PTD did a review in 2002, a follow-up which included an examination of the certification process in 2003 and the next review is planned for 2005. Considering the administrative challenges, materiality and complexities of the AHRDAs, the Audit Team considers this insufficient and therefore, the Quality Assurance Framework should be reviewed on an on-going basis to provide assurance to senior management that enough AHRDA files are reviewed by the various components of the Quality Assurance Framework.

Recommendation:

10. AYPD and Financial Administration Services should review and enhance the quality assurance framework of AHRDAs by considering initiatives undertaken by PTD in other HRSDC programming. In addition, AYPD and FAS should re-examine and enhance the file certification process. This Quality Assurance Framework should be appropriately documented in the Risk Based Audit Framework for renewal.

2.2 Criterion 2: There are processes in place to clarify policies, resolve issues, and ensure good communication within HRDC and with potential applicants, partners and stakeholders

ARO organizes national quarterly workshops for regional AHRDS coordinators and bi-weekly conference calls as a means to share information and discuss relevant issues. Interviews with staff supported this approach as an effective means to share information. The CSA results indicated that 83% of respondents agree that information from conference calls and workshops is shared within work units. Regional program staff at management and operational levels confirmed that the role played by the regional AHRDS coordinator is the communication link between the various stakeholders and remains central to communication at all levels. The coordinators are responsible for the ongoing dissemination of information to staff and to AHRDA holders.

During the field visits, many program officials at all levels expressed the need for clearer direction on project monitoring. Cited examples were: the application of expenses related to program administration and program assistance costs, the holdback provision, the carry forward provision, capital assets acquisition, eligible and ineligible costs, expanded audit requirements and the application of the remedial action policy. It was mentioned by AHRDS program officers and managers that agreement clauses were subject to a variety of interpretations by both program officials and agreement holders. ARO, in consultation with the regions, could develop a detailed handbook for AHRDA holders.

Program staff indicated that ARO Guideline Bulletins dealing with various administrative topics, as well as other interpretation documents, were useful but not specific enough. These guideline bulletins were issued in 2001 and 2002, when most agreements had been signed in April 1999. Interviews with program staff revealed that four of the regions visited used the proposed guidelines in varying capacities: some as policy and others as “guidelines” since regional procedures had already been developed. One region did not use the guidelines as they had already developed their own. The regions were advised by ARO that they had some flexibility in how they chose to implement the guidelines. The regions expressed a need for ARO to provide more clarity in distinguishing where regional flexibility can be applied and where implementation of a standard national policy approach is a requirement.

The CSA results indicated that most of the staff can get support from the ARO Help Desk staff for day-to-day operational issues. However, only 1/3 of respondents were satisfied with the timeliness of responses when dealing with issues that could have a national impact. Some attributed this to the high turnover of staff at NHQ.

Access to ARO responses to regional “questions and answers” from a central access point was cited as something that would be beneficial as there was recognition that many issues are generally common across regions. As well, we noted a variety of regionally developed best practices that were not always shared or known by ARO and other regions. Some examples were:

- The development of an AHRDA file management system;
- A training for trainers package for AHRDA holders;
- Success stories publications;
- Activities monitoring form;
- Regionally developed AHRDA operational manual;
- Support from internal financial staff to review external audit reports;
- A regional results report to determine cost per intervention by AHRDA holder; and
- Use of an ARO audit guide.

Though some sharing of best practices had occurred at national workshops, staff expressed the need for a more coordinated approach and that ARO could take on a coordination role for sharing of best practices between regions and ARO.

We conclude that, overall, the internal communication mechanism currently in place is working. While there is room for improvement, this criterion has been met.

2.3 Criterion 3: Program staff has access to necessary resources, skills, tools and training

Resources

Through the interviews with regional AHRDS, most of the staff and management stated that overall they have the resources to do their jobs. However, suggestions were made that the regional resource allocation model should be revised to include all costs associated with the management and delivery of AHRDAs, such as appropriate budget allocations and with some consideration given for additional operational costs linked with northern isolation and training. Also, it was suggested that by this means dedicate resources at the regional and local Human Resource Centre Canada (HRCC) level so that regions would not need to supplement the AHRDS budget.

Skills

It was evident from the file review, interviews and CSA results that the regional AHRDS program staff are a very experienced and knowledgeable group regarding HRDC, grants and contributions and Aboriginal programs at HRDC. Over 50% of the program staff have been involved in the management and delivery of Aboriginal programs at HRDC for over five years.

In addition to their work experience, some staff members involved in the AHRDS have acquired skills/specializations through formal training. According to the CSA results, the main two areas of specialization are finance/accounting (43%) and social science (40%). Following the interviews and discussions with program employees involved in the AHRDS, it is our view that they are very dedicated to their responsibilities, and they believe in the Strategy objectives and the benefits of the Strategy to Aboriginal Canadians.

Although virtually all individuals interviewed and CSA respondents were very comfortable in their program skills and their ability to manage AHRDAs, one area where many individuals were less confident and where they felt that they needed further development was financial skills. The main areas of concern were reading and understanding external audit reports, reconciling quarterly claims to audited financial statements, and conducting financial monitoring. According to the CSA, only 56% believe that they have the skill set necessary to understand and analyze external audit reports. However, most said that they had access to financial support at the regional level as needed and were confident in the help and guidance they received. One region has contracted out financial monitoring and the suggestion was made by individuals in two regions that it would be beneficial to have a finance person dedicated/attached to each regional AHRDS unit.

Tools

As discussed in **criterion 2**, a series of guideline bulletins was developed by ARO and distributed to all AHRDS staff in 2001 to aid in the interpretation and delivery of AHRDAs. Until November 2003, ARO's role in the AHRDS was to provide "functional guidance", consequently some regions regarded the bulletins as guidelines and not policies/directives. As stated earlier, this led to them being applied inconsistently across the country. As the bulletins were not released until 2001, some regions have developed their own processes, policies and guidelines and incorporated the ARO guidelines as much as possible. Only 46% of CSA respondents use the G&C operations manual on a regular basis and keep themselves updated on all changes.

According to the CSA, 75% of regional managers use the website reports to assess the performance of AHRDA holders. However, the site is considered to be more of an information tool for results than as a reference tool. On a day-to-day basis it is not considered a useful tool to aid in delivery or to inform of ongoing changes. Some suggestions for improvements to the site included sharing of best practices, a question and answer page, links to ARO bulletins/guidelines and regular updates.

As noted in **critterion 1**, Departmental monitoring forms and claim forms do not provide sufficient detail for appropriate project monitoring. Almost all individuals interviewed and 79% of CSA respondents felt that the standard G&C monitoring form (EMP 5220) is inappropriate for the activity and financial monitoring of AHRDAs and only 56% use the standard form. Several regions have developed and are using their own monitoring forms that address the uniqueness of AHRDAs. Also, there are a variety of claim forms being used. Regions have developed their own forms and spreadsheets to track advances, claimed amounts, approved amounts, holdback, carry forward, and interest. It was suggested that ARO collect best practices from regions in terms of regionally developed tools, such items as monitoring forms, claim forms, regional policies/guidelines, etc. These could be used to develop national standard forms, tools and practices.

It was suggested that the following could be useful tools:

- AHRDA-specific operational manual;
- Detailed audit guide for AHRDS staff, AHRDA holders and external auditors; and
- Orientation package for new AHRDS employees.

We can conclude that overall this criterion has been met although enhancements need to be made to the monitoring tools and forms used by staff for renewal.

Recommendation:

11. Departmental monitoring forms do not provide sufficient detail for appropriate monitoring of AHRDAs. AYPD, in consultation with FAS and EPO, should review monitoring tools and improve the monitoring form used for on-site visits. AYPD should implement, as part of the monitoring process, a validation exercise of the operational (participant) data submitted by AHRDA holders and/or their sub-agreement service delivery agents (third parties).

Training

Most people are generally satisfied with the training they received and opportunities for training. The only area where many feel that they are inadequately trained is in accounting and financial monitoring (as discussed previously). According to the CSA, only 47% believe that the financial management and accounting training offered by the Department meets their needs. Some feel that departmental financial training is very basic and does not deal with the complexity of AHRDAs. The CSA results show that 52% attended the ARO Financial Management Workshop. Most of those who attended found it useful, but some felt that it was not detailed enough and that it did not meet their financial training needs. The February 2004 implementation of the Specialization and Concentration Initiative should address many of the issues related to financial monitoring.

While there is room for improvement, we conclude that this criterion has been met.

2.4 Criterion 4: There is an accountability structure in place which supports the following indicators

Clarity of roles and responsibilities

When the Strategy was implemented the roles and responsibilities were defined as follows:

- AHRDA holders are responsible for the design and delivery of labour market programs;
- Regional offices are responsible for negotiating and administering the individual agreements (including negotiating budgets, capacity building goals, and targets as well as monitoring expenditures, progress in capacity building and results); and
- ARO is responsible at a national level for the development of policy and the provision of operational support for the AHRDS.

CSA results indicated that regional staff and management clearly understand what they are accountable and responsible for regarding the management of AHRDAs. Although regional program employees believe that roles and responsibilities are clear at the regional and AHRDA holder levels, two recent changes have contributed to some confusion around ARO's roles and responsibilities. As stated earlier, the reporting relationship between the ADM-EPB and REHs changed in October 2003 from being one of functional guidance to that of direct reporting and there has been a split between the policy and operations functions at ARO (effective January 2004). This had created confusion and program employees expressed a need for more clarity regarding the impact the changes may have at the regional level.

Clarity of performance expectations

The CSA results indicate that only 65% of program employees believe that AHRDA holders understand clearly what they are accountable and responsible for, and 84% said that AHRDA holder targets and results are generally met. Most of the files reviewed did not include evidence of the negotiation of annual targets. Through interviews with program officers, it was determined that there were no predefined departmental criteria to enable program officers to negotiate targets that were comparable from one agreement to another across the country. For the most part, targets were set on a case-by-case basis.

Credibility of operational reporting

As stated in this introduction, the Program Evaluation (PE) review dealt with the quality and completeness of information on results. ARO has prepared an action plan in response to the PE review findings, therefore operational reporting was not part of the scope of this audit.

The file review and interviews revealed that there was no validation process of the operational data submitted by AHRDA holders.

To avoid the risk of inaccurate data reflected in results reports, it is necessary to implement a validation exercise of operational participant data already addressed in *Recommendation 11*.

Reasonableness of review and adjustment

Annual performance review is an important component of the project lifecycle file management approach however this is not currently an essential element for the management of AHRDAs. Such a review should include the AHRDA holder's progress to date in comparison to the funding provided, planned activities and planned results. We found that only one of the five regions visited had completed a formal analysis and provided feedback to AHRDA holders through a letter signed by the Regional Executive Head (REH). However, that exercise included only the targets/results component. Gaps and weaknesses, as well as accomplishments were not highlighted. The audit team considers a formal analysis as a good practice to be applied to other regions which would include the additional steps mentioned above.

The accountability structure requires some improvements. While internal roles and responsibilities are clearly defined, AHRDAs, and their sub-agreement holders, would benefit from clarification regarding their performance expectations.

3. CONCLUSION

In summary, the audit findings conclude that:

Administrative and financial controls require improvements to strengthen the existing payment process and the audit, monitoring and quality assurance functions. However, the file certification process, implemented in 2002, has resulted in significant improvements to the overall program administration.

The communication process for sharing information internally, particularly with respect to policy and program delivery issues, is working.

Staff has access to the skills, tools, and training needed to support AHRDS delivery, however monitoring tools require enhancements.

The accountability structure requires some improvements. While internal roles and responsibilities are clearly defined, AHRDAs, and their sub-agreement holders, would benefit from clarification regarding their performance expectations.

In order to enhance the overall management of the AHRDS, we have included in this report a series of recommendations (Appendix B) to strengthen program management primarily through clarifying reporting requirements. It should be noted that the audit findings have been shared with AYPD throughout the audit process and corrective actions for many of them have already been initiated.

In our professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria.

This internal audit was conducted in accordance with the TBS *Policy on Internal Audit* and the Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing*.

APPENDIX A

AUDIT OBJECTIVES

Under the AHRD Strategy, AHRDAs have been signed between HRDC and Aboriginal organizations. The objective of the AHRDAs audit is to provide assurance on the adequacy of controls and practices with respect to sound financial management, good stewardship of resources and effective accountability.

SCOPE

The audit conclusion will be based on evidence examined in support of the following audit criteria:

- Adequate administrative and financial controls have been designed and implemented especially:
 - Agreements clearly identify eligible and measurable activities and the agreement holder's responsibilities;
 - Terms of payments are met;
 - Monitoring activities are conducted to ensure compliance with the agreement and to ensure proper use of funds;
 - The external audit report meets the expanded audit requirements;
 - The external audit report is used for year-end assessment, identification of issues and implementation of corrective action as necessary;
 - There is compliance with the required certification process; and
 - Quality assurance mechanisms are in place.
- There are processes in place to clarify policies, resolve issues, and ensure good communications within HRDC and with potential applicants, partners and stakeholders.
- Program staff has access to needed resources, skills, tools and training.
- There is an accountability structure in place which supports the following indicators:
 - Clarity of roles and responsibilities;
 - Clarity of performance expectations;
 - Credibility of reporting;
 - Balance of expectations and capacities; and
 - Reasonableness of review and adjustment.

The agreement project life-cycle includes seven phases: application, assessment, recommendation and approval, agreement, monitoring, claims processing/payments and close-out. The audit will not examine the application and assessment phases as potential risks are lower due to the design of the Strategy. As agreements will expire on March 31, 2004, it will not be possible to conduct an assessment of the close-out activities. In addition, the audit will not assess the relevance and accuracy of data used for reporting as data collection issues have been already identified in the EDD review as mentioned in Section 2. However, the audit will look at the use of results information and how it is reported.

METHODOLOGY

As the AHRDS is a decentralized delivered program, the examination phase will be conducted at NHQ and in the following four regions: British Columbia/Yukon, Alberta/Northwest Territories/Nunavut, Ontario and Newfoundland & Labrador. Observations and findings resulting from previous audits, reviews and evaluations will be considered. The management framework will be assessed by the following means:

- Control self-assessment of the program by program management and selected staff involved in the AHRDAs;
- Interviews with program staff and management (NHQ & Regions);
- Examination of relevant documentation;
- File reviews; and
- Analysis of information.

The control self-assessment questionnaire will be administered electronically and will involve the participation of all regions. Issues will be identified in conjunction with follow-up interviews and documentation review. Audit work will be directed to substantiate identified practices and controls.

The audit will place reliance on file review results reported by PTD, whose mandate is to provide assurance that grants and contributions funds are being appropriately managed and expended in accordance with program terms and conditions.

In addition, IARMS will examine years three and four of selected AHRDAs (April 1, 2001 to March 31, 2003). This period will ensure that ground already covered by the PTD review is not repeated and that adequate time has elapsed to implement program responses. A sample of 15 master agreements, which include sub-agreements, should be sufficient to provide reasonable assurance with respect to the audit objective. The file selection will be based on a judgemental sample, taking into consideration a balanced mix between dollar value, representation of various aboriginal organizations (i.e. Métis, Inuit, Urban and First Nations) and geographical location. Consultation will take place with ARO related to file selection. However, it should be recognized that a sample of this size is not statistically valid; thus it will not allow for statistical inference to the program as a whole.

All file review findings of the audit will be presented to appropriate program management and staff for discussion and validation. Also, best practices will be noted.

An Audit Advisory Committee will be established for the duration of the audit. Advice will be sought from ARO management in the selection of members, with the IARMS Audit Director chairing the committee. The advice of the committee will be sought to elaborate on the audit's scope, objectives, criteria and approach, as well as to provide another level of assurance with respect to significant matters and issues that are to be reported.

REPORTING

Verbal debriefings will be conducted and communication will be on an ongoing basis with ARO management team to validate and obtain feedback on findings, to ensure that the appropriate context is reflected in the report. Verbal debriefings to senior management will take place, as required, prior to the finalization of the consultation report.

The Audit Advisory Committee will review the Consultation Report and recommendations for balance and reasonableness. Subsequently a draft report will be prepared and submitted to senior management. A management response and action plan prepared by ARO will be incorporated into the final audit report in response to the findings and recommendations. The final draft report will be tabled at the Audit and Evaluation Committee for approval.

MILESTONES

- Survey Sept. 2003 – Dec. 2003
- Advisory Committee, review of TOR January 2004
- Development of the audit program January 2004
- NHQ and regional interviews and documentation review Throughout
- Control Self-Assessment, electronic questionnaire February 2004
- Examination, IARMS file review February-April 2004
- Consultation document to be submitted to the Advisory Committee July 2004
- Draft Report to be submitted to ARO July 2004
- Final approval by the Audit and Evaluation Committee October 2004.

Internal Audit Recommendations	Management Plan	Planned End Date	Responsibility
<p>2. AYPD should clarify the required level of supporting documentation to accompany claims and ensure that there is a common understanding and application across the country.</p>	<p>The new agreement templates set out the minimum level of supporting documentation required by AHRDA holders (i.e. a copy of the AHRDA holder's general ledger) and also allows HRSDC discretionary authority to request additional supporting documentation, if required.</p> <p>Additionally, AYPD will develop a standardized claim form for use by all AHRDA holders to ensure a consistent approach in reporting quarterly expenditures.</p>	<p>Completed</p> <p>February 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>3. For renewal, AYPD should ensure that contribution agreements include the standard agreement clause for pre-approval of capital assets over a pre-defined dollar value, and planned capital asset purchases should be included in annual expenditure plans and carry forward plans for HRSDC approval.</p>	<p>The new terms and conditions and agreement templates have been modified and stipulate that capital asset purchases over \$5,000 will require written pre-approval by HRSDC. HRSDC will continue to monitor capital asset purchases and the disposal of capital assets over \$5000. All planned purchases of capital assets will be included in annual work plans and carry forward plans.</p>	<p>Completed</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>4. AYPD should establish a specific time frame for AHRDA holders to submit quarterly expenditure reports and all other reporting requirements (i.e. audit reports, progress reports, data uploads). This should be included in renewal agreements.</p>	<p>The new agreement templates outline clear timeframes for expenditure and other reporting requirements. Quarterly expenditure reports, progress reports and results data uploads will be due no later than 30 days after the end of the quarter. Similarly, annual progress reports and external audit reports will be due 120 days after the end of the fiscal year.</p> <p>A directive will be developed and sent to Regions outlining the annual schedule for reporting requirements. The File Certification process will further reinforce that reporting requirements are met before third quarter advances are issued.</p>	<p>Completed</p> <p>February 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>

Internal Audit Recommendations	Management Plan	Planned End Date	Responsibility
<p>5. <i>AYPD should revise the wording of the holdback clause in order to ensure that there is a clear and common understanding and consistent application of the clause across the country.</i></p>	<p>Under the new agreement templates, the holdback clause has been strengthened and states that Canada “will withhold final payment of up to 10% of its total contribution until the program has been completed. Final payment will be made within 8 months from the end of the agreement pending receipt and verification of a claim for the balance due and receipt of an audit report or other report that may be required under the terms of the Agreement”.</p> <p>In addition, a directive will be developed to provide further clarification/interpretation to regions and AHRDA holders on the application of this clause, including risk assessment guidelines to help determine the percentage of funds to withhold (<i>up to 10%</i>).</p>	<p>Completed</p> <p>February 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>6. <i>AYPD should review the carry forward process and establish, for renewal agreements, more applicable timelimes for recipients to retain unexpended balances for use for eligible activities in the subsequent fiscal year.</i></p> <p><i>AYPD, in consultation with the regions, should develop a detailed national carry forward plan template for use by all AHRDA holders to demonstrate how they will expend the CRF balance.</i></p> <p><i>There should be a formal regional process implemented for the review and approval of carry forward plans.</i></p>	<p>Under the new agreement templates, AHRDA holders will be required to submit, no less than 30 days prior to the beginning of the fiscal year, a plan showing how funds will be expended in the first and/or second quarters of the next fiscal year. Firm timelimes have been set stating that unexpended balances must be expended by the end of October of the following year or remitted to Canada at the beginning of November of that year.</p> <p>A national template will be developed, to be used by all AHRDA holders, to ensure consistency in reporting unexpended CRF balances and plans for expending the funding. The template will be accompanied by a directive, which will be developed and issued to Regions, clarifying that carry forward can only be used for the purpose for which it was originally intended, to defray program funding costs.</p> <p>As part of the new agreement templates, AHRDA holders will be required to submit their carry forward plans for HRSDC approval.</p>	<p>Completed</p> <p>March 2005</p> <p>Completed</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>

Internal Audit Recommendations	Management Plan	Planned End Date	Responsibility
<p><i>AYPD should also track these carry forward plans on a national basis.</i></p>	<p>AYPD will monitor all carry forward plans through the file certification process. Any carry forward unspent by the end of October must be repaid to Canada in November of the same year.</p>	<p>Ongoing</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p><i>7. AYPD should address the issue of monitoring at the sub-agreement level (third-party) and provide clear direction regarding the requirements to ensure they meet the revised Policy on Transfer Payments, effective June 1, 2000.</i></p>	<p>The new agreement templates include a provision that HRSDC officials have the right to access the books and records, and premises and program sites of sub-agreements holders when deemed necessary.</p> <p>A directive will be developed and distributed to regions to assist Regions in determining which sub-agreement holders should be monitored, the appropriate monitoring requirements, and the process to be followed.</p>	<p>Completed March 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p><i>8. AYPD should strengthen follow-up mechanisms to ensure that AHRDA holder annual expanded audit reports meet all audit requirements of the agreement and are submitted within the prescribed timelines. In cases of non-compliance, appropriate remedial action should be undertaken.</i></p>	<p>In Summer 2004, AYPD developed and issued to Regions a directive on the expanded audit requirements. The directive was used to communicate to AHRDA holders and auditors the requirements set out under the contractual agreement; establish a process to ensure that external audit reports submitted to HRSDC are compliant with the agreement requirements; and ensure final claims are reconciled against audit figures by regional officials. Regions were also provided with reconciliation checklists and forms to be used as part of the annual file certification process. Similarly, in the new agreement templates, the deadline for submission of audit reports has been changed from 90 days to 120 days and wording has been included in the new templates that will allow HRSDC to withhold further payments if the expanded audit requirements are not adhered to.</p>	<p>Completed</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>

Internal Audit Recommendations	Management Plan	Planned End Date	Responsibility
<p>AHRDA holder external audit reports should be reviewed by a regional internal review committee with both program and financial expertise. This will ensure that there is appropriate follow up and corrective action as required.</p>	<p>The directive will be reviewed to ensure that external audit reports are reviewed by regional internal review committees.</p>	<p>March 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>9. AYPD should develop an accounting/audit guide that is mandatory for use by AHRDA holders and their external auditors. This accounting/audit guide should cover all the various elements related to the financial provisions of the contribution agreements, such as proper definitions of eligible expenditures, chart of accounts, accounting practices to be followed, carry forward provisions and their conditions, holdback provisions, GST rebates and interest revenues, as well as monitoring requirements for AHRDA holders.</p>	<p>The audit directive sent to Regions (Summer 2004) includes an audit guide and required reporting format for AHRDA holders and their external auditors. The guide covers all elements related to the financial provisions and also includes a year-end reporting requirement letter to be sent to AHRDA holders and forwarded to their external auditors, as well as an auditor check-off list of expanded audit requirements to be submitted with the audit report.</p>	<p>Completed</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>The guide should also provide the required format for presentation by the auditor to HRSDC.</p> <p>We are recommending that this guide be reviewed and endorsed by a professional accounting corporation. By doing so, this will reinforce the use and implementation of the guide by external auditors.</p>	<p>A standard audit engagement letter will be developed for mandatory use by all AHRDA holders as the contract between the AHRDA holder and the auditor. The letter will include the expanded audit requirements.</p> <p>The audit guide will be further enhanced to include all of the recommended elements and will be presented to a professional accounting corporation for endorsement.</p>	<p>March 2005 March 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480) Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>

Internal Audit Recommendations	Management Plan	Planned End Date	Responsibility
<p>10. AYPD and Financial Administration Services should review the quality assurance framework of AHRDAs and re-examine the certification process mechanism used and ensure that the results are communicated to AYPD.</p> <p>This mechanism should be appropriately documented in the Risk Based Audit Framework for renewal.</p>	<p>As part of the 3-year cyclical review a PTD review of the AHRDAs is scheduled for 2005/06. AYPD will meet with PTD to determine whether additional reviews (outside the 3 year cyclical review process) will be required to enhance the current QA framework. As well, enhancements have been made to the file certification process (i.e. Regions are required to provide supporting documentation, and complete enhanced checklists). These enhancements will be discussed with PTD.</p> <p>The current QA process is included in the RBAF and any further enhancements will also be incorporated.</p>	<p>February 2005</p> <p>Completed</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>
<p>11. Departmental monitoring forms do not provide sufficient details for appropriate monitoring of AHRDAs. AYPD, in consultation with FAS and EPO, should review monitoring tools and improve the monitoring form used for on-site visits.</p> <p>AYPD should implement, as part of the monitoring process, a validation exercise of the operational (participant) data submitted by AHRDA holders and/or their sub-agreement service delivery agents (third parties).</p>	<p>AYPD is currently reviewing and developing AHRDA-specific monitoring forms and tools for the regions and AHRDA holders. These will be developed in consultation with the regions, FAS and EPO.</p> <p>AYPD is developing a data validation process for the regions (i.e. participant follow-up). This will be a component of the AHRDA-specific monitoring form. A directive will be distributed to the regions explaining the new monitoring form and data validation process.</p>	<p>March 2005</p> <p>March 2005</p>	<p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p> <p>Director General Aboriginal and Youth Programs Directorate (RC 7480)</p>