

**Departmental Audit and Evaluation Branch
Department of Indian Affairs and Northern Development**

**Prepared by:
Abbas Rangwala, Audit Project Manager**

**Assisted by:
CCG The Comprehensive Consulting Group**

**Control Self-Assessment of
the Funding Arrangements
Summary of Regional Findings**

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Paul Norman,	Ontario Region
Filomena de Sousa,	Ontario Region
Mike Hartley,	Alberta Region
Janet Third,	Alberta Region
Dave Ouimet,	Transfer Payments Directorate
Terry Goodtrack	Transfer Payments Directorate

For the Departmental Audit and Evaluation Branch, the Control Self-Assessment of the Funding Arrangements was planned and managed by both Toby Stewart, DAEB, Special Project Manager and Abbas Rangwala, DAEB Audit Project Manager.

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Background

Over the past several years, with government policy encouraging Aboriginal communities to become increasingly self-governing, DIAND's principal business function has shifted from the direct delivery of services on behalf of Aboriginal People to the funding of First Nations (FNs) and their related organizations who in turn undertake, via funding arrangements, to deliver services to Aboriginal Peoples. DIAND's funding arrangements have also been evolving to keep pace with both the aspirations and capabilities of funding recipients, and to respect changes in principles of accountability to Parliament for the expenditure of public funds.

In 1994, in response to Treasury Board initiatives to strengthen the accountabilities of managers for monitoring performance of third-party delivery of services and programs, the Departmental Audit and Evaluation Branch (DAEB) conducted a Control Self-Assessment (CSA) of DIAND's management of funding arrangements. The CSA included a review of management practices and controls over signed agreements covering 1992-1993 and 1993-1994 funding arrangements at headquarters and all regions of the department. This CSA, the first of its kind in DIAND, found that there was room for improvement in the regional and headquarters management regimes.

In 1997, DAEB undertook a second CSA project to assess funding management practices in the context of the significant changes made to funding arrangements, and to provide a progress report on the implementation of national recommendations made in the 1994 CSA study. The CSA included a review of management control framework and processes covering all types and classes of recipients and funding arrangements which were in place during the year 1995-1996 fiscal year.

Objectives

The key objectives of this review were to:

- develop a control self-assessment methodology for application within Funding Services;
- apply this self-assessment methodology to facilitate self-assessments in headquarters and all Regions regarding the management of their respective funding arrangements; and
- provide an informal independent assessment on implementation of the national recommendations from the 1994 Self-Assessment of Funding Management Process.

Scope

The scope encompassed an examination of the overall funding arrangement management controls at headquarters and in all regions. The data samples were drawn from all classes of recipients and examined every type of funding arrangements which was in place during the 1995-1996 fiscal year. Four specific control elements were examined to determine the effectiveness of overall funding arrangement management and accountability:

- the extent of effective Management Control Frameworks in each region and headquarters;
- the consistent use of standardized terms and conditions in funding arrangements;
- evidence of monitoring for compliance with these terms and conditions; and
- the effective implementation of Remedial Management Plans (RMPs).

Two lines of inquiry were employed: quantitative data summarized from file reviews and qualitative assessments arising from facilitated groups of staff representing regional Funding Services Directorate, Corporate Services Directorate and other program directorates.

General Assessment

Based on DAEB's independent observation of the regional CSA findings, mainly qualitative review results, and our understanding of departmental policies, procedures, practices and controls, our overall conclusions are:

- that the department has developed an effective overall management regime of national funding arrangements policies, procedures, directives, manuals, reporting systems, funding mechanisms and training to support Funding Services management and staff. These elements provide a solid basis for the development of regional management control frameworks (MCFs);
- that the department has made considerable progress in establishing a uniform comprehensive MCFs, including generic funding agreements containing clearly defined terms and conditions and recipient reporting requirements to ensure funds are expended for the purposes intended; and
- however, there are important MCF and related operational issues still to be addressed. While all regions now have a MCF in place, they are not all sufficiently comprehensive, nor are the applications of generic controls consistent across all regions. Concerns regarding regional adjustments to core terms and conditions, and improvement in monitoring recipients for compliance, the use of TPMS Manager as a support and national reporting system, and the application of Remedial Management Plans need to be addressed.

The systemic reasons for the inconsistent development and application of MCFs were not explored or reported on as part of this CSA. Nevertheless, DAEB's analysis indicates:

- each region's environment is different (eg. clients' needs, regional management's experience, FN's and other political considerations, etc.). As a consequence, each region's operational practices have been adapted to meet their environmental needs;
- that the MCFs may not have always been developed by regions with reference to the national parameters standardized by the department's overall management regime; and
- DIAND has been evolving from a direct service provider to a third-party funding agency, but this cultural transition has not yet fully taken root in all areas of regional practices and may not yet be fully integrated into the regional organization structures and work practices of Funding Services staff.

In the current environment of devolution to First Nations, adjusting terms and conditions in national generic agreements may be considered acceptable by the regions to meet the clients' needs. However, customized terms and conditions should be centrally approved and only when they do not contradict the intent of the national generic terms and conditions which were developed to support departmental accountability to Parliament. This principle must be understood by all staff.

It is noteworthy to observe that, despite the large annual dollar volumes disbursed through funding arrangements, the department does not currently have readily available regional management performance data and the report, covering all aspects of funding arrangements management. Without such regular roll-up reporting, senior managements are at a disadvantage in carrying out their overall governance and management responsibilities.

Key Findings

Management Control Framework

A properly communicated and consistently applied Management Control Framework (MCF) ensures that there are adequate controls and related tools to manage recipient performance obligations and accountability. It will also reduce risks to the parties. Transfer Payments Directorate (TPD) has prepared and distributed a two-volume manual entitled "Managing Funding Arrangements" to RCMs responsible for administering funding arrangements. This comprehensive manual contains all the necessary information, ranging from applicable legislation through procedures for monitoring recipient performance to internal reporting using the TPMS Manager database. TPD also provides ongoing training for Funding Services staff.

On the application side, based on the qualitative review results, each region and headquarters Funding Services area first needs to have in place its own MCF. Then, to ensure effectiveness, it needs to support the Funding Services Officers (FSOs) who monitor the implementation and reporting practices of funding recipients.

In contrast to the 1994 CSA findings, each region and headquarters now reports that they have a MCF in place. The regions which reported that their MCF was working well credited their success to the following best practices:

- comprehensive, clear policies, procedures, roles and responsibilities;
- consistent support from management for accountability and risk management practices;
- continuous staff training and reinforcement of the policies and procedures; and
- use of an effective regional database system to assist with monitoring and managing the funding arrangements.

However, it was also noted that:

- there were differences between regional MCFs' comprehensiveness;
- management control elements were not always fully implemented by some staff; and
- the primary rationales offered for less effective MCFs implementation were time pressures, poor communications, inadequate training, and insufficient support.

Terms and Conditions for Funding Arrangements

All regions agreed that the national generic model agreements with their associated terms and conditions, updated annually by TPD, are constructive control measures and are important elements of each of the regional MCFs.

This CSA indicated that in practice, the most effective agreements were based upon the national generic models. Supplementary terms and conditions which don't prejudice the core terms and conditions were reported as effective in encouraging First Nations to take on more responsibility for efficient management and delivery of services included in an agreement. Also, it supports the ministerial accountability for the use of public funds.

When it came to updating funding agreements to incorporate new national generic terms and conditions, the regions reported that the most effective results were realized when a region ensured that:

- the modifications were negotiated with recipients as "partners" to the process;
- issues and concerns identified in FN annual audits were tabled and addressed; and
- lessons learned from RMP experiences were incorporated.

From a regional perspective, it was observed that the effectiveness of the national generic terms and conditions as a control measure was hindered when updates were received from headquarters after the agreement negotiation process had already begun with First Nations. Regional perceptions of elaborate or irrelevant reporting requirements were also seen to diminish their effectiveness. From the TPD perspective, regional adjustments that contradicted the core terms and conditions or that affected Treasury Board requirements were seen as a major concern needing attention.

Monitoring for Compliance with the Funding Arrangements' Terms and Conditions

The monitoring for compliance with the terms and conditions ensures that recipients can be held accountable for variances in their actual results compared with intended objectives as stated in funding arrangements. This in turn permits DIAND to better account to Parliament. The regions which reported an effective monitoring for compliance system in place, cited the following contributing best practices:

- development of regional policies and procedures to improve compliance monitoring;
- training of staff in compliance monitoring procedures;
- use of electronic data transfer reporting by recipients to DIAND;
- development of a rapport with recipients so that regular monitoring phone calls and on-site visits are seen as a natural part of the DIAND/FN business relationship;
- use of databases and filing systems to systematically manage the monitoring process; and
- monthly reconciliations of recipient reporting, staff monitoring reports, database files, and TPMS Manager triggering the authorization and release of subsequent payments.

Confirmation of compliance with specific terms and conditions, along with a broader assessment of a recipient's progress toward achieving the overall agreement objectives, definitely improves a region's ability to effectively manage its portfolio of funding agreements.

However, in some regions, the CSA found monitoring for compliance was not consistently done. This may be a factor contributing to unsatisfactory service delivery and/or performance reporting by some recipients. As a result, the Crown's exposure to liability could be increased where there is weak or inconsistent monitoring by DIAND staff.

The qualitative self-assessment process identified four other issues that are seen to hinder effective monitoring for compliance with the terms and conditions of the agreements:

- in some instances measurable performance indicators were not clearly defined in the funding arrangements, making both recipient reporting and monitoring imprecise;
- inconsistent follow-up of qualified audit opinions and negative compliance reports;
- payment authorizations were not always linked to satisfactory compliance reports; and
- limited regional quality control assessments of the process of monitoring for compliance.

The regions' use of TPMS Manager as an internal administrative control mechanism to support monitoring for compliance was limited due to widespread regional perceptions that the system is too cumbersome. However, most regions consider that the system has some potential to be a useful tool if it can be upgraded to provide value to them as well as to the Transfer Payments Directorate.

Remedial Management Plans (RMPs)

RMPs are initiated when a recipient demonstrates a serious and prolonged inability to independently manage and deliver services within the parameters of their funding agreement.

The regions which reported satisfaction with the effectiveness of their RMP processes cited the following best practices as contributing factors:

- a partnership approach between DIAND staff and the First Nation after initially identifying problems in order to jointly develop, approve and implement an RMP;
- the development of a dedicated RMP unit within the region to work with First Nations;
- increased efforts to enhance financial management capabilities in First Nations including the provision of financial management training to First Nation officials;
- documentation of the "lessons learned" from previous RMP situations for internal reference when managing a new RMP situation; and
- ensuring that a region's management of the RMP process included detailed procedures for the receipt, review, approval and pro-active follow-up monitoring of RMPs.

However, some of the qualitative CSA participants expressed concerns that the RMP process was often triggered only after a recipient's financial problems that had already gotten out of hand. These groups also generally agreed that a more pro-active preventive approach could decrease the number of and severity of RMPs. In turn, this would benefit the department and the recipient for the following reasons:

- early detection of potentially serious problems could minimize liabilities and damages;
- after successful early problem intervention and resolution, recipients would have enhanced financial management competencies, and
- partnerships could be reinforced before problems escalated and confrontations occurred.

Progress on the 1994 CSA Recommendations

The 1994 CSA of funding arrangements made seven national recommendations (summarized in Section 5 "Progress on the 1994 CSA Recommendations"). Progress has been made in each of the seven areas. Most significantly, a management control framework has been developed and is in place in each region. However, there is room for improvement of the MCFs in most of the regions. The four most significant issues raised by both the 1994 and the current CSA are:

- weaknesses remain in the comprehensiveness of controls and monitoring procedures;
- recipient reporting requirements need to be more precise and streamlined;
- system improvements are required for TPMS Manager to realize its potential; and
- enhanced control and monitoring improvements are needed in the RMP process.

1997 CSA Regional Action Plans

In addition to their qualitative and quantitative summary reports, all regions and the NCR have provided their corrective action plans for addressing significant issues identified through their CSA reviews. These action plans confirm the commitment to improve their Management Control Frameworks and to strengthen their accountability. The highlights of their action plans are summarized below:

- improve the lines of communications and partnerships with First Nations;
- develop or enhance regional policy and guidelines to strengthen monitoring of RMP processes to ensure that they are effectively implemented and working;
- finalize a comprehensive Management and Accountability Assessment document; and
- review and improve the reporting requirements in order to improve results measurement.

Key Recommendations

1. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services should establish a time frame and work plan for an in-depth review of each of the key components of the overall corporate management regime and the regional MCFs, using a recently completed enhanced self-assessment questionnaire; and
2. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services should then present to the Assistant Deputy Minister, Corporate Services a report with recommendations for strategic improvements to be made to DIAND's corporate management regime and regions' MCFs.
3. Following acceptance of the recommendations, a presentation should be made to Senior Management Committee by the Assistant Deputy Minister, Corporate Services, to further assure funding arrangements management responsibilities of sectoral and regional management regimes.

Section 1 - Introduction

Background

The purpose of this review was to provide senior management with a comprehensive control self-assessment of the Department of Indian Affairs and Northern Development's (DIAND) funding arrangements management practices and controls. Also, it provides a progress report on the improvements made over the two years following the first DIAND self-assessment of the funding management process.

The major business function of DIAND has evolved from the delivery of services by departmental staff to the funding of First Nations who deliver these devolved services. To meet this different role, the department has established Funding Services Directorates in all of its regional offices. These directorates employ funding services officers, who provide advisory services in support of First Nations as they undertake delivery of devolved programs and services directly to their community members.

The areas responsible for the funding management function are the Transfer Payments Directorate (TPD) at headquarters and the Funding Services Directorates in the regions. An important responsibility of these areas includes the accountability linkage, since DIAND's Minister remains accountable to Parliament for the funds expended to deliver services.

DIAND has developed several different types of funding arrangements to permit the transfer of funds with associated, progressively increasing, program delivery and management control delegated to First Nations.

The 1994 Self-Assessment of Funding Management was the first of its kind in DIAND. It found that there was room for improvement in the regional and headquarters management regimes associated with funding First Nations and in the effectiveness of remedial action plans.

Given the evolving nature of the funding instruments, and the magnitude of the funds involved across all regions, the 1997 CSA project developed a self-assessment tool used by Funding Services and Finance managers to assess regional processes and management regimes. It provided "quality" guideposts to assist Funding Services staff to perform their daily functions. Also, it was developed with a view to possible transfer of this self-assessment tool to First Nations as they move towards a self-government.

Objectives

The objectives of this review were to:

- develop a control and risk self-assessment methodology for broad application within Funding Services;
- use this self-assessment methodology to facilitate an actual self-assessment of the adequacy and effectiveness of policies, practices and controls pertaining to the management of funding arrangements during the 1995-1996 fiscal year;
- provide an informal independent assessment of the extent of implementation of the national recommendations from the Self-Assessment Report on funding management process, which was based on data from the 1993-1994 fiscal year; and
- identify appropriate Transfer Payment Management System (TPMS) and TPMS Manager quality services benchmarks and to assess the extent to which service standards are being met.

Scope

The scope of the control self-assessment and follow-up included the review of the current management framework including policies, practices and controls over managing funding arrangements at headquarters and in all regions of the department. The scope of the self-assessment methodology tool covered all types of funding arrangements, including the evolving Financial Transfer Arrangements (FTA). The data samples covered all classes of recipients and examined all types of funding arrangements in place during the 1995-1996 fiscal year.

Four specific control elements were examined to determine the effectiveness of overall funding arrangement management and accountability:

- the extent of effective Management Control Frameworks in each region and NCR;
- the consistent use of standardized terms and conditions in funding arrangements;
- evidence of monitoring for compliance with these terms and conditions; and
- the effective implementation of Remedial Management Plans (RMPs).

Approach

This project was carried out in conjunction with a steering committee representing TPD and selected regions' Funding Services staff. Each region and TPD designated a contact person, and an alternate, who coordinated data collection and assessment during the self-assessment phase. An orientation session was held for regional and headquarters contact people prior to the collection of data. Regular conference calls were used to report on progress, identify issues and resolve difficulties as the project proceeded.

Methodology

Regional Input to the Self-assessment Control Model

A Self-Assessment Control Framework was submitted to the regions for review and input. The regions reviewed the controls set out in the Managing Funding Arrangements Handbook against regional practices. A number of regions responded by providing brief information to DAEB. This information was used to assess the use and application of existing controls at the regional level and to develop a questionnaire for use in the facilitated workshops.

Sample Selection

A statistical sample of 20% of files was selected from the total population of all classes of recipients and all types of funding arrangements in place during the fiscal year 1995-1996. The sources for these sample files were:

- the TPMS 5025 Report, for the review of funding arrangements with First Nation recipients and non-First Nation recipients; and
- a preselected sample of files, for the review of the Remedial Action Plans and controls for First Nation recipients.

Recipient File Review Program

As stated above, the CSA included the review of a random sample of funding arrangement files by recipients. A standard review program was used by all regions in the analysis of sampled files to ensure consistency in approach and reporting the results. The review of recipient files was summarized in a standard format to ensure department-wide consistency in reporting. As discussed later in the Data Limitations section, there are some concerns regarding the reliability and comparability of the data from the file review. These concerns resulted from file review questions that were later found to be open to broader interpretation than was originally intended.

Facilitated Workshops

The CSA included the review of qualitative information through facilitated workshops with the regional funding services, finance and operational management. For the conduct of facilitated workshops, a CSA questionnaire was developed and used to ensure consistency in all regions; and to provide a template and guidance to the designated regional CSA coordinator leading the workshop.

The questions covered the effectiveness of existing processes, and a determination of the appropriateness of accountability regimes in place. The facilitated workshop questionnaire furnished broad questions intended to provoke discussion of the controls and related risks, as well as of the need for improvement in the internal formal and informal controls.

Training for CSA Workshop

Following the development of the above noted CSA tools, and prior to starting the CSA and data collection process, a training program was conducted on April 17 and 18, 1997, where the elements of CSA and the process to self-assess the regional quantitative and qualitative information was presented to the CSA Project Coordinators.

Reporting Strategy

Based upon the two methods of data collection and assessment (i.e., facilitated workshops and the file review program) which were conducted during the months of April through July 1997, each of the nine regions and the NCR reported their CSA findings and conclusions in three standardized formats:

- a summary of the highlights from their facilitated workshops;
- a quantitative summary of the file review program; and
- a summary report of the regional findings and their action plans.

This report is, in effect, a selective aggregate of the nationally significant highlights from individual reports, approved and signed-off by the Regional Directors General. It offers some insight into broad trends by comparing observations from 1997 with those observed in 1994. It also consolidates common control improvement issues and key best practices reported on or suggested by CSA participants in the regions and the NCR.

Data Limitations

At the end of the respondent reporting phase, the CSA Steering Committee and DAEB determined that data collected from the regional file reviews contained a number of inconsistencies due, in part, to an unintended lack of precision in the review tasks and questions, particularly in the file review questionnaire.

Two steps were taken to address this weakness before drafting this report. First, the data reported in a respondent's quantitative file review was compared against their qualitative facilitated workshop reported regional findings, and only data that was consistent were used. Secondly, the CSA team, in conjunction with regional representatives, reviewed each of the tasks and questions to determine which ones could have produced inconsistent or irrelevant results. Subsequently, the data from these tasks and questions were either confirmed, or rejected as unreliable. As a result, only data that was confirmed as consistent was used to summarize in this report.

To avoid data collection reliability problems when conducting future control self-assessments, work was undertaken by DAEB to revise and improve the data collection instrument to be used for regional file reviews. This has now been completed. For more information, please refer to the section on Lessons Learned.

Section 2 - Detailed Findings and Recommendations

Management Control Framework

Transfer Payments Directorate (TPD) has prepared and distributed a two-volume manual entitled “Managing Funding Arrangements” to RCMs responsible for administering funding arrangements. This comprehensive manual contains all the information necessary to manage funding arrangements, ranging from the applicable legislation, central agency and departmental policies, procedures, directives and manuals related to funding arrangement management, various funding arrangements and their related funding authorities, TPMS and TPMS Manager system documents, and the Year End Reporting Handbook. This corporate management regime provides DIAND’s regional Funding Services with a comprehensive foundation on which to build their regional Management Control Frameworks (MCFs) for efficient and effective management of their portfolios of funding arrangements.

Regional Observations

Each region confirmed that they had their own MCF, adapted from the corporate management regime, in place. However, the assessment of the data showed that there were considerable differences among regions in the comprehensiveness and implementation of their MCFs. Although the elements of each region's MCF varied, the following three common elements were documented and universally in place:

- nationally produced manuals and handbooks (with some regional interpretations or supplementary documents), national guidelines detailing departmental, regional and program specific policies plus regional procedures for their implementation;
- the annually updated national generic model funding arrangements terms and conditions (sometimes modified regionally); and
- instructions for the use of TPMS Manager and/or other regionally developed databases to assist with the monitoring and overall management of the funding arrangements.

It was observed that even where a comprehensive MCF was in place, a number of control requirements were not always followed in practice. It was also acknowledged by some regions that there was a lack of awareness of the fundamental rationale behind the national management regime, weak compliance with control and risk management principles, as well as inconsistent compliance monitoring.

The study found that despite regional MCFs being in place, this did not always result in effective management of funding arrangements in practice. The principal rationales given for this included FSO work loads, time constraints, inadequate training, differing levels of management support and less than effective internal communication.

Best Practices

Those regions which indicated their MCF was working well credited their success to the following factors:

- clearly established policies and procedures including clear roles and responsibilities;
- consistent support from senior management for the policies and procedures;
- increased staff awareness through improved internal communication and training on the policies and procedures; and
- development and use of an effective regional database system to assist with monitoring and support the management of funding arrangements.

In conclusion, while national and regional policies, procedures, directives, manuals and systems are in place, the regions reported that there were variances in the implementation of their MCFs. They also reported differing awareness of the need for the key management controls. Where MCFs were reported as effective, there was clear support from management, and use of an effective database system to support FSOs and monitor compliance with the management controls.

Questions Requiring Further Examination

The management of funding arrangements is now the major business function of the department. Given that the corporate management regime manuals have become the key management control tool for delivery of services to First Nation members via funding arrangements, the regional comments regarding the comprehensiveness, divergence and implementation of their respective MCFs have raised some important questions that should be the subject of further management examination. Further work may be required to examine the following issues:

- Given several years experience with the corporate management regime and with the national generic funding arrangement models, and with the results from the 1994 and 1997 CSAs providing evidence of divergence between the MCFs and actual regional practices, it may now be time to review the strategic balance between uniform national controls and variable regional approaches. When there are considerable diversities in the regional MCFs, there are risks that the funding arrangements for all recipients are not being managed consistently and that uniform levels of services to First Nation members may not be achieved. With the adoption of DIAND's Operational Guidelines for the Management of Risk, it would be appropriate to conduct a global risk assessment of the current flexible approach to MCFs.

- As the evolution of DIAND's funding arrangements move towards a more global funding basis for some First Nations, the national generic models and their associated terms and conditions may need to similarly evolve from a program-by-program approach to a more government-to-government basis. This could alleviate some of the operational concerns that lead to modifications to the national generic terms and conditions to suit the circumstances of particular recipients.

Terms and Conditions

Regional Observations

Updating Agreements: All regions identified the value of the annually updated national generic agreements and their terms and conditions as essential parts of their MCF. Although the regions considered the use of the generic agreements to be a constructive control measure, their effectiveness was seen by regions to be hindered when updates to the terms and conditions were received from headquarters after the agreement renegotiation process had already begun with First Nations. This left them insufficient time to allow for any regional adjustments to the agreements to be made.

Several regions expressed the concern that because of time constraints involved in the negotiation of some agreements, the Crown could be exposed to legal claims from recipients claiming that agreements were signed under duress.

The study found that the process for making adjustments to the national generic agreements varied from region to region and, in some instances, within the region itself. Also the study found that the management approval process for those adjustments varied from region to region and even within regions.

Treasury Board requirements are incorporated into the national generic agreements. However, a major concern is that Treasury Board requirements were not always included in the regional model agreements or in the adjustments made for some recipients. Thus, the process allowing for regional flexibility to amend the national generic agreements, without reference to the underlying Treasury Board requirements, limits the effectiveness of the national generic agreements as a management control and requires national review and appropriate direction.

All regions agreed adjustments or updates to funding agreements needed to be undertaken in the context of an analysis of specific issues arising from annual audits, reviews, monitoring reports and requests from First Nations. Four of the regions reported they include consideration of such issues in the negotiations/update process and that this was appropriate. However in other regions, the process was done only on an ad hoc basis and was not a systematic part of their overall negotiation process.

Reporting Requirements

Five regions expressed concern with some of the reporting requirements included in the terms and conditions of the national generic agreements. Many of the reporting requirements were reported by DIAND and other federal departments as excessive, redundant, outdated, and not reflective of the performance objectives (or the policy encouraging self-government) included in the funding agreements. As a result, considerable effort was devoted by the recipients to satisfy reporting requirements and they in turn raised their concerns with regions.

The regional CSAs also identified that in some instances performance indicators were not clearly defined in the funding arrangement; and therefore, recipient reporting and DIAND assessments of reported results were inconsistent and of limited value. Therefore, within the current devolved environment, the reporting requirements need to be further reviewed and streamlined.

Management Assessments

At the time of this CSA, the management assessments were relatively a new management control practice and were not required for all recipients. Although management assessments had been implemented, the regions reported that their use was not universal. The CSA found that the criteria for determining whether to use management assessments were not clearly defined, nor was there adequate documentation of the decision-making process. Since then, management assessments of all recipients have become mandatory and good progress has been made in conducting these assessments in all regions.

Best Practices

The CSA reported that the most effective agreements were those regional models that were developed from the national generic models. With respect to the update process for the terms and conditions of agreements, the most effective results were realized when the region ensured that the renegotiation/update process incorporated the needs of DIAND, as well as:

- lessons learned from RMP experiences;
- input from funding arrangement recipients, done from a "partnership" perspective; and
- issues and concerns identified by audits and other reports.

Questions requiring Further Examination

The national model agreement provides program-by-program terms and conditions to be used for each program covered by a funding arrangement. Hence, this segregation promotes a program management approach rather than a more global funding agency approach in dealing with the recipients. The department is attempting to ensure that terms and conditions are consistent, so that risks of different performance obligations are reduced and so there is transparency and equity in the funding arrangements used by DIAND. Recent policy direction regarding terms and conditions identifies the need for greater consistency in the application of generic terms and conditions. However, the CSA results as of 1997 have shown that there are substantive differences in the regional terms and conditions, as modifications are made, to reflect regional circumstances.

Further review with respect to terms and conditions is required, particularly to identify appropriate reporting requirements for recipient organizations. It will also be important to ensure that any future adjustments made to generic terms and conditions effectively meet departmental and Treasury Board control requirements.

Monitoring for Compliance

Effective regular monitoring for compliance with the terms and conditions ensures that recipients can be held accountable for variances in their actual results compared with intended objectives as stated in funding arrangements. This in turn permits DIAND to better account to Parliament.

Regional Observations

However, the self-assessment found that the regional processes for monitoring for compliance, even when they were well developed and documented, were not consistently followed in all regions. Some of the regions attempted to compensate for a weak monitoring process with supplemental activities, such as more frequent telephone communications with funding recipients. However, this kind of informal activity still did not ensure that all control aspects of monitoring for compliance were able to be addressed.

As a result, the CSA participants have expressed their concerns and have suggested the following areas where the Crown's exposure to liability may increase in the future, given ineffective compliance monitoring by DIAND. In turn, this may contribute to unsatisfactory delivery of services to First Nation members or inaccurate reporting of performance by the recipients.

- environmental issues in general, and specifically waste and natural resource issues;
- potential mismanagement of funds; and
- inadequate management of remedial funding arrangements by third parties.

Use of TPMS Manager in the Compliance Monitoring Process

TPMS Manager has been developed by Transfer Payments Directorate as the department's systems tool for regional Funding Services to report on recipient compliance with the generic model terms and conditions. However, the reported use of TPMS Manager by regions as a tracking system in the compliance monitoring process was limited. Although none of the regions used TPMS Manager on a consistent basis, most regions reported that TPMS Manager has the potential to be improved into a very useful tool. To compensate for the perceived limited usefulness of TPMS Manager, many regions had developed their own monitoring management system. These compensating systems varied among regions, but included various combinations of manual procedures, checklists and logs, and custom-made database programs (either used as a stand alone program, or re-input manually to TPMS, or electronically transferred to TPMS).

The regional self-assessments identified the following weaknesses related to TPMS Manager:

- perception by users that TPMS Manager is cumbersome, time consuming and its data are unreliable (this would be due in part to inconsistent updating by users);
- inconsistencies between reporting requirements stipulated by funding arrangements and TPMS Manager's data input and reporting capabilities; and
- the lack of readily accessible technical support for users.

Quality Control in the Compliance Monitoring Process

A complete regional MCF should include quality assurance periodic reviews to ensure that designed controls are being adhered to in practice and that risks are identified and managed. However, the study showed that in most regions quality assurance and periodic review required improvements.

The CSA showed that of the ten regions, only four plus the NCR had established quality control processes in place. Of the four regions with established quality control processes, the CSA reported that improvements could be made to the compliance monitoring of reporting requirements. The principal concern expressed by the CSA participants, was that the control process used numerical performance, (ie. the number of reports received from the recipients), to determine "quality assurance" and did not conduct further qualitative reviews on the content of the reports or on the subsequent assessment and follow-up activities. This means that the quality control process may not be focussed on the appropriate controls.

Transfer of Funds to First Nations

The CSA groups reported areas where improvements are needed to the procedures for transferring funds in accordance with the terms and conditions of the funding agreements. They also found that the regional financial controls required improvements to ensure that funds are authorized for transfer only when the recipient has complied with the terms and conditions of the funding arrangement.

Several regions noted that financial controls for the transfer of funds were weakened by inconsistent compliance monitoring systems that did not ensure all instances of a non-compliance were identified and linked to subsequent authorizations to transfer funds. They also reported the occasional practice of undocumented override of normal financial controls by senior management on the basis of strategic or other issues.

Withholding of Funds

Seven of the ten regions had, or were developing, a documented system and criteria for the withholding of funds. The other regions without a documented system used a case by case approach to determine if the withholding of funds was appropriate.

While two of the regions stated that no control improvements were required for the withholding of funds, the majority of the regions felt there could be improvements to the process. A key suggested improvement was for regular reconciliations among the agreements, manual files, TPMS Manager and other data base systems prior to authorization and release of subsequent payments to recipients. It was felt this would ensure improved compliance by recipients with the terms and conditions of the agreements.

Annual Audit Reviews and Compliance Reviews

Although the majority of the regions conducted audit reviews and compliance reviews, not all regions carried out the process for every recipient on an annual basis. The regions noted the following weaknesses with annual audits at the time of the CSA:

- the audits do not necessarily evaluate all the relevant criteria (e.g., non-quantifiable data); and
- the audits were not always received on a timely basis; acknowledged as received; and, reviewed or approved by DIAND.

Despite the above-noted shortcomings, all regions do take some action based on the findings of audit and compliance reviews. These actions have ranged from communication on issues identified to the Chief and Council; withholding of funds; or initiating an RMP process. However, the study showed that effectiveness of these actions was compromised due to weaknesses in the subsequent follow-up monitoring of recipient responses.

Best Practices

Those regions that reported effective systems for monitoring for compliance cited the following contributing factors:

- the development of policies and procedures to improve compliance monitoring;
- the training of staff in compliance monitoring procedures;

- the use of electronic data transfer by recipients to DIAND;
- the development of a rapport with recipients so that monitoring phone calls and personal visits, in addition to reporting, became a natural part of the business relationship;
- the development of regional databases and filing systems (to augment TPMS Manager) to support the monitoring process and make it more manageable and systematic; and
- the use of monthly reconciliations among the agreements, monitoring reports, manual files, TPMS Manager, and other database systems to ensure that funds are released appropriately.

Confirmation of compliance with specific terms and conditions, along with a broader assessment of a recipient's progress toward achieving the overall agreement objectives, definitely improves a region's ability to effectively manage its portfolio of funding agreements.

Questions requiring Further Examination

Terms and Conditions provide guidance for delivery and reporting by recipients, whereas a monitoring process ensures that recipients can be held accountable for their obligations under the agreements. The CSA identified a number of weaknesses related to monitoring for compliance:

- Monitoring for compliance is a departmental priority, but there are weak or inconsistent monitoring practices in some regions. Regional FSOs need to be fully aware of their responsibilities to monitor for compliance to ensure the mitigation of risks to the department. Therefore, the monitoring of funding agreements needs to become a universal core competency of all DIAND Funding Services staff.
- TPMS has been identified as the tool to report compliance against the terms and conditions. Most regions reported that they do not use TPMS as the means of monitoring terms and conditions. In its place, regions used a variety of processes and systems to monitor compliance. Therefore, in order to have a functioning corporate system which is capable of responding quickly and accurately to senior level requests for information, there is a need for:
 - ▶ mechanisms and initiatives to encourage more consistent reporting of regional compliance through TPMS and TPMS manager;
 - ▶ further direction and support for TPMS users;
 - ▶ the department to account for the possible lack of data integrity among the systems, and the probability that the information from the regional 'stand alone' monitoring systems may not be reconcilable with the national information; and

- ▶ enhanced quality control examination of compliance monitoring, as less than 50% of the regions reported that they apply any quality control processes to their compliance monitoring.

The following further work is required to improve monitoring for compliance:

- Evaluate TPMS and to develop modifications so that it can better meet regional needs; and
- Address impediments to effective monitoring such as inadequate awareness or training, work load and time pressures or, inadequate management support and accountability.

In any initiative to improve TPMS, there should be broad based consultation with and involvement of the Funding Services users, as they will be the ones who must take ownership over and effectively implement any system modifications.

Remedial Management Plans

Regional Observations

The RMP framework: RMPs are initiated when a recipient demonstrates a serious and prolonged inability to independently manage and deliver services within the parameters of their funding agreement.

Some regions reported that they had a documented RMP management process that was approved and communicated to recipients. Others noted the RMP management process needed to be more clearly documented and better understood by both staff and recipients.

The most significant control issue regarding the RMP framework as expressed by the CSA groups was that the RMP, once developed and approved, was not effectively monitored for compliance with its specific remedial conditions in order to ensure the achievement of its objectives.

Moving Towards a more Preventive ('Proactive') RMP approach

The regional CSA groups expressed concerns that the RMP process was often triggered only after a recipient's financial or service delivery problems that had already gotten out of hand. These groups generally agreed that a more pro-active preventive approach could decrease the number and severity of RMPs. In turn, this would be of benefit to the department and to the recipient for the following reasons:

- early intervention could prevent or minimize, recipient financial and management problems;

- recipients would be encouraged to be more forward looking, more involved, and therefore more likely to take ownership of the process; and
- the increased involvement of the recipients would provide a lesson learned approach to financial management practices.

Although only one region reported that preventive control measures for RMPs, primarily through the annual audit review and analysis process, were effective in reducing the need for remedial management, three others reported that it was too early to assess their effectiveness. The remaining regions had either not yet attempted to assess effectiveness, or had tried but had been unable to do so, due to resource or time limitations.

Triggers for Remedial Management Intervention

All regions had an approved plan or procedure in place defining the triggers for remedial management intervention. The majority of the regions indicated that their plan included direction to initiate remedial action following detection of any of the following four circumstances:

- when the terms and conditions are not being met consistently;
- when serious financial problems or the risk of insolvency are identified;
- when the recipient's auditor gives a qualified opinion or denial of opinion; and
- when the health, safety, or welfare of the community is at risk.

Recipient Developed RMP Plans

All regions reported that they had an approved and documented process for ensuring the RMP plan was prepared by the affected Council and was in turn approved by DIAND. Furthermore, all regions reported that this process was well communicated to the affected Councils. However, only three regions considered their process to be effective in ensuring that appropriate recipient-developed RMPs were actually received on a timely basis for review and approval by DIAND. The other regions did not consider that their approved and documented process for ensuring the RMP plan be prepared by Council was effective.

The two most significant weaknesses reported by regions were difficulty of getting the affected Councils to take ownership over development (and subsequent implementation) of the RMP; and inadequate post-implementation monitoring of RMPs by Funding Services staff.

Best Practices

Those regions that reported satisfaction with the effectiveness of the RMP process cited the following factors:

- the development of a partnership between regional staff and the First Nation recipients with respect to identifying and understanding the need for developing, accepting, and implementing the RMP;
- the development of a dedicated unit within the region to work with First Nations to further reduce their indebtedness levels;
- increased efforts to enhance the financial management capabilities of the First Nation recipients including prompt communication of audit findings and the provision of financial management education to First Nation recipients;
- documentation of the "lessons learned" from previous RMP situations for reference when developing and managing a new RMP situation; and
- ensuring that the region's monitoring and management of the RMP process included detailed procedures for the receipt, review, approval and follow-up of draft RMP's.

In conclusion, two issues emerged from the CSA reports with respect to RMPs that demonstrate the need for improvements in controls. First, the monitoring and follow-up activities by Funding Services staff needs strengthening in each of the four phases of the RMP life cycle. Thus, while triggers identifying the need for remedial actions are part of all regions' MCFs, there are significant weaknesses in some regions' ability to quickly and effectively respond to these situations. Further, even with a sound RMP developed, approved and in place, when inconsistent or unreliable monitoring of the implementation was reported, the effectiveness of the RMP in improving the situation and assisting the recipient to return to satisfactory performance was hindered.

Secondly, because the imposition of RMPs is generally reported to be a reactive process, following confirmation after-the-fact of serious financial or other concerns, there is an obvious need for a more pro-active preventive approach to detect potential problems earlier and thereby minimize the need for subsequent costly intervention and formal RMPs.

Questions requiring Further Examination

Further review work on all phases of the RMP life cycle is required:

- to evaluate whether there is a need to develop further employee awareness, skills and training to monitor and confirm at every stage of a normal funding arrangement that the recipient's ability to deliver efficient and effective services is not compromised;

- to ensure that more effective monitoring, controls and resources are in place to respond to and support a recipient's remedial action plan;
- to develop an expedient preventive approach to decrease the number of RMPs; and
- to examine how recipients could be educated to be more proactive in detecting their own financial and delivery difficulties, rather than relying upon the Funding Services personnel to identify problems after they had become serious.

As part of its 1998-1999 Plan, DAEB will be undertaking a Review of the Effectiveness of Remedial Action Under Funding Arrangements. This should assist and support sector and regional management in the further work proposed above.

Recommendations

Further to the CSA reports by nine regions and NCR Funding Services, and given the common issues that arise from examination of the four elements of the funding management process that were examined, the following recommendations are proposed for DAEC consideration:

1. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services, should establish a time frame and work plan for an in-depth review of each of the key components of the overall corporate management regime and the regional MCFs, using a recently completed enhanced self-assessment questionnaire.
2. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services, should then present to the Assistant Deputy Minister, Corporate Services a report with recommendations for strategic improvements to be made to DIAND's corporate management regime and regions' MCFs.
3. Following acceptance of the recommendations, a presentation should be made to Senior Management Committee by the Assistant Deputy Minister, Corporate Services, to further assure funding arrangements management responsibilities of sectoral and regional management regimes.

Section 3 - Progress on the 1994 CSA Recommendations

Seven national recommendations resulted from the 1994 Controlled Self-assessment project (based upon data from the 1993-1994 fiscal year). The following is an assessment of the extent of implementation of those seven recommendations and an Action Plan prepared by the Transfer Payments Directorate as at December 1996 and based upon the information gathered from the regions during this 1997 CSA project. Note that some outstanding issues, although not reflected in the 1997 CSA, may have been addressed between July 1997 and the date of this report.

1. **Recommendation:** That a comprehensive management regime for all funding arrangements in all regions involved in funding management be developed to ensure a common set of management controls and procedures are in place.

Follow-up status as at July 1997, based on DAEB's Follow-up System: The Transfer Payments Directorate has enhanced and where required, has developed a new set of management controls and procedures for the Funding Management Process. These are detailed in the Corporate Systems Manual, Part 5: Transfer Payments, Chapters 5.1 to 5.14 covering Alternative Funding Arrangement Entry Assessment, Cash Management for Transfer Payments, Monitoring of Compliance, Remedial Action to Funding Arrangements Credit and Indebtedness. These funding management controls and procedures are provided to the regional management to strengthen their Funding Management Regimes.

Progress as at July 1997, based on 1997 CSA: The 1997 CSA project showed each region has established a Management Control Framework based upon the national Management Regime. However, the comprehensiveness of each framework and the consistency of usage varied from region to region. But clearly, the recommendation that a comprehensive management regime be developed is being implemented.

2. **Recommendation:** That a system be developed, with respect to adjustments to funding arrangements, to monitor the number of adjustments, minimize the number of adjustments, and to ensure that performance standards and criteria are established for those amendments.

Follow-up status as at July 1997, based on DAEB's Follow-up System: New screens and "Impromptu" reports have been developed and implemented in the TPMS Manager to track and report on the number of amendments.

Progress as at July 1997, based on 1997 CSA: The 1997 CSA reiterated the need to further streamline the funding arrangements. However, taking full advantage of the new reporting tool would assist in monitoring and ensuing minimization of a number adjustments.

3. **Recommendation:** That the current reporting requirements be analysed with a view to streamlining all funding arrangements reporting requirements and that an action plan be developed for improving recipients' compliance to the reporting requirements of all funding arrangements.

Follow-up status as at July 1997, based on DAEB's Follow-up System: The review of departmental information needs for all arrangements type, through the Information Management Framework (IMF) which linked the reporting requirements back to the business needs, has been carried out and communicated to the regions. Furthermore, a Funding Arrangements Program Reporting Guide, which serves as a communications tool between headquarters and regions with regard to information requirements, has been updated to clearly outline existing data reporting requirements and due dates. National Models Agreements of all funding arrangements have been standardized to reflect common terms and conditions and streamlined reporting requirements from recipients. Also, the First Nations Reporting Guide, which outlines data reporting requirements from recipients, has been developed in consultation with the regions and is well received by them.

Progress as at July 1997, based on 1997 CSA: Some progress has been made in these areas. However, the 1997 CSA included comments from the regions regarding the need for additional improvements to reporting requirements. Thus, further work is required in this area.

The 1997 CSA also included comments from the regions regarding continuing concerns with the process for monitoring compliance, as well as the need for improved communications with recipients regarding compliance. Therefore, further work is also required in this area.

4. **Recommendation:** That the lack of use of TPMS Manager be examined, and corrective action taken.

Follow-up status as at July 1997, based on DAEB's Follow-up System: To further enhance TPMS and TPMS Manager, a Joint Application Design (JAD) process was implemented and the TPMS Manager was enhanced to respond to users for tracking audits and remedial actions. It provides improved access to TPMS accountability information to the regional management. This has been supplemented by providing relevant further training to the regional funding service officers.

Progress as at July 1997, based on 1997 CSA: It was noted that some progress has been made in this regard. However, the findings of the 1997 CSA demonstrate that this issue has not been addressed to the satisfaction of either the regions or TPD.

5. **Recommendation:** That departmental procedures be developed to address the late receipt and review of audited financial statements.

Follow-up status as at July 1997, based on DAEB's Follow-up System: The Transfer Payments Directorate has developed a national policy and a tracking and reporting system for the recipient audits. For securing and reviewing the recipients' audited financial statements on a timely basis, appropriate directives have been developed and provided to regions for the establishment of regional management regimes.

Progress as at July 1997, based on 1997 CSA: Some progress has been made in this regard. However, the findings of the 1997 CSA continue to identify inadequate monitoring of the receipt of audited reports; a lack of properly trained personnel to review the reports; and, the inconsistency in following-up on identified concerns. Continued efforts are required in this regard.

6. **Recommendation:** That TPMS operational difficulties be fixed so the Regions can use it as a tool to monitor compliance. That the TPMS Manager Manual be updated.

Follow-up status as at July 1997, based on DAEB's Follow-up System: The Transfer Payments Directorate had initiated a Joint Application Design (JAD) process to further enhance TPMS and TPMS Manager. A new version of TPMS on line has been developed and is in place with an updated TPMS procedure manual.

Progress as at July 1997, based on 1997 CSA: The findings of the 1997 CSA indicate that the progress made in this area does not seem to be sufficient to ease TPMS operational difficulties.

7. **Recommendation:** In order to ensure the continued delivery of essential services, an alternative approach be developed to improve the effectiveness of the recipients' remedial action plans.

Follow-up status as at July 1997, based on DAEB's Follow-up System: The Remedial Management provisions in all model funding arrangements were enhanced to address timeliness and clarity related concerns expressed by DIAND and Justice Canada. The 1984 Band Indebtedness Policy has been revised and updated. Furthermore, the Remedial Management Plan (RMP) related training course has been developed and provided to all regional FSOs and a number of First Nations' representatives. The training course was well received and had attained an excellent evaluation rating from the participants.

Progress as at July 1997, based on 1997 CSA: Some progress has been made in this regard. However, the findings of the 1997 CSA show that weaknesses remain with the Regions' ability to obtain completed and meaningful RMP's from recipients on a timely basis. The inevitable political issues and recipients' reluctance to take ownership of the situation, appear to be recurring issues. In addition, there is a need for more training at the recipients' level.

Section 4 - Lessons Learned

The conduct of the 1997 CSA produced comments from the regional and NCR participants regarding lessons learned and how conduct of any future CSA could be improved. Below, a number of these comments from the regional self-assessment coordinators and members of the Steering Committee are summarized.

What went well

The CSA Steering Committee, comprising regional and headquarters personnel, was a major strength to the project. The Steering Committee provided insight and assistance throughout the process, and acted as a resource for both operational issues and self-assessment methodology. The Committee conducted regularly scheduled conference calls, which helped ensure the ongoing involvement of the regions, and acted as a regular update on progress. The regional staff involved and the steering committee members commented that the communication of CSA project issues and progress was effective, particularly during the planning and implementation phases.

The use of a rigorous and logical approach to the CSA was a second strength. The CSA followed a thorough, disciplined approach to the collection and analysis of data from file reviews and from self-assessment workshops. The data collection process provided a unique and detailed focus on the adequacy of controls and the levels of risk associated with DIAND's funding arrangements.

Although regions commented that the file review component of the CSA was an exhaustive exercise, it did provide regional personnel with an excellent opportunity to review the file contents against the filing and reporting requirements contained in the MCFs. Also, it gave regional personnel an opportunity to review the effectiveness of regional policies, practices and procedures.

Given the realities of operational responsibilities, the amount of DIAND staff time available to the project was limited. Therefore, the following time saving methods were used by DIAND personnel:

- all the Regional Self-Assessment Project Coordinators were given pre-project training in file review and workshop facilitation to provide an "in-house" resource for the study;
- a National workshop covering the goals and objectives of the study, risk and control self-assessment techniques, using the file review program and completing the regional reports was viewed by the regions as well planned and executed;

- the use of experienced external consultants to facilitate and provide advice throughout the self-assessment process;
- ensuring the availability of trained back-up coordinators within each region; and
- obtaining regional management commitment to the process through regular communications (thereby increasing the likelihood of regional staff availability).

What did not go well

The planning phase of the project took longer than scheduled. The primary reason for the delay was the potential conflict with the start of the project with regional fiscal year-end operational requirements and other regional resource demands.

There was insufficient time available for members of the Steering Committee to review last minute changes from TPD to the draft versions of the File Review Program. This lack of time for review and testing contributed to several problems with the File Review Program. For example, some of the program tasks and questions proved later to have been irrelevant or not sufficiently specific, causing confusion for the staff doing the file reviews. This resulted in differing interpretations of the intent of these questions and as a consequence, some reported data and interpretive responses were of limited comparative value.

The regional staff involved in the CSA fieldwork phase found that the File Review Program required too much time to complete for the following reasons:

- the number of questions and the level of detail required to answer them were quite time-consuming;
- because the funding arrangements are segregated on a program-by-program basis, the reports and monitoring documentation had to be tracked down into different program areas such as LTS, rather than being all on one global funding arrangement file;
- the files, even when located, were not always complete and the missing documentation had to be traced;
- the sample size (20% of all recipients) was too large; and
- the scope of issues covered was very broad, thus requiring consultation with large numbers of regional staff.

Considerations for Future CSA Projects

To increase the efficiency and value added of future CSAs the following points should be considered:

- estimate and communicate the amount of time and resources needed at headquarters and in the regions to successfully implement and report on any future CSA;
- develop file review programs that focus on only a few funding management issues and related controls that are of greatest risk. Lower risk issues should not be included;
- the current initiative of refining the self-assessment program should be vetted by regional representatives before it is finalized;
- the CSA focus groups should be conducted by impartial and experienced facilitators;
- develop and test electronic data collection methods, and provide the necessary training to regions in their use;
- measurement tools (i.e., file review programs and workshop questionnaires) should be field tested to ensure validity and accuracy of the tools, and to confirm the amount of time and staff resources that will be required for the conduct of the CSA; and
- include language translation requirements as part of the contract with the CSA facilitators.

Terms of Reference

Terms of Reference

Control Self-Assessments of Funding Arrangements

Background: The major business function of the Department of Indian Affairs and Northern Development (DIAND) has evolved from the delivery of services by departmental staff to the funding of First Nations who deliver these devolved services. To meet this different role, the department has established Funding Services Directorates in all of its regional offices. These directorates employ funding services officers, who provide advisory services in support of First Nations as they undertake delivery of devolved programs and services directly to their community members.

The areas responsible for the funding management function are the Transfer Payments Directorate at headquarters and the Funding Services Directorates in the regions. An important responsibility of these areas includes the accountability linkage, since DIAND's Minister remains accountable to Parliament for the funds expended to deliver services.

DIAND has developed several different types of funding arrangements to permit the transfer of funds with associated, progressively increasing, program delivery and management control delegated to First Nations. See enclosed Appendix - A.

Need: The 1994-1995 Self-Assessment of Funding Management was the first of its kind. It found that there was room for improvement in the regional and headquarters management regimes associated with funding First Nations.

Given the evolving nature of the funding instruments, and the magnitude of the funds involved across all regions, this project will develop a generic self-assessment tool which can be used by Funding Services and Finance managers on an ongoing basis to make improvements to their processes and internal management regimes. It will provide "quality" guideposts to assist Funding Services staff to perform their daily functions. Also, it will be developed with a view to possible transfer of this self-assessment tool to First Nations as they move towards self-government.

Testing this self-assessment will also provide a "progress report" to senior management on the improvements made over the two years following the first Self-Assessment of Funding Management Process.

- Objectives:** The objectives of this review are:
- to develop a control and risk self-assessment methodology for broad application within Funding Services;
 - to use this self-assessment methodology to facilitate an actual self-assessment of the adequacy and effectiveness of policies, practices and controls pertaining to the management of funding arrangements during the 1995-1996 fiscal year;
 - to provide an informal independent assessment of the extent of implementation of the national recommendations from the Self-Assessment Report on funding management process, which was based on data from the 1993-1994 fiscal year; and
 - to identify appropriate TPMS and TPMS Manager quality services benchmarks and to assess the extent to which service standards are being met.

Scope: The scope of the self-assessment methodology tool will cover all types of funding arrangements, including the evolving FTAs.

The scope of the independent self-assessment and follow-up will include the review of the current management framework including policies, practices and controls over managing funding arrangements at headquarters and in all regions of the department. The data samples will cover all classes of recipients and will examine all types of funding arrangements which were in place during the 1995-1996 fiscal year and will address the following:

- what progress has been made in strengthening accountability over the past two years in terms of:
- setting in place management regimes?
- meeting quality standards for financial reporting?
- compliance to program reporting requirements? and
- follow-up to remedial action plan situations?

Approach: This project will be done in conjunction with a steering committee representing Transfer Payments Directorate and selected regions' Funding Services staff.

Each region and TPD will designate a contact person who will coordinate data collection and assessment during the self-assessment phase. An orientation session will be organized for regional and headquarters contact people prior to the collection of data. Regular conference calls will be used to report on progress, identify issues and resolve difficulties as the project proceeds.

Resources: The development of the control and risk self-assessment methodology will be done using contracted expertise. Regional and headquarters Funding Services staff will be involved confirming the methodology and in applying it to gather and analyse data as part of the test self-assessment. Contracted resources will be used for the independent follow-up assessment of recommendations from the 1994 self-assessment. DAEB will manage the overall project.

Products: The products of the assignment will be:

- a) A generic CRSA Methodology for Funding Services, including applicable sample questionnaires, programs and a guide;
- b) Self-Assessment Planning document, including Follow-up Questionnaire, Data Sample Program and detailed Work plan;
- c) A set of working papers, records and data supporting the review questions, documenting the analysis and self-assessment work performed and substantiating the resulting headquarters and regional reports;
- d) A National Self-Assessment Report summarized from the regional and headquarters self-assessments; and
- e) An overall Assessment Report covering follow-up to the 1994-1995 report.

Time Frame: DAEB planning and consultation with regions will commence in October 1996. The project work including completion of a methodology manual and the follow up Assessment Report is expected to be concluded by July, 1997.

Approved by:

Brent DiBartolo
Assistant Deputy Minister
Corporate Services
October 21, 1996

Action Plan

**AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION
REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION**

PROJECT / PROJET : 96/08

PAGE : 1 OF / DE : 1

PROJECT TITLE / TITRE DU PROJET : **Control Self-Assessments of Funding Arrangements**
REGION OR SECTOR / RÉGION OU SECTEUR : **Headquarters**

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION <i>(If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)</i>	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PREVUE DE MISE EN OEUVRE
1. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services should establish a time frame and work plan for an in-depth review of each of the key components of the overall corporate management regime and the regional MCFs, using a recently completed enhanced self-assessment questionnaire.	17	A national working group will be established, led by Transfer Payments Directorate, to review the corporate management regime, co-ordinate strengthening of regional MCFs and implement the use of the generic self-assessment questionnaire as a regional accountability tool.	Director, Transfer Payment Directorate	December 31, 1999
2. The Director, Transfer Payments Directorate, in consultation with the Regional Directors of Funding Services should then present to the Assistant Deputy Minister, Corporate Services a report with recommendations for strategic improvements to be made to DIAND's corporate management regime and regions' MCFs.	17	A presentation will be made by the working group to the ADM Corporate Services with recommendations for improvements to the corporate management regime and regional MCFs.	Director, Transfer Payment Directorate	December 31, 1999
3. Following acceptance of the recommendations, a presentation should be made to Senior Management Committee by the Assistant Deputy Minister, Corporate Services, to further assure funding arrangements management responsibilities of sectoral and regional management regimes.	17	A presentation will be made to Senior Management Committee by the Assistant Deputy Minister, Corporate Services on the recommendations of the working group and the action taken regionally and nationally to ensure funding arrangements management responsibilities of sectoral and regional management regimes.	ADM, Corporate Services	March 31, 2000

Appendix A

Funding Mechanisms and Funding Authorities

Appendix - A

Funding Mechanisms and Funding Authorities

DIAND has developed a spectrum of funding arrangements to permit the transfer of progressively increasing program delivery and administrative control to Indian First Nations.

It is necessary to distinguish between the terms "funding arrangement" and "funding authority". A funding arrangement is the actual contractual document signed between DIAND and the First Nations recipient. The Funding authorities are the rules established by Treasury Board that DIAND must adhere to when funding a given program or service. A funding arrangement may be based upon one or more funding authorities provided to DIAND by the Treasury Board.

The chart below shows the various funding arrangements and their related funding authorities:

<u>Funding Arrangements</u>	<u>Funding Authorities</u>
Contribution Arrangement (CA).	Contribution
Comprehensive Funding Arrangement (CFA) **	Contribution, or Flexible Transfer Payment (FTP), or Grant.
Alternative Funding Arrangement	Alternative Funding Arrangement (AFA) (AFA)
Financial Transfer Agreement (FTA)	Alternative Funding Arrangement (AFA)
Self Government Agreements (SGA)	Grant

(** Each CFA specifies which programs or services are funded as a contribution, FTP or grant).

Funding Arrangements:

DIAND applies the five funding arrangements as follows:

1. Contribution Arrangements (CA): are used to fund programs or projects requiring significant interaction between DIAND and the recipient (e.g. major capital projects).

2. Comprehensive Funding Arrangements (CFA): are the basic funding arrangements used with recipients (also known as a Master Funding Arrangement in certain regions).

3. Alternative Funding Arrangements (AFA): is an optional funding mechanism which qualified recipients may enter into. Each recipient must successfully complete an AFA entry assessment prior to entering into an AFA. The entry assessment is a joint review of the recipient's accountability and management systems.

4. Financial Transfer Agreement (FTA): is a funding mechanism which defines minimum standards for a local accountability framework in order to transfer increased authority to First Nations over programs and funds. Each recipient undergoes an entry assessment and any necessary corrective action becomes a term and condition within their FTA. DIAND will publish an FTA Handbook which will have financial requirements similar to this year end reporting handbook, however, the data and statistical requirements will likely be different.

5. Self Government Agreements (SGA): is a funding mechanism used to fund Self Government recipients. It is only used when the recipient has a legislative base through an Act approved by Parliament.