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**CANADIAN HERITAGE
CORPORATE REVIEW BRANCH**

**AUDIT OF PCH SINGLE RECIPIENT
CONTRIBUTION PROGRAMS
COALITION FOR CULTURAL DIVERSITY**

JUNE 23, 2004

Canada



TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
1.0 INTRODUCTION	1
2.0 OBJECTIVES	2
3.0 SCOPE	3
4.0 APPROACH AND METHODOLOGY	3
5.0 CONCLUSIONS	4
6.0 OBSERVATIONS AND RECOMMENDATIONS	5
6.1 Use of a Single Recipient Contribution Program	5
6.2 Opportunities for Improving the Management of the Program Program Responsibility	6
6.3 Reliability of the Information Used for Decision Making	14
6.4 Effectiveness of Management Controls and the Risk Management Framework	14
6.5 Program Outcomes and Results	20
6.6 Advisability of Join Audits with Other Government Departments	22
Appendix A: Acronyms Used	24



EXECUTIVE SUMMARY

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage (PCH) conducted a single-recipient audit of the Coalition for Cultural Diversity (CCD). The objectives of the audit were to provide PCH program management with information that can be used to improve the management of the program and enhance the Program's success in meeting its objectives; to provide assurance that: information for decision making is reliable; management controls and risk management frameworks of the programs and the recipients are effective; outcomes and results for the programs and the recipients have been identified and are measurable and in support of government objectives; and advice on where joint audits with other government departments might be advisable.

The audit covered the 2001-02 and 2002-03 fiscal years and included the funding agreements in place between PCH and the CCD. PCH provided \$195,650 to the CCD in 2001-02 and \$194,925 in 2002-03. The International Affairs Branch had policy and funding recommendation responsibility and input into both funding agreements. The first agreement was administered by Quebec Region's Montreal office as part of the Community Partnership Program and covered the period from December 1999 to March 2002. The second and current agreement is administered by the Arts Policy Branch through the Arts, Culture and Diversity Program (ACDP) and covers the period from June 2002 to March 2005.

The International Relations and Policy Development (IRPD) directorate has responsibility for managing the Cultural Diversity Policy and responsibility for recommending funding for the CCD. Funding and program administration is the responsibility of the Arts Policy Branch. Over the last four years, IRPD has partnered with the Citizenship and Heritage and the Cultural Affairs sectors to carry out administrative aspects of the work. Under both these arrangements, issues relating to program fit and accountability were noted by the audit team. This point is emphasized by the finding that while the CCD's planned activities are consistent with the ACDP, its primary objective is tightly focussed on strengthening the cultural sector and therefore most strongly linked to one of the four expected results and outcomes of the ACDP as set out in the program's terms and conditions.

The IRPD is planning to develop a Memorandum of Understanding (MOU) with the Arts Policy Branch to clarify roles and responsibilities with respect to this funding arrangement. This should streamline the work of the two branches and more clearly define responsibilities and accountabilities. Notwithstanding the MOU, the administration of a contribution agreement will be less efficient than if one branch has program and administrative responsibility.



For the audit scope period, program activity reporting provided to PCH appeared to be reliable and followed the CCD's workplan. Activities reported were for the most part measurable and quantifiable and improvements were made to information to bring activities closer in line to the requirements of the contribution agreement. Monitoring and feedback processes were in place and effective. The Integrated Results-based Management Accountability Framework/Risk Based Audit Framework (RMAF/RBAF) prepared for the CCD component of the ACDP does not set out performance indicators, expected results and outcomes that support the collection of data on an ongoing basis, which would provide PCH management with information on the progress being made by the CCD in achieving desired outcomes. Reports provide no information on results achieved.

Program terms and conditions for the period April 1, 2002 to March 31, 2005 allow PCH to provide the CCD with a total advance of \$135,000 per year during the last two years of the agreement. Part of these advances (\$45,000) is made on the portion of the contribution that is matching private sector funds. Such advances are incompatible with the requirements of the Treasury Board *Policy on Transfer Payments*. Advance payments to the CCD are permitted under the terms and conditions. There is, however no requirement for CCD to demonstrate that funds are needed to meet immediate cash flow requirements, or to show how earlier payments have been spent by the CCD up to that point in the year.

Overall, the CCD was found to have a good system of management controls. In addition, the CCD has a well-structured Board and membership, clearly articulated in its bylaws. Minutes of the Board meetings indicate that the CCD's Board is active and is involved in the planning and development of long-term strategies for the CCD and approves the annual budget and activity plan.



1.0 INTRODUCTION

As a result of a department-wide risk assessment, the 2002-2003 audit plan of the Assurance Services Directorate, Corporate Review Branch (CRB)¹ of the Department of Canadian Heritage (PCH) identified a requirement to conduct an audit of the six single recipient programs in the Department.

One of these programs was the Canadian Conference of the Arts Program (CCAP). In June 2002, the CCAP program was broadened and the Coalition for Cultural Diversity (CCD) became the second recipient (along with the original recipient, the Canadian Conference of the Arts) in the renamed Arts, Culture and Diversity Program (ACDP). It was agreed at the time that, given its nature, it should form part of the single recipient audit and was included in the 2003-04 Audit and Evaluation Plan.

CCD membership is comprised of 32 associations that represent creators, artists, independent producers, broadcasters, distributors and publishers working in the fields of publishing, film, television, music, performing arts and visual arts. It was created in response to concern with the proposed treatment of cultural expression under the terms of a Multilateral Agreement on Investment. Its key role is that of an advocate of international trade commitments that respect the right of countries and governments to adopt the policies necessary to support cultural diversity. PCH provided CCD with \$195,650 in 2001-2002 and \$194,925 in 2002-2003 to support CCD activities.

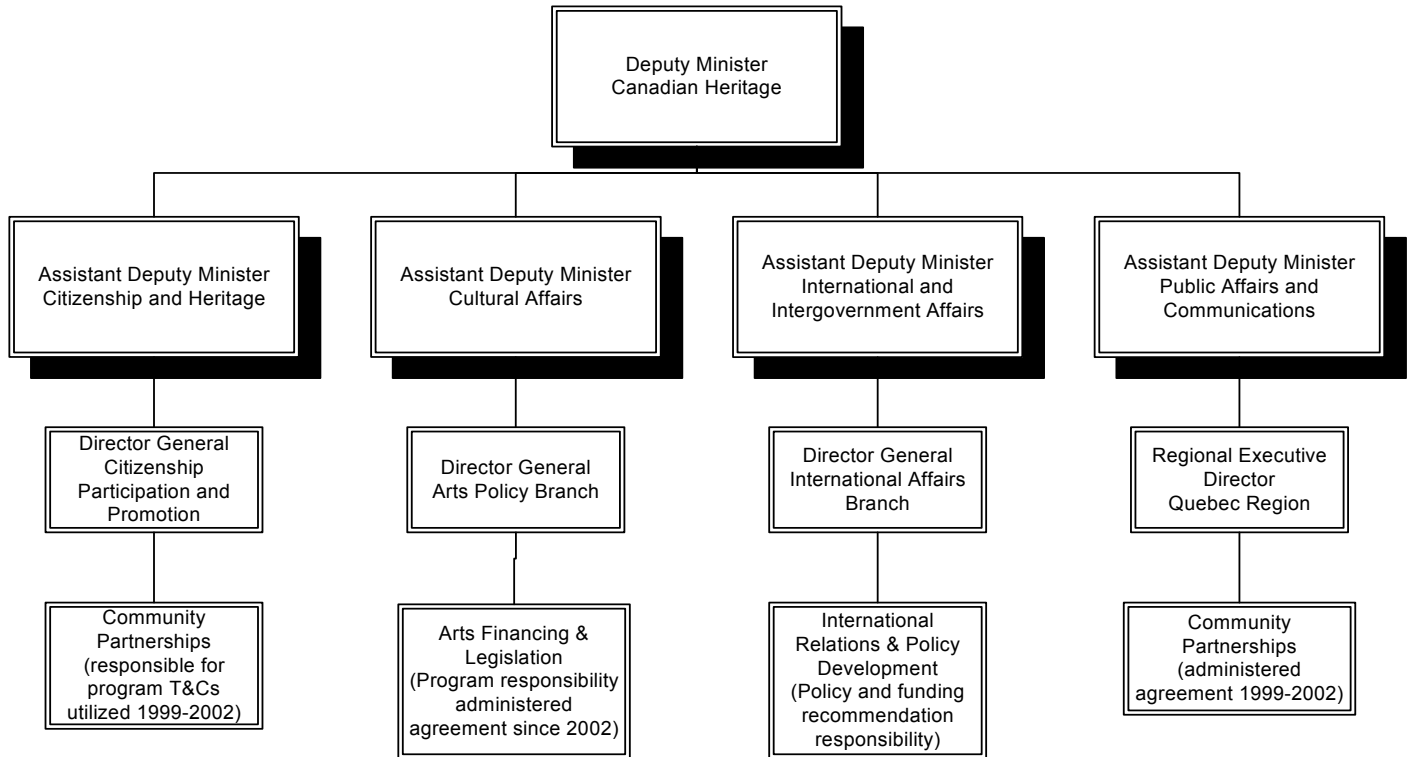
Prior to its inclusion in the ACDP, the CCD was funded, from 1999 to 2002, through an agreement administered by staff responsible for the Community Partnership Program in the Montreal office of PCH's Quebec Region. The ACD Program is now co-managed by two PCH Directorates:

- Administrative responsibility and authority for the current agreement with the CCD rests with the Arts Policy Branch of the Cultural Affairs Sector. The Arts Policy Branch has program funding authority (Refer to Figure 1 on page 2 for an illustration of the different organizational units within PCH involved in some capacity with the agreements with the CCD.)
- The International Relations and Policy Development Directorate (IRPD) of the International Affairs Branch has had program responsibility for both agreements in terms of policy management and recommendations for funding, but does not have program authority.

¹A list of the acronyms used in this report is provided in Appendix A, *Acronyms Used*.



Figure 1: Responsibility Within PCH for the Agreement with CCD Since 1999



PCH provided the CCD with \$100,000 in grant funding for 1999-2001, and up to another \$100,000 in matched funds raised by the CCD through memberships. For the 2002-2005 agreement, PCH funding was provided in the form of a contribution.

2.0 OBJECTIVES

The objectives of the audit were to provide Departmental senior management with:

- information on the criteria used for selection and determination of CCD’s single recipient program and its compliance with the intent of the transfer payment programs;
- information that can be used to improve the management of the program and enhance the Department’s success in meeting its objectives;
- assurance that information for decision-making is reliable;
- assurance that management controls and risk management frameworks of the

- program and the recipient are effective;
- assurance that outcomes and results for the programs and for the recipients have been identified and are measurable and that these outcomes and results are in support of government objectives; and
- advice on where joint audits with other government departments might be advisable.

Areas that were addressed included:

- the extent to which the **program design and implementation** reflected the intent of the Treasury Board (TB) *Policy on Transfer Payments* and the objectives of PCH.
- the strengths of the **program processes** and to provide recommendations for improvement; and
- the **recipient's control and governance framework** and provide recommendations for improvement.

3.0 SCOPE

The audit covered the 2001-2002 and 2002-2003 fiscal years. This time period included both funding arrangements that were in place between PCH and the CCD. The International Affairs Branch had policy and funding recommendation responsibility and input in both of the funding agreements. The first agreement was administered as part of the Community Partnerships Program by Quebec Region's Montreal Office and covered the period from December 1999 to March 2002. The second and current funding arrangement is administered by the Arts Policy Branch through the Arts, Culture and Diversity Program and covers the period from June 2002 to March 2005. The audit was conducted in the summer, 2003.

4.0 APPROACH AND METHODOLOGY

Audit criteria were based on:

- the requirements of the 1996 and June 2000 TB *Policy on Transfer Payments*²;

²The revised policy was effective June 1, 2000. It replaced the Policy dated October 15, 1996 and the Policy on Repayable Contributions. The approved terms and conditions for existing transfer payment programs continue to apply until the earlier of their expiry date or March 31, 2005. An Information Notice issued by TBS



- the approved terms and conditions for the contribution;
- the funding agreements between Canadian Heritage and the recipient;
- attributes of a well managed contribution program as defined in the Auditor General of Canada's 1998 Report, Chapter 27, *Grants and Contributions*. The attributes are:
 - selection of the appropriate funding mechanism;
 - program management at all levels can explain how recipients are expected to benefit from funding;
 - program officers understand who is eligible for funding, under what conditions, for what purposes, and in what amounts;
 - potential applicants are aware of the program;
 - projects make sense for the applicant to carry out and for the program to fund;
 - more deserving projects are funded at an appropriate level;
 - funding is used for the purposes agreed;
 - problems with project and program performance are resolved quickly;
 - management reporting demonstrates a good knowledge of program performance; and
 - money owed to the government is collected.

Specific audit activities included:

- a review of the documentation that authorized the original funding agreement between PCH and the CCD in 1999;
- a review of the funding arrangements between PCH and CCD for 1999-2002 (grant letter signed by the Minister) and 2002-05 (contribution agreement);
- a review of internal approval documents and briefing notes associated with the grant letter and the contribution agreement;
- a review of financial reports, budget submissions and activity reports submitted to PCH by CCD during the period of the two agreements;
- a review of the CCD's financial system and records for the two fiscal years 2001-2002 and 2002-2003;
- interviews with staff of the CCD and review of CCD corporate information;
- a review of Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Frameworks (RBAF) for the contribution agreement in effect for 2002- 2003; and
- discussions with program management involved in the administration of the

June 1, 2000 indicated that only transfer payment agreements signed after August 31, 2000 had to reflect the changes in the policy.

agreement in the Montreal Regional Office, International Affairs Branch (IAB) and Arts Policy Branch (APB).

5.0 CONCLUSIONS

The audit was conducted in accordance with the requirements set out in the TB *Policy on Internal Audit*. These standards require that the audit is planned and performed in a manner that allows us to obtain assurance on the audit findings. In the audit team's opinion, it can be concluded with assurance that:

- the contribution agreement between the Coalition for Cultural Diversity and PCH is generally in compliance with the requirements of the *Policy on Transfer Payments* in effect at the time the agreements were signed, except with respect to how advance payments are addressed in 2003-2004 and 2004-2005;
- the requirements of the approved terms and conditions relating to stacking and the calculation of potential over payment have not been adequately reflected in the current contribution agreement with the CCD;
- the current governance structure (IRPD has responsibility for *recommending* funding for the CCD but *funding and program administration* authority is the responsibility of the Arts Policy Branch) has resulted in a lack of clarity relating to program fit and accountability;
- opportunities exist for improving the management of the program within PCH by streamlining administrative processes and improving CCD reporting to align reporting schedules with CCD payment schedules;
- the information used for decision making is reliable;
- the existing management controls and risk management framework within PCH and the Coalition for Cultural Diversity, with respect to this contribution agreement, are adequate with the exception of the treatment of membership fees which has resulted in an overpayment in 2002-2003;
- there exist opportunities to identify defined program outcomes and results to better focus attention on results achievement, measure performance regularly and objectively, learn from this information and adjust to improve efficiency and effectiveness; and
- in that core funding to the CCD is provided by multiple sources, there are opportunities for joint audits with the Government of Quebec and potentially with other government departments that provide funding to the CCD.

6.0 OBSERVATIONS AND RECOMMENDATIONS



6.1 Use of a Single Recipient Contribution Program

Funding for the CCD was first announced by the Minister of Canadian Heritage in 1999. At that time, the CCD was in the process of formally organizing itself and an administrative home had not yet been identified for the funding within PCH. The IAB, which includes the IRPD, the group with the technical knowledge to analyse proposals, did not have the funding or a program in place at the time to administer an agreement. After some deliberation, it was decided to have the agreement administered by PCH Quebec Region's Montreal Office as part of the Community Partnership Program, which supports the Department's objectives of helping Canadians and their diverse communities to bridge differences, deepen their understanding of one another, and build shared values.

For the 2002-2003 fiscal year, funding for CCD was moved to the renamed Arts, Culture and Diversity Program (ACDP) which had been specifically modified to include the CCD and cultural diversity objectives. The audit team supports this change as funding provided to the CCD better fits the objectives of the ACDP than it did the objectives of the Community Partnership Program.

6.2 Opportunities for Improving the Management of the Program

Program Responsibility

The IRPD has responsibility for managing the Cultural Diversity Policy and the responsibility for recommending funding for the CCD. It has not, under either agreement, had the administrative authority to deliver the funding. Funding and program administration authority is the responsibility of the Arts Policy Branch. Over the last four years, IRPD has partnered with two other Sectors (Citizenship and Heritage³ and Cultural Affairs⁴) of PCH to carry out the administrative aspects of the work. Under both of these arrangements, issues relating to program fit and accountability were noted by the audit team.

According to the IRPD, the current funding agreement was put in place during a period of program consolidation when developing new programs was not encouraged. As a

³The Citizenship Participation and Promotion Branch of the Citizenship and Heritage Sector is currently responsible for the Community Partnership Program. In 1999 the program was administered by the Citizens' Participation and Multiculturalism Branch within the Canadian Identity Sector.

⁴The Arts Policy Branch is part of the Cultural Affairs Sector.



result, it was not seen as feasible for the International Affairs Branch to request funding for a new program at that time. The money for the CCD is requested each year within the Department as an unfunded priority. The required funds have always been made available.

Issues of lack of program fit were identified by the Department when the original agreement with the CCD was administered under the Community Partnership Program. The objective of this program included strengthening the capacity of voluntary organizations to provide programs and services for the benefit of Canadians. The CCD funding was seen to fit at a broad level with this program; i.e., supporting the Department's objectives of helping Canadians and their diverse communities bridge differences, deepen their understanding of one another, and build shared values.

PCH Quebec Region staff responsible for administering the agreement with the CCD from 1999 to 2002, advised the audit team that they perceived that there was blurred accountability as a result of this arrangement. While policy expertise resided with IRPD, Quebec Region was responsible for ongoing administration and the payment approval process. In addition, IRPD perceives there to be blurred accountability as a result of their partnering with the Arts Policy Branch to carry out the administrative aspects of the CCD funding for the 2002-2005 fiscal years.

For the current agreement with the CCD, PCH chose to amend the terms and conditions of the Canadian Conference of the Arts Program and rename it the Arts, Culture and Diversity Program (ACPD). The amended objective of the ACPD is to strengthen Canada's cultural sector through:

- information, policy analysis and advice provided to the Department on policy issues that affect the cultural sector, including cultural diversity; and
- links established and maintained within the culture sector itself as well as between the cultural sector and broader community, in Canada and abroad.

Reasons for including both the CCD and the CCA in the same program are that both are professional cultural organizations that provide information, raise awareness and mobilize support in cultural, public and government spheres, domestically and internationally. Both organizations were seen as playing a role in the achievement of Departmental objectives, particularly relating to creativity and diversity, through the arts and cultural sectors. Further, the CCA also housed the International Network for



Cultural Diversity (INCD)⁵, a world wide network of artists and cultural groups dedicated to countering the homogenizing effects of globalization on culture. Funding is also provided by PCH to the INCD under the ACDP. IRPD has policy and funding recommendation responsibility for PCH's relationship with the INCD.

While the CCD's planned activities as set out in its domestic and international action plans are consistent with the ACDP, its objective is tightly focussed on strengthening the culture sector. Its primary goal is the implementation of a new international instrument "that establishes the principles essential to cultural diversity and that enshrines the fundamental right of countries and governments to adopt the policies necessary to support this diversity"⁶. Its activities are most strongly linked to one of the four expected results and outcomes for the ACDP as set out in the approved terms and conditions:

1. Domestic and international activity to develop policy advice and build consensus around the importance of cultural diversity and elaboration of international policy instruments such as the New International Instrument on Cultural Diversity (NIICD).

The other three intended results in the ACDP Terms and Conditions are as follows:

2. Research, analysis and consensus on policy issues to assist cultural organizations and networks of cultural researchers.
3. Arts and cultural sector capacity to interact with appropriate government departments, to improve awareness of the impact and contribution of Canadian arts, culture and diversity, and to connect the arts to Canadian community life through enhanced communications tools.
4. Work towards national consensus on cultural policy issues and creation of a stronger connection among Canadian artists and arts and cultural organizations and associations.

The CCD's activities can be linked somewhat to the intended results in numbers 2 and 3 above (which deal more with the core activities of the CCA), but the connection is not as strong as it is to the expected result of number 1.

⁵The INCD has 500 members from 70 countries. According to its web site (www.incd.net), it believes that Governments must not enter into any agreements that constrain local cultures and the policies that support them. It also believes that a new international agreement should be created, which can provide a permanent legal foundation for cultural diversity.

⁶http://www.cdc-ccd.org/Anglais/Liensenanglais/framewho_we_are.htm



6.2.1 Recommendation

That the Director General, International Affairs Branch, in conjunction with the Director General, Arts Policy Branch, examine the existing program, structure to assess the feasibility of improving alignment between the ACD's objectives and the organizations it is funding.

6.2.1 Management Response

Recommendation accepted. The Directors General of International Affairs and Arts Policy agree that a clear alignment is required between expected ACD program outcomes and the objectives of the organizations it helps support. By March 31, 2005, they will examine the existing ACD program structure and consult with the Centre of Expertise, Grants and Contributions, to explore options to improve program design alignment between the ACD's objectives and the organizations it is funding. The ACD program was designed to accomplish its main objective of strengthening the cultural sector through assistance to two national organizations with complementary mandates.

(Note: the ACD program will be the subject of a mandated evaluation prior to the expiry of the current Terms and Conditions on March 31, 2005).

The International Affairs Branch has taken responsibility for certain aspects of the agreement with the CCD. The International Affairs Branch, with the assistance of Corporate Review Branch (CRB) developed an integrated RBAF and RMAF for the CCD component of the ACDP⁷ and developed the three year contribution agreement signed by the CCD. The Arts Policy Branch is named as the responsible organization within PCH in the approved terms and conditions for the ACDP and thus has the delegated authority for signing all contribution agreements associated with the program and approving payments. The Arts Policy Branch has the legal responsibility to manage all portions of ACDP, including the agreement with the CCD. This results in duplication

⁷The CCA has a separate framework with performance measurement, evaluation and risk-based audit strategies and plans. The framework for the CCAP when it only funded the CCA and was not updated when the revised program terms and conditions were approved in June 2002.



of effort in managing the CCD funding.

The IRPD is planning to develop a Memorandum of Understanding (MOU) with the Arts Policy Branch to clarify the roles and responsibilities with respect to this funding arrangement. Once agreed to and put in place, the MOU should streamline the work of the two branches and define their respective areas of responsibilities and accountabilities. The audit team supports this initiative. Notwithstanding the presence of an MOU, the audit team is of the opinion that the involvement of two Branches within PCH in the administration of a contribution agreement will be less efficient than if one Branch had program and administrative responsibility. In addition to work on the MOU, PCH has several alternatives that could be utilized to minimize its administrative overhead associated with administering the agreement with the CCD, as follows:

- One alternative that has been utilized by other departments is to establish administrative authority for different components of a program when approval for the program terms and conditions is sought. One Sector or Branch may have an overall coordination role for reporting purposes, but day-to-day administrative responsibility for approving agreements and payments can reside in different parts of a Department or in different Departments or Agencies.
- The support provided to the CCD and the INCD is consistent with the objectives of the IRPD. Stronger alignment between IRPD's objectives and the organizations it is funding could be achieved through a separate program focussed solely on promoting cultural diversity and the establishment of a New International Instrument on Cultural Diversity. While better alignment could be achieved, significant costs are also associated with the establishment of new contribution programs. These costs need to be weighed against the potential benefits of the IRPD having its own transfer payment program with approved terms and conditions.

The IRPD has as its primary responsibility the coordination and advancement of the Government of Canada's perspectives on the international dialogue on cultural diversity. Its priorities include:

- influencing the international environment in a manner that complements and supports national cultural policy objectives;
- contributing to Canada's foreign and trade policy objectives; and
- sharing the Canadian diversity model, values and expertise, and benefiting from the best the world has to offer.

6.2.2 Recommendation



It is recommended that the Director General, International Affairs Branch, and the Director General, Arts Policy Branch, discuss the feasibility of clarifying roles and responsibilities of each Branch to enhance overall program management.

6.2.2 Management Response

Recommendation accepted. By March 31, 2005, the Director General, International Affairs Branch, and the Director General, Arts Policy Branch, will complete their ongoing discussions to clarify roles and responsibilities of each Branch in order to enhance overall program management.

6.2.3 Recommendation

It is recommended that the Director General, International Affairs Branch consult with the Centre of Expertise, Grants and Contributions and the Director General Arts Policy to determine the most appropriate mechanism to provide funding to the Coalition for Cultural Diversity beyond March 31, 2005 that results in clear accountabilities within PCH.

6.2.3 Management Response

Recommendation accepted. Before March 31, 2005, the Director General, International Affairs Branch, will consult with the Centre of Expertise, Grants and Contributions and the Director

General Arts Policy to determine the most appropriate mechanism to utilize to provide funding to the Coalition for Cultural Diversity beyond March 31, 2005 that will result in clearer accountabilities within PCH.

OAG Attributes of a Well Managed Contribution Program

The management of the contribution agreement with the CCD was compared with the attributes of a well-managed contribution program as defined by the Office of the Auditor General (OAG). The following are areas of note with respect to the OAG criteria.

Projects Make Sense for the Program to Fund

When CCD funding was originally announced in 1999, it was the intention that the CCD would work closely with the CCA. At the time, the CCA was an active member of the Steering Committee of cultural representatives from a number of countries that had just established an international network of non-governmental organizations to parallel the work of the International Network on Cultural Policy⁸ (INCP). This network of non-governmental organizations became the International Network for Cultural Diversity (INCD). Since its foundation, the INCD Secretariat has been housed within the CCA. The Department's directive was clear: harmonize and coordinate the work of these two organizations, which at the time, were funded by two different PCH programs.

Evidence of a close working relationship between the CCD and the INCD was not found in a review of the CCD Board meeting minutes. This was confirmed through discussions with IRPD management and CCD staff. Stumbling blocks identified to the audit team included an overlap in their memberships and differences in their respective definitions of goals, objectives and means of carrying out their action plans. IRPD and CCD management indicated to the audit team that from their perspective, the two organizations are different enough in focus and direction that they should be able to complement each other's work and add in the achievement of the IRPD's program objectives. The CCD is a wholly Canadian organization while the INCD is an international organization with membership from forty different countries. It is reasonable to assume that the focus of the two organizations will be different yet complement each other.

6.2.4 Recommendation

It is recommended that the Director General, International Affairs Branch, ensure that the expected results in any future contribution agreement with the CCD are described in such a manner as to minimize the potential overlap with the activities of the INCD.

6.2.4 Management Response

⁸The International Network on Cultural Policy (INCP) is an informal, international venue where national ministers responsible for culture can explore and exchange views on new and emerging cultural policy issues and to develop strategies to promote cultural diversity. The Liaison Bureau for the INCP is housed within the International Affairs Branch of Canadian Heritage.



Recommendation accepted. Action has already been taken on this recommendation. Guidelines for applications under the ACD Program have been introduced, to assist the CCD (and INCD) to outline their expected results, which the Director General, International Affairs, will include in any future contribution agreement with the CCD, in order to minimize potential overlap with the activities of the INCD.

Projects Funded at an Appropriate Level

During the first three years that funding was provided to the CCD (1999-2000 to 2001-2002), PCH provided \$100,000 in the form of a grant and up to another \$100,000 matched funds raised by the CCD through memberships. The CCD also received \$100,000 a year over the same period from the Government of Quebec. During 2002-2003 as a result of expenditures related to the Second International Conference of Associations in the Cultural Milieu, and general operating costs that exceeded available revenues. The CCD deemed that this level of surplus was appropriate and budgeted no change in it for 2003-2004.

The audit team is of the opinion that due to delays in receiving funding and the inevitability of unforeseen events, all non-profit organizations should maintain a surplus to minimize the likelihood of cash flow difficulties. The CCD's accumulated surplus is equivalent to slightly more than one month's average requirements, is minimal.

When the agreement with the CCD was renewed effective April 1, 2002, the accumulated surplus was equivalent to more than the CCD's requirements for three months. Evidence was found in the IRPD's files to indicate that there was discussion, between the program and PCH Financial Management Branch, when the agreement was renewed as to what level of surplus was reasonable for the CCD to maintain. The advice indicated that the surplus generated was acceptable. The revised ACDP terms and conditions reflect only what had been in place for the CCAP. The audit team noted that the approved ACDP terms and conditions for 2002-2005 imply that surpluses are permissible if the CCD has non-government sources of revenue (it does). Because the CCD generated some in private sector funds, the surplus cannot be attributed solely to government funds. The terms and conditions indicate that "in the event that Total Government Assistance exceeds 100% of the costs of the activities, it will be necessary for the recipient to repay the Crown. The repayment will be calculated on a pro-rated basis (based on Total Government Assistance received towards the same eligible costs) where actual assistance exceeds anticipated funding levels."



This clause on stacking and the mechanism to be utilized to calculate potential paybacks is not reflected in the current contribution agreement with the CCD. While the CCD's current level of activity makes the probability of total government funding exceeding 100% of the costs of the activities unlikely, this requirement should have been reflected in the contribution agreement.

6.2.5 Recommendation

It is recommended that the Director General, International Affairs Branch and the Director General, Arts Policy Branch, ensure that its contribution agreement with the CCD fully respect the requirements of the approved program terms and conditions for the Arts, Culture and Diversity Program and then amend the agreement if it is feasible.

6.2.5 Management Response

Recommendation accepted and partially implemented. The Directors General of International Affairs and Arts Policy have consulted since March 2004 with the Grants and Contributions Centre of Expertise to investigate feasible options for bringing the existing contribution agreement with the CCD in line with the approved terms and conditions for the ACD program, particularly with the requirement on stacking limits.

During the last year of the current contribution agreement with the CCD (FY 04/05), the agreement will allow the Department to determine its share of the CCD's expenditures.

Future year contribution agreements with the Coalition for Cultural Diversity will be in line with the requirement of the approved terms and conditions for the Arts, Culture and Diversity Program.

6.3 Reliability of the Information Used for Decision Making

The CCD developed a detailed workplan that sets out its domestic and international initiatives in three broad areas: cultural milieu, public opinion and government authorities. This framework has been in place since the CCD was formed in 1999 and still provides the basis for the CCD's activities. The CCD's workplan appears to have been used as the basis for identifying the specific activities to be funded by PCH



through its most recent agreement. The key elements of the CCD's workplan are reflected in the list of funded activities set out in Annex A of the contribution agreement covering the period April 1, 2002 to March 31, 2005.

Over the two years of PCH funding examined during this audit, program activity reporting provided to PCH appeared to be reliable and followed the CCD's workplan. The list of activities reported by the CCD were reviewed on a sample basis and appeared to be an accurate representation of work undertaken. The activities reported were for the most part measurable and quantifiable. During 2002-2003, improvements were made to the information to bring activities reported closer in line to the requirements of the contribution agreement. Improvements were the result of comments provided by IRPD program managers to CCD management. They help to demonstrate that monitoring and feedback processes were in place and effective.

6.4 Effectiveness of Management Controls and the Risk Management Framework

Management Controls and Risk Management Framework of PCH

Schedule of Reports and Payments

Under the terms of the contribution agreement for the period April 1, 2002 to March 31, 2005, the CCD is provided with a total advance of \$135,000 over the course of the year (a \$45,000 advance upon request on April 1st, July 1st and October 1st) during the last two years of the agreement. These amounts are advances on the \$100,000 provided to contribute towards the cost of eligible expenses and the up to \$100,000 in conditional funding that is to match, on a dollar for dollar basis, funds raised from the private sector.

The approved terms and conditions require that payments, including advances, will be made in accordance with the Treasury Board *Policy on Transfer Payments*. It indicates that "contributions are normally paid on the basis of achievement of performance objectives or as reimbursement of expenditures incurred. Where advance payments are necessary, they should be limited to the immediate cash requirements of the recipient."⁹

Half of the funds provided to the CCD are linked to a reimbursement of expenditures

⁹Treasury Board of Canada *Policy on Transfer Payments*, June 1, 2000, Appendix B—Installment Payments of Grants and Advance Payments of Contributions



incurred and the balance is to match money raised from the private sector. Therefore, advance payments on that portion of the contribution that is matching private sector funding appears to be incompatible with the requirements of the TB *Policy on Transfer Payments*. The CCD should only receive these funds after the money from the private sector has been raised. The CCD's practice has been to request payment from its members for membership fees by the end of March each year. If the CCD needs to receive the government's matched funds earlier in the year, it must collect membership fees earlier than March from its members. As noted in Recommendation 6.2.5 above, PCH should ensure that all aspects of its contribution agreement are consistent with the program terms and conditions.

6.4.1 Recommendation

It is recommended that the Director General International Affairs Branch, discuss with the Coalition for Cultural Diversity the feasibility of requiring payment of memberships fees earlier in the fiscal year.

6.4.1 Management Response

Recommendation accepted and fully implemented. In March 2004, the Director General International Affairs Branch discussed with the Coalition for Cultural Diversity the feasibility of requiring payment of membership fees earlier in the fiscal year. For 2003-2004, all membership fees were collected within the fiscal year.

Advance payments to the CCD are provided under the terms of its current contribution agreement with PCH. No requirements are made to demonstrate that funds are required to meet the CCD's immediate cash flow requirements or to show how funds have been spent up to that point in the year. The contribution agreement requires that the following reports be provided for the periods April 1st to September 30th and October 1st to December 31st:

- a statement of revenues and expenses by area of activity;
- evidence of receipt of funds provided by the private sector, as appropriate; and
- a written report on the results of the activities financed by the contribution as set out in Annex A of the agreement.

These reports must be received within 45 days of the end of each of the established reporting periods. No additional advance of funds or reimbursement of expenditures will

occur if the required reports have not been received.

A final payment is made to the CCD each year after the receipt of:

- a final statement of revenues and expenses by area of activity;
- evidence of receipt of funds provided by the private sector; and
- a final written report on the results of the activities financed by the contribution as set out in Annex A to the agreement.

These documents must be submitted within 60 days after the end of the federal government's fiscal year.

The reporting requirements are not well aligned with the advances made to the CCD nor are they consistent with the requirements of the *Policy on Transfer Payments*. All the advances (\$135,000) are made before any reports for the current year are received. The contribution agreement does not link the second interim report (which is due by February 14th each year) with any payments.

As outlined in the *Policy on Transfer Payments*, "To properly control advance payments, timely accounting must be obtained from recipients. Where practicable, an advance should be accounted for before any further advances are issued. Where advances are issued monthly and accounting for them monthly is neither practical nor cost-effective, they may be accounted for bi-monthly or quarterly, provided that there is reasonable assurance that the funds are being spent for authorized purposes."¹⁰

6.4.2 Recommendation

It is recommended that the Director General International Affairs Branch ensure that any future contribution agreement with the CCD improve the link between reporting requirements with advance payments, as set out in the Treasury Board *Policy on Transfer Payments*.

6.4.2 Management Response

Recommendation accepted. In order to improve the link between reporting requirements with advance payments, as set out in the Treasury Board *Policy on Transfer Payments*, the Director General,

¹⁰Treasury Board of Canada Secretariat, *Policy on Transfer Payments*, June 1, 2000, paragraph 8.3.3.



International Relations will revise the existing contribution agreement with the Coalition for Cultural Diversity prior to issuing its first advance payment for 2004-2005. Future year contribution agreements will also be revised accordingly.

Accounting for the Matching Contribution

The original grant letter signed in 1999 indicated that PCH would match the sums levied by the CCD on the private sector¹¹. This was done for fiscal year 2001-2002. The full amount that CCD advised PCH it had billed its members was paid out. This amount corresponds with the amount of membership revenues shown in CCD's audited financial statements for 2001-2002.

Wording relating to the matching of monies raised from the private sector was modified significantly in the agreement covering the period April 1, 2002 to March 31, 2005. Under the new agreement, the federal government will only match on a dollar for dollar basis, the funds collected by the Recipient from the private sector¹². For 2002-2003, the CCD was required to provide copies of payment cheques or deposit certificates to prove that the funds had in fact been received¹³. In subsequent years of the agreement, the CCD must provide proof that the funds have been received but the nature of the proof is not prescribed in the contribution agreement.

6.4.3 Recommendation

That the Director General, International Affairs Branch, ensure that, to ensure accuracy, consistency and relevance of information, any future contribution agreement with the CCD include a requirement to provide to the Department adequate proof that membership funds

¹¹The letter indicates that "le Ministère s'engage à verser une contribution additionnelle équivalente aux sommes que la *Coalition* prélèvera auprès du secteur privé, jusqu'à concurrence de 100 000 \$ par année". The term "prelever" has several different meanings including levy, charge, retain, take, collect, deduct and withhold. The most favourable meaning for the CCD has been utilized. As of June 30, 2003, some membership fees from previous years had yet to be collected. Most of these receivables were more than a year old.

¹²Entente de Contribution entre Sa Majesté du chef du Canada et la Coalition pour la diversité culturelle effective January 13, 2003, paragraph 3.2.

¹³Entente de Contribution entre Sa Majesté du chef du Canada et la Coalition pour la diversité culturelle effective January 13, 2003, paragraph 4.1.2.



have been received.

6.4.3 Management Response

Recommendation accepted. The Director General, International Affairs Branch will revise the existing contribution agreement with the Coalition for Cultural Diversity, prior to issuing its first advance payment for 2004-2005, in order to include a requirement to provide to the Department adequate proof that funds have been received. Future year contribution agreements will also be revised accordingly.

During the 2002-2003 fiscal year, CCD billed its members in membership fees, of which was actually received by March 31, 2003. A balance was outstanding as an accounts receivable at the end of the fiscal year and thus was not eligible for reimbursement. PCH matched the full amount recorded by CCD as membership fees. Photocopies of proof of payment for 2002-2003 membership fees were provided to Canadian Heritage. This information was provided to PCH several months after the end of the fiscal year, by which time all except had been collected. Based on the contribution agreement between PCH and the CCD, any membership fees that had not been collected at March 31, 2003 should have been matched in the 2003/2004 fiscal year, once the monies had actually been received by CCD.

The change that PCH made to the requirements for matching private sector funds was reasonable as it ensures that the monies are actually received; not simply billed and then subsequently written off as a bad debt. It would appear, however, that the impact on the CCD of this change was not contemplated since approximately of the amount potentially claimable had not been collected by the end of the fiscal year.

Several options are available to PCH and CCD to ensure that CCD receives as much of the conditional contribution as possible each year. These range from CCD requesting membership fees earlier each year; having a basis for adjusting the amount eligible the next year for uncollected fees from previous years; or accepting that after the one year transition that has now occurred, on average the CCD will receive approximately \$100,000 per year in membership fees.

6.4.4 Recommendation

It is recommended that the Director General Arts Policy Branch, take the steps necessary to recover the overpayment of \$24,600 to the



Coalition for Cultural Diversity for 2002-2003 or to treat it as an advance for 2003-2004.

6.4.4 Management Response

Recommendation accepted. Action has already been taken to treat the overpayment of \$24,600 for 2002-2003 as an advance for FY 2003-2004.

6.4.5 Recommendation

It is recommended that the Director General, International Affairs Branch, explore with the Coalition for Cultural Diversity the most practical manner to ensure that the amount of matching PCH funds provided to the CCD each year is maximized while at the same time not exceeding those funds actually received from the private sector.

6.4.5 Management Responses

Recommendation accepted. Action has been partially implemented. The Director General, International Relations has requested that the CCD receive all of its membership fees by March 31 of each fiscal year. This requirement will be reflected in the revision of the current year contribution agreement with the Coalition for Cultural Diversity before issuing the first advance payment for 2004-2005.

Management Controls and Risk Management Framework of the CCD

Overall, the CCD was found to have a good system of management controls. The CCD is a small organization and all day to day activities and expenses are approved by the Executive Vice President. Payments are released upon approval by the Executive VP and one of the CCD Board members, usually the Treasurer, through the cheque signing process. The CCD undergoes a financial audit each year by an external auditing firm.

The CCD has a well-structured Board and membership. This is clearly articulated in its bylaws. Each board member represents a professional association that holds a membership in the CCD and each member organization pays a membership fee based on its financial abilities to the CCD. It is based on these membership fees that PCH makes its matching contribution to the CCD.



The minutes of the Board meetings indicate that the CCD's Board is active. It is involved in the planning and development of long-term strategies for the CCD and approves the annual budget and activity plan. The Board regularly receives management and financial reports from the Executive Vice-President. At the June 2002 Annual Meeting a motion was passed to form an Audit and Finance Committee of the Board which would meet periodically to review the CCD's financial situation. This will further strengthen the CCD's management controls.

CCD Financial Statements

The year-end external financial audit provides assurance for CCD's Board and PCH that the total amount disbursed is accurately identified and that appropriate accounting practices are applied. During the year, accounting support is provided on an ad-hoc basis by an external bookkeeper. As a result, accounting records are not updated on a timely basis. CCD made a number of year-end adjustments to correct errors that were identified before their external auditors reviewed the accounting records and prepared the financial statements. Many of these internally generated adjustments could have been identified and corrected sooner if financial reports had been prepared and reviewed on a regular basis throughout the year.

The risk to PCH in this area is minimal as it has capped the amount of its contribution that is specifically linked to eligible expenditures at \$100,000.

Organizational Capacity

The audit team noted that the CCD is a very small organization with four staff members including the Executive Vice-President. One of the staff members who was with the CCD in 2002-2003 has since left and another was to be on leave for much of 2003-2004.

Problems were noted with the timeliness of the services provided by the CCD's external bookkeeper. The organization will need to ensure that it has the administrative capacity necessary so that its budgeting and accounting practices can support the provision of timely and accurate information on its actual and expected revenues and expenses to its Board in 2003-2004 and beyond.



6.5 Program Outcomes and Results

As noted in Section 6.2, *Program Responsibility*, the CCD's activities are consistent at a broad level, with those set out in the terms and conditions for the ACDP. The contribution agreement with the CCD makes a link between the intended results of the ACDP and the objectives of the CCD funding. Specific activities to be carried out by the CCD to achieve the intended results include:

- building capacity and consensus on cultural diversity and trade negotiation issues by enhanced information sharing, awareness-building and communication with the cultural community, government and general public;
- strengthening links among cultural associations, the general public and public and political authorities through participation in and organization of meetings and conferences;
- undertaking communications projects such as web site maintenance and enhancement, regular preparation and distribution of documents and participation in conferences; and
- promoting national and international cultural diversity by building awareness and consensus, both domestically and internationally, on policy issues.

The *Integrated Results-based Management and Accountability Framework/Risk-based Audit Framework* (RMAF/RBAF) prepared for the CCD component of the ACDP does not set out performance indicators, expected results and outcomes that support the collection of data on an ongoing basis that would provide PCH management with information on the progress being made by the CCD in achieving the desired final outcomes. The ongoing performance measurement strategy simply includes the filing by CCD on an annual basis of a full and complete reporting on activities undertaken throughout the year and its national and international priorities, goals and plans for the upcoming year. The contribution agreement in turn reflects this strategy and this is what the CCD provides in its periodic activity reports to Canadian Heritage.

These data, however, will be insufficient to evaluate whether the agreement with the CCD has been effective in meeting its objectives, within budget and without unwanted outcomes¹⁴ because it provides no information on the results achieved. It is also insufficient for providing program management with the information they require on an ongoing basis as set out in *Results for Canadians*, to improve program efficiency and

¹⁴The Treasury Board Secretariat of Canada, *Evaluation Policy*, February 1, 2001, Appendix B, *evaluation Standards for the Government of Canada* sets out the full range of evaluation issues that should be considered at the planning stage of an evaluation. They include "is the policy, program or initiative effective in meeting its objectives, within budget and without unwanted outcomes? (success)."



effectiveness.

In preparation for the planned evaluation of the Arts, Culture and Diversity Program in 2004-2005, IRPD needs to develop a detailed evaluation framework with explicit outputs, immediate, intermediate and final outcomes and the associated performance indicators in a manner consistent with the Treasury Board Secretariat *Guide for the Development of Results-based Management and Accountability Frameworks*, August 2001. Such a framework would provide the basis for an updated RMAF that will be required if approval is sought for renewed program terms and conditions.

6.5.1 Recommendation

It is recommended that the Director General, International Affairs Branch, develop an evaluation framework for the CCD component of the ACDP that includes performance measures that can be used to objectively assess the success of the initiative.

6.5.1 Management Response

Recommendation accepted. An evaluation framework for the CCD was prepared in 2002. The 2002 benchmarks will be enhanced as a result of a new evaluation framework that will be prepared to support the request to renew ACD Program authorities beyond March 2005. Based on everything learned through this audit and the evaluation of the ACD Program scheduled to begin soon, the new ACD framework will include performance measures that can be used to objectively assess the success of the CCD component of the Program.

6.6 Advisability of Join Audits with Other Government Departments

Approximately 50% of the CCD's funding for its core activities comes from PCH, approximately 25% is provided by the Government of Quebec and the balance is raised by the CCD primarily through membership fees. Additional funds have been provided by Public Works & Government Services Canada's (PWGSC) Communications program, the Department of Foreign Affairs and International Trade (DFAIT) and the Government of Quebec to cover the cost of hosting the First International Meeting of Professional Associations from the Cultural Milieu in Montreal in September 2001. Funding from DFAIT and the Government of Quebec also helped cover costs incurred by CCD for the Second International Meeting of Professional Associations from the



Cultural Milieu in Paris in February 2003.

6.6.1 Recommendation

It is recommended that if and when another audit of the CCD is conducted by PCH, the Director General, International Affairs Branch, consider partnering with other federal government departments if any have provided funding to CCD in the years being examined. The Government of Quebec is also a potential partner as they are also contributing funds towards the same costs as PCH.

6.6.1 Management Response

Recommendation accepted. If and when another audit of the CCD is conducted by PCH, the Director General, International Affairs Branch will consider partnering with the Government of Quebec, as well as other federal government departments if any have provided funding to the CCD in the years being examined.



Appendix A: Acronyms Used

ACDP	Arts, Culture and Diversity Program
ARRQ	Association des réalisateurs du Québec
CCA	Canadian Conference of the Arts
CCAP	Canadian Conference of the Arts Program
CCD	Coalition for Cultural Diversity
CRB	Corporate Review Branch
DFAIT	Department of Foreign Affairs and International Trade
IAB	International Affairs Branch
INCD	International Network for Cultural Diversity
INCP	International Network on Cultural Policy
IRPD	International Relations and Policy Development Directorate of the International Affairs Branch
NIICD	New International Instrument on Cultural Diversity
OAG	Office of the Auditor General
PWGSC	Public Works and Government Services Canada
PCH	Canadian Heritage
RBAF	Risk-based Audit Framework
RMAF	Results-based Management and Accountability Framework