

AUDIT OF PCH SINGLE RECIPIENT CONTRIBUTION PROGRAMS

INFORMATION AND RESEARCH ON CANADA PROGRAM (IRCP)

CORPORATE REVIEW BRANCH

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TABLE OF CONTENTS

| | | |
|------------|---|-----------|
| 1.0 | INTRODUCTION | 1 |
| 2.0 | OBJECTIVE | 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 | 7 |
| 6.3 | Reliability of the Information Used for Decision Making | 12 |
| 6.4 | Effectiveness of Management Controls and the Risk Management Framework | 14 |
| 6.5 | Program Outcomes and Results | 16 |
| 6.6 | Advisability of Joint Audits with Other Government Departments | 17 |

1.0 INTRODUCTION

As a result of a department-wide risk assessment, the 2002/03 audit plan of the Assurance Services Directorate, Corporate Review Branch (CRB) of the Department of Canadian Heritage (PCH) identified a requirement to conduct an audit of the six single recipient contribution programs in the Department.

Over the years and for a variety of reasons, Canadian Heritage (PCH) has established a number of contribution programs, each of which has only one recipient. Six such programs were examined in the course of this audit. Of these, five are named for their recipients:

- Canadian Conference of the Arts (CCA) administered by the Arts Financing and Legislation Directorate of the Cultural Affairs Sector;
- Canadian Museum Association (CMA) administered by the Cultural Property Directorate of the Citizenship and Heritage Sector;
- Confederation Centre of the Arts operated by the Fathers of Confederation Building Trust which is administered by Atlantic Region with support from the Arts Financing and Legislation Directorate of the Cultural Affairs Sector;
- Radio Canada International (RCI) administered by Broadcasting Programming Services Directorate of the Cultural Affairs Sector; and
- TV5 which is broadcast in Canada by the Consortium de télévision Québec Canada (CTQC). This agreement is administered by the International Affairs Directorate of the International and Intergovernmental Affairs Sector.

Only in the case of the Information and Research on Canada Program (IRCP) is the program name distinguished from that of its client, the Centre for Research and Information on Canada (CRIC) which is part of the Canadian Unity Council (CUC). Prior to April 2002, the CUC was known by the slightly different name, Council for Canadian Unity (CCU). The current name is used throughout this report. The IRCP is currently (since Jan. 1, 2003) administered by the Management, Regional and Correspondence Services Branch (MRCS) of the Public Affairs and Communications Sector. At the time of the audit, it was administered by the Canadian Identity Directorate within the same sector.

The objective of the program is to “provide Canadians with the relevant and timely research and information required to foster a greater understanding and awareness of the richness and depth of the key components which make up Canadians’ unique identity: Canada’s society, people, and culture. This will be done by making accessible to all Canadians information and research on Canada’s cultural diversity, linguistic duality and shared values in order to help Canadians connect to each other and the world.”

The CRIC is the research and publication program of the CUC, which is headquartered in Montréal (secretariat and communications), but has offices across Canada, including Ottawa (research), Quebec, Toronto, Calgary, and Vancouver. Their activities include: conducting polls; publishing a weekly newsletter *Opinion Canada*; publishing a quarterly *CRIC Papers*, containing results of original research; and organizing conferences and roundtables on subjects related to Canadian opinions about federal institutions. The Canadian Unity Council established the CRIC in 1996; it was then funded by PCH under two programs, the Canadian Studies Program and the Official Languages Program.

This report represents the summary findings of the audit with respect to IRCP.

2.0 OBJECTIVES

The overall objective of this project was to audit six beneficiaries of single recipient contribution programs in order to provide departmental senior management with:

- information on the criteria used for selection and determination of single recipient programs and their compliance with the intent of the transfer payment programs;
- information that can be used to improve the management of the programs 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 programs and the recipients 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 TB *Policy on Transfer Payments* and the objectives of PCH.
- the strengths of the **program processes** and provide advice for improvement; and
- the **recipient's control and governance framework** and provide advice for improvement.

3.0 SCOPE

This report specifically addresses the audit findings related to the contribution agreement between the Canadian Unity Council and Canadian Heritage. The audit considered how the contribution agreement that was in place for the 2001-2002 fiscal year was managed. The contribution agreement was the responsibility of the Canadian Identity Directorate within the Canadian Identity Sector of Canadian Heritage. In January 2003, the responsibility for the Information and Research on Canada Program was transferred to the Management, Regional and Correspondence Services Branch within the Public Affairs and Communications Sector. The audit was primarily conducted in August and September, 2002, and between May and July, 2003.

4.0 APPROACH AND METHODOLOGY

The criteria against which observations, assessments, and conclusions were drawn in this audit were based on:

- the requirements of the June 2000 Treasury Board Secretariat *Policy on Transfer Payments*.
- the approved terms and conditions for the contribution;
- the contribution agreement between Canadian Heritage and the recipient; and
- 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 makes 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:

- review of the documentation that authorized the establishment of the contribution agreement between PCH and the CUC;

- review of the contribution agreements between PCH and the CUC for the period April 1, 2001 to March 31, 2002;
- review of internal approval documents and briefing notes associated with the contribution agreement;
- review of financial reports and activity reports submitted to PCH by the CUC for the 2001-2002 fiscal year and PCH's analysis of the information;
- review of *Grants and Contributions Approval and Payment Form* and supporting documentation for payments made to the CUC during the 2001-2002 fiscal year;
- review of the CUC's books and records supporting the costs submitted to PCH for reimbursement;
- review of the Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the contribution agreement prepared by PCH;
- discussions with program management responsible for administering the contribution agreement in PCH's offices in Gatineau, Québec; and
- discussions with the CRIC comptroller in Ottawa.

The audit was carried out according to the requirements of the April 2001 Treasury Board Secretariat *Policy on Internal Audit*.

5.0 CONCLUSIONS

The audit team offers the opinion that:

- the contribution agreement between the Canadian Unity Council and PCH is generally in compliance with the requirements of the approved program Terms and Conditions and the *Policy on Transfer Payments* that was in effect at the time the agreement was signed. The key gap was with respect to the frequency of reporting;
- several opportunities exist for improving the management of the program including the risk management framework;
- opportunities exist to more fully utilize information on program outcomes and results that was identified in the RMAF to manage the program on an ongoing basis;
- opportunities exist to improve the reliability of reporting to PCH by the recipient; and
- opportunities exist for conducting joint audits of CUC's records with other departments.

6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Use of a Single Recipient Contribution Program

The Information and Research on Canada Program (ICRP) has been in operation since fiscal year 2001-2002. It has one contribution agreement in place with the Canadian Unity Council (CUC) to fund the Centre for Research and Information on Canada (CRIC). The CUC's CRIC program has been in existence since 1996 and was funded by PCH until March 31, 2001 by the Canadian Studies Program and the Official Languages Program. A review conducted by the Corporate Review Branch (CRB) in December 2000 identified that:

- The reporting structure was inadequate, as it was based on expenses incurred rather than on activities undertaken by the recipient.
- There was a lack of connection between the objectives of the Canadian Studies Program and the activities of the CRIC. The review recommended that another means of funding the recipient be found to better ensure the achievement of PCH objectives.

Departmental officials also recognized that they had to increase monitoring of the recipient through submitted activity reports to ensure the recipient's complete compliance with the terms and conditions of the contribution agreement.

Options considered at the time included:

- Finding a funding agency outside PCH with sufficient flexibility to fund the CUC; or,
- Directing the CUC to appropriate funding programs within PCH but fund specific and measurable activities of a limited scope.

The Department subsequently created the Information and Research on Canada Program tailored to fund the CRIC. The first contribution agreement under the new program was signed in October 2001 but was retroactive to April 1, 2001; it covers fiscal 2001-2002 and 2002-2003.

The signed contribution agreement was found, for the most part, to be in compliance with the approved program Terms and Conditions and the Treasury Board Policy on Transfer Payments. The most significant difference that was identified by the audit team related to required reporting frequency.

The contribution agreement requires that a cashflow forecast for the year broken down by month be provided at the start of the year. There is no requirement to update the cashflow forecast on a monthly basis to take into account outstanding advances. The

contribution agreement requires three activity reports and corresponding financial statements for the year: one to cover the period from April 1, 2001 to August 31, 2001 (the CA was only signed in October); a second activity report and financial statement to cover the period from April 1, 2001 to October 31, 2001; and a third financial statement to cover the period from April 1, 2001 to March 31, 2002.

This is inconsistent with the approved Terms and Conditions (section 12) which sets out that "... the contribution agreement will be based on, and will require the recipient to provide monthly cash flow statements, and combined activity and expenditure reports." The approved Terms and Conditions are consistent with the Treasury Board *Policy on Transfer Payments* (Section 7.6.3) which recommends that "... the amount of each advance should be limited to the immediate cash requirements based on a monthly cash flow forecast from the recipient taking into account any outstanding advances." The PCH Centre of Expertise, Grants and Contributions, also noted this issue and recommended to the program that the claims submitted monthly by CRIC should be supported by monthly cashflow forecasts. As noted above, the lack of adequate reporting was a key concern in the CRB review of the agreement with CRIC in December 2000.

Without updated cash flow forecasts along with monthly reports on expenses and activities, funds are more likely to be provided to CRIC in advance of needs. The Treasury Board *Policy on Transfer Payments* requires that payments be timed to correspond as closely as practicable to recipients' cash flow requirements.

6.1.1 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch ensure that the next contribution agreement with the CUC for CRIC includes a requirement for monthly activity and expense reports and updated cashflow statements as a precondition of payment.

6.1.1 Management Response

Agreed. The 2003-04 contribution agreement with the CUC for CRIC required, as will future agreements, that activity reports and monthly expense reports be submitted as a precondition of payment. In addition, updated cash flow forecasts must be submitted as a precondition of payment of advances.

6.2 Opportunities for Improving the Management of the Program

PCH was found to be exercising due diligence with respect to the administration of the contribution agreement by reviewing reports submitted on an ongoing basis and requesting that improvements be made to reporting formats to enhance the department's ability to assess reasonableness of expenses and eligibility of expenses. The Canadian Identity Directorate also submitted all reporting to the Centre of Expertise, Grants and Contributions, for enhanced review prior to issuing payments under the terms of the contribution agreement. Several opportunities exist to improve the management of the program, primarily because not all requirements for the program were completed as set out in the approved Terms and Conditions and/or the contribution agreement. These include:

- ***Business plan outlining the rationale for CRIC projects and associated planned expenditures.*** Section 7 of the approved program Terms and Conditions indicates that the “recipient will be asked to provide an annual business plan to the Department clearly identifying and describing specific activities and initiatives including expected time-lines, reasonable estimates of the costs associated with each activity as well as the sources of funding, including financial support from the Department”. Such a business plan would provide the department with assurance that the project is being funded at a minimal level and that the recipient is managing its budget well, which enhances the likelihood of achieving objectives. It also allows the department to monitor eligible expenses and the reasonableness of expenses presented in monthly cash flow forecasts and expense reports. The audit team found no business plan for either 2001-2002 or 2002-2003 to support CRIC's application. A description of planned activities was provided for the period November 2001 to March 2002. However, it contained no time lines or cost estimates.
- ***Public acknowledgement of PCH support for CRIC.*** The approved Terms and Conditions (Section 16) of the program require that the “recipient must agree to recognize the financial support by the federal government in all public announcements...” The contribution agreement includes a similar requirement but there is no stated consequence for failing to fulfill this requirement. A review of the CUC's public announcements found that there was no recognition of the financial support received from PCH. The audit team was advised by program officials that the matter had been raised with the recipient.

The management of the contribution agreement with the CUC was also compared with the attributes of a well-managed contribution program as defined by the Office of the Auditor General. Several attributes were difficult to apply or not applicable because this is a single recipient program that has been specifically tailored to meet the needs of

CRIC. Several opportunities for improvement, however, were identified. These relate to:

- **Identification of eligible CRIC projects.** As already noted, under the terms of the approved program Terms and Conditions and the contribution agreement with CUC, an annual business plan is to be provided to PCH clearly identifying and describing planned activities. In the absence of the business plan, it is more difficult to confirm that CUC requires all of the annual funding that PCH is providing.
- **Ability to determine if funding is used for the purposes agreed.** The contribution agreement indicates that eligible expenses “can include reasonable amounts for salaries and benefits, administration, travel, honorariums, research, production costs, and immovables”. Part II of the agreement further sets out specific budget amounts for each these cost categories for activities related to communications, citizen participation, and research.

At several points during 2001-2002 as set out in the agreement, a summary of costs at the same level as set out in Part II of the agreement was provided. A final narrative activity report along with a more detailed cost breakdown for specific communications related projects was provided after the end of the fiscal year. A narrative description of activities without cost figures was also provided for the first six months of 2001-2002. Reporting for 2002-2003 appears to have followed the more detailed format utilized at the end of the 2001-2002 fiscal year. Based on the year end activity report provided by the CUC, it appears that expenses were allocated to CRIC that were more appropriately CUC costs and should not have been attributed to this program. These costs include¹: the production of two videos on the CUC, the CUC’s annual report, quarterly letters to the CUC’s governors from the CUC’s President, a new magazine outlining CUC’s activities and programs, and CUC’s annual general meeting and gala. CRIC staff time was also spent on the production of these CUC items.

The approved terms and conditions for the ICRP indicate that funding is to be utilized to “cover only the costs related to the activities of the CUC’s CRIC”. Activities include: roundtables, a research bureau in Quebec, an observation bureau in Quebec, the CRIC magazine, surveys (new and continuing) colloquia and conferences (new and continuing), the print and electronic publication and distribution of OPINION CANADA, the complete updating of the CRIC and the CUC websites, the establishment of a regional CRIC office in British Columbia and Atlantic. The T&Cs further note that the impact of the contribution is expected to result in more Canadians connected to one another, a greater

¹Costs were not identifiable for all items from CRIC’s General Ledger.

awareness by Canadians of the issues pertaining to the principles and functioning of a Canadian federation and its institutions, and a greater awareness by Canadians of emerging issues of concern to Canadians.

PCH management responsible for the program indicated that the costs identified above are intended to be part of CRIC's communications costs and were covered in the past. However, the linkage between these costs and the stated objectives of the program is unclear and they should be explicitly identified in the approved T&Cs as was the cost of updating the CUC's website.

Other costs appear to have been allocated to the wrong activity or cost category as set out in the contribution agreement. For example, subscriptions and publications acquired by CRIC's documentation centre supporting its research and communications activities have been charged to the publications budget rather than to corporate overhead under the management category. Also, some of the travel and hotel costs for CRIC employees were allocated to the "Publications, conferences, website, research" budget category rather than the "Travel and Accommodations" budget category. An argument can be made for including travel costs associated with the attendance at conferences in this budget category. A clear definition of what costs should be included in which categories is desirable to ensure consistency in budgeting and recording of costs.

The detailed information that would have enabled PCH to determine that ineligible expenditures were probably included in submitted claims for 2001-2002 was not available until after the end of the fiscal year. Based on discussion between PCH and CUC, changes have been made such that the financial reports for 2002-03 provided more detailed information than they did at the outset. A significant proportion of the costs, however, were still provided at a very aggregated level. It was not possible to know how much initiatives cost or whether all claimed expenditures were eligible. CRB, in its December 2000 report, also noted that the reporting structures were inadequate and were based on expenses incurred rather than on the activities undertaken.

- **Prompt resolution of performance issues.** The program management was aware of many of the non-compliance issues identified by this audit and had brought them to the attention of the CUC (i.e., acknowledgement of financing provided by PCH; production of updated and detailed monthly cash flow forecasts; reporting of expenses by activity; etc.). However, several issues remained outstanding at the time of the audit.
- **Adequacy of management reporting.** Periodic information was provided by CRIC but it did not cover all of the performance indicators identified in the RMAF

developed as part of the establishment of the program, for which CRIC should be providing the data. The contribution agreement required CUC to provide interim activity reports for the periods April 1 to August 31, 2001 and April 1 to October 31, 2001 and a final activity report for the entire fiscal year (April 1, 2001 to March 31, 2002). The agreement further set out that the periodic activity reports are to be provided in a manner that would demonstrate the progress reached in attaining the objectives of the program.

Some key indicators identified in the RMAF that were not reported on include: number of participants in symposia and conferences, number on Canadian citizens subscription list, and number of hits on the CRIC website. According to the RMAF, information on all of these was to have been obtained annually from CRIC. Performance monitoring is essential to provide program management with information on the degree of progress that has been achieved in attaining program objectives. Without this information, it is not possible to know when corrective action may be required.

- **Management fees charged to the contribution.** CRIC charges 9.5% of the contribution in management fees to cover Secretariat, legal, accounting, and other expenses. The contribution agreement sets out an amount for administrative costs but does not describe how it has been calculated or what types of costs it is to cover. It is not unusual for administrative costs in a contribution agreement to be based on a percentage of the other reimbursable costs incurred. It is good practice, however, to set out what costs are considered administration and the basis for calculating how much administration will be reimbursed.

The program is relatively new, with the first contribution agreement signed in October 2001; however, the program should have mechanisms in place to track performance and meet the obligations stipulated in the approved program Terms and Conditions.

6.2.1 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch develop mechanisms to ensure full compliance with all the terms and conditions in the contribution agreement, particularly with respect to the development of a business plan, to the public acknowledgement of PCH support for CRIC, and to the adequacy of management reporting on performance issues.

6.2.1 Management Response

Since the signing of the first contribution agreement under the IRCP, management has undertaken regular discussions with CUC staff to ensure that the Council fully understands the terms and conditions of our financial assistance and fully complies. CUC presented a business plan for 2003-04 that spelled out the CRIC program of activities and associated resource requirements and results expectations. The business plan was the basis for the 2003-2004 contribution agreement. The same process will be followed for future agreements.

MRCS agrees with the recommendation with regard to the public acknowledgement of PCH support. As noted in the concurrent formative evaluation of IRCP, considerable progress has been made in the past months in this respect, though more remains to be done. Work will continue with CUC to clarify expectations around recognition and to ensure compliance.

A fuller response with regard to management reporting has been provided under Recommendation 6.5.1.

6.2.2 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch include a more explicit definition of eligible expenses including administrative costs, in the next contribution agreement with the CUC for CRIC so that there is a better basis for accountability.

6.2.2 Management Response

We have implemented this recommendation. A note to the budget table of the 2003-04 and future contribution agreements clarifies, with specific examples, the range of eligible activities and expenditures as including all communications functions of CUC, as well as the research and regional office functions. All of the areas noted in the report have been addressed.

6.2.3 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch ensure that the Program

conduct a full recipient audit of CRIC in 2004/05 for fiscal years 2001/02, 2002/03 and 2003/04 and initiate recovery action where required.

6.2.3 Management Response

In keeping with Recommendation 6.6.1 of this report, MRCS will discuss with other federal funders of CUC, internal and external to PCH, the suggestion of a joint recipient audit in 2004-05. Either within such a joint audit or separately, the department will conduct a recipient audit of CRIC in 2004-5, covering fiscal years 2001-02 through 2003-04, and will initiate recovery action where required.

6.2.4 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch ensure that when the terms and conditions are submitted for renewal, that all costs that are intended to be reimbursed and could be considered to have a weak linkage with the program objectives be explicitly identified.

6.2.4 Management Response

In any renewal of the program the costs of CRIC operations will be clearly delineated in the context of IRCP objectives and expected results.

6.3 Reliability of the Information Used for Decision Making

Canadian Heritage is provided with periodic information on CRIC's expenditures and activities. In addition to the issues already identified with respect to the frequency and the level of detail in the financial reports, the audit team also identified limitations in the financial information provided to PCH. These limitations were:

- **Statement of cash flow requirements.** CRIC's first request for payment for 2001-2002 projected a monthly cash requirement. Over the course of the fiscal year, the cash flow requirement was not updated. The Treasury Board *Policy on Transfer Payments* stipulates that "the amount of each advance should be limited to the immediate cash requirements based on a monthly cash flow forecast from the recipient taking into account any outstanding advances." Cash forecasts need to be updated on a regular basis. The Grants and Contribution Directorate

recommended to the Canadian Identity Directorate that the advance be adjusted based on the actual expenditures claimed but no adjustments were made.

The review of CRIC's records as part of the audit found that CRIC's cash requirements vary on a month to month basis. CRIC advised the audit team that a cash forecast with equal monthly requirements was submitted to PCH to provide a stable cash flow for the organization and that the amounts were not based on the actual forecasted expenditures each month. The cash flow for 2002-2003 again shows an equal requirement each month. On the cash flow statement on the CUC's letterhead and signed by the Controller, it is indicated that "The expenses for the CRIC do not experience much variation from month to month which is the reason why the contribution was divided equally over the twelve month period." This statement is not consistent with the observed results for 2001-2002.

- **Annual financial statements.** The consolidated audited financial statements prepared for and presented in CRIC's annual report cover the entire operations of the CUC and do not identify the costs specifically related to the operations of CRIC. Further, they are for a fiscal year that is different from the federal government's fiscal year. As a result, while the document provides some information about the CUC's overall financial well being, they are inadequate for use as an external verification of the reasonableness of the costs claimed against the contribution agreement.
- **Costs claimed.** As noted in Section 6.2, it is unclear how CUC's costs associated with the annual report, videos, letters to the governors, magazine, and annual general meeting and gala are related to the stated objectives of the program under the existing terms and conditions. These should be explicitly identified in the approved T&Cs, as was the cost of updating the CUC's website. Staff time was also spent on the preparation of these CUC projects and is not reflected in the total. A further claimed as CRIC expenses allocated to "Publications, conferences, website, research" and in "Office and building) could not be reconciled by the audit team to information in CRIC's general ledger.
- **Reporting of expenditures to the Department.** CUC has reported on their CRIC expenditures using two formats. One follows the structure of the approved Contribution Agreement budget; this format was the one used in the PCH analysis for payment approval. The other expenditure reporting occurs within the final activity report, where details of expenditures are presented throughout the report, linked to activity areas. The final activity report does not include a rollup of all expenses, making comparison with the other financial reporting format difficult. When the rollup was done, it was determined that expenses for the "Module de recherche" (the media monitoring unit) were attributed to different

budget categories in the two reports. Expenditures should be allocated to the same categories in all reports to facilitate comparisons and verification.

6.3.1 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch include a clause(s) in the next contribution agreement with the CUC for CRIC, which provides for more reliable information for monitoring purposes. This would include accurate and realistic cash flows, financial information aligned with the period covered by the contribution agreement, sufficient detail to ascertain the eligibility of expenses, and a consistent presentation of financial information.

6.3.1 Management Response

All of these points were addressed in the 2003-04 contribution agreement and will be covered in all future agreements.

6.4 Effectiveness of Management Controls and the Risk Management Framework

As part of the approval process for the program Terms and Conditions and the contribution agreement with the CUC, a Risk-based Audit Framework was prepared. The RBAF identified a number of risks over which PCH has some degree of control. Key risks for PCH that have not been adequately mitigated include:

- ***Consistency between the organization's activities and the Program's objectives.*** While the CUC submits periodic activity reports and copies of its products, in the absence of a business plan and more detailed financial reporting, it is not possible to determine what degree of consistency exists between CRIC's activities and the Program's objectives.

Significant budget reallocations by CUC for CRIC's activities may have also resulted in activities that were inconsistent with the Program objectives. The contribution agreement requires that PCH be advised in writing if expenditures in any category are expected to vary by more than 15% of budget. An analysis of CRIC's reported costs against the categories set out in Part II of the contribution agreement shows that in over 40% of the identified categories (9 of 21), the amount claimed varied from the authorized budget by more than 15%. This was particularly significant in the area of research where the reconciled total amount spent was 26% under the approved budget.

No evidence was found in the files examined that indicated that PCH had been advised in advance of the budget reallocations being made. Prior notification of budget reallocations constitutes an effective control. Other contribution agreements within PCH permit budget reallocations up to an established percentage or a dollar amount without prior approval. Any adjustments above this threshold must be approved in writing in advance. To be an effective control, the approval needs to be based on cumulative adjustments to the budget; otherwise, significant changes in priorities could be made that may not be consistent with the intent of the contribution agreement.

- **Eligibility of expenses.** As already noted, was claimed that included costs that in the audit team's opinion were ineligible or could not be substantiated.
- **Coordination between Department and organization to optimize benefits for the Program.** While an activity plan was submitted by the recipient prior to activities occurring that permitted discussion with PCH, the provision of a business plan as set out in the contribution agreement would better facilitate coordination and an optimization of benefits for the Program.
- **Reliability and integrity (and timeliness) in the financial information forwarded to the Department.** As already noted, the cash flow statements provided by the CUC did not reflect actual cash requirements, claimed costs were overstated, some costs were allocated to the wrong cost category, and the annual financial statement was for a fiscal year that is different than the federal government's thus limiting its usefulness for decision making purposes.

The implementation of the opportunities for improving the management of the program that have already been identified in this report will assist in mitigating the potential impact of these risks. Strengthening of CUC's management controls and risk management frameworks will also assist in this regard.

For example, a greater use of project costing by CUC would enable it to better track its costs to the requirements of the contribution agreement. The CUC utilizes ACCPAC to maintain its books and accounts. According to the ACCPAC web site, all versions of its product have a job costing module. In the absence of acquiring the module, it is the audit team's understanding that the account structure would have to be modified to capture project costs. Both of these options are feasible although if there are a significant number of different projects over time, acquisition of ACCPAC's job costing module is likely to prove to be the most cost effective way to capture the necessary data. Project costing was provided for some activities in 2001-2002. There appears to be no reason, however, why full project costing cannot be implemented to meet the reporting requirements of PCH.

6.4.1 Recommendation

That the Director General, Management, Regional and Correspondence Services Branch encourage the CUC to utilize the capabilities available in its accounting software to implement more detailed job costing.

6.4.1 Management Response

MRCS has already drawn the attention of CUC accounting staff to the unused capabilities of their accounting software. CUC has implemented activity-based budgeting and reporting for the IRCP contribution.

6.4.2 Recommendation

That the Director General, Management, Regional and Correspondence Services Branch include a requirement in the next contribution agreement with the CUC for this program that requires that all budget adjustments above a specified threshold must be approved in advance by PCH.

6.4.2 Management Response

Since 2003-04, the contribution agreement requires that budget adjustments over 15% be approved in advance by PCH.

6.5 Program Outcomes and Results

While a comprehensive RMAF exists, it is not being effectively utilized as a management tool.

A comprehensive Results-based Management and Accountability Framework has been developed. Outcomes and results for the programs and for the recipient are identified, are measurable, and support government objectives. The document, however, is not being used as the basis for the ongoing measurement of program performance.

There is no mechanism in place within PCH to actively track the key indicators identified in the RMAF. The recipient's activity reports which are submitted periodically as a requirement for payment provide information on some of the performance indicators, but

not all of them. Some key indicators that are not tracked include: participation in symposia and conferences, Canadian citizens subscription list, and CRIC website hits. All of these are identified in the RMAF for collection on an annual basis.

As outlined in the management framework for the federal government, *Results for Canadians*, public service managers are expected to define strategic outcomes, continually focus attention on results achievement, measure performance regularly and objectively, learn from this information and adjust to improve efficiency and effectiveness. The RMAF provides program management with a road map as to what information should be collected and how often.

6.5.1 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch ensure that the information outlined in the RMAF for the Information and Research on Canada program is collected following the recommended schedule and utilized to improve program efficiency and effectiveness.

6.5.1 Management Response

This has been done. In its final activity report for 2002-03 CRIC included performance measures including web site hits, publications and conference participation. In 2003-04 additional information was collected and reported. We expect further improvement in 2004-05.

6.6 Advisability of Joint Audits with Other Government Departments

The sources of funding for the CUC are not declared in its annual report; however, it is indicated that most of its funding is from government sources. It is the audit team's understanding that Canadian Heritage and Communications Canada are the primary federal government funding bodies. A joint audit that covered all the funding provided by funding organizations would be beneficial to provide assurance that certain expenditures are not allocated more than once to contribution agreements with the federal government and that the stacking limits for any one activity do not exceed 100%.

6.6.1 Recommendation

It is recommended that the Director General, Management, Regional and Correspondence Services Branch explore the feasibility of a joint audit of the CUC with other federal funders and other program areas within Canadian Heritage.

6.6.1 Management Response

MRCs will conduct a recipient audit in 2004-2005 jointly with other PCH funders of CUC activities. With respect to IRCP contributions that audit will cover the period 2001-2004 and it will specifically review all expenditures which were noted in this report as not adequately substantiated. Any expenses that cannot be shown to be justified under the contribution agreement will be disallowed and appropriate recovery action will be taken.