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DEPARTMENT OF CANADIAN HERITAGE

FINAL REPORT

**AUDIT OF THE
CULTURAL SPACES CANADA PROGRAM**

Submitted By:

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Canada



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Executive Summary

The objectives of the Cultural Spaces Canada Program (CSC) are to facilitate access of Canadians to the performing arts, the media or visual arts, and museum collections; and to increase and improve the physical resources for artistic creation and innovation.

The program achieves these objectives by supporting the construction, renovation, or conversion of arts or heritage facilities and by contributing to the acquisition of specialized equipment or to feasibility studies related to the program objectives. The program was launched in May 2001 with a commitment to provide total federal funding in the amount of \$80 million over 3 years (\$20 million in 2001-02, \$30 million in 2002-03, and \$30 million in 2003-04). Cultural Spaces Canada has thus far financially contributed to 216 projects.

The objective of this audit was to provide program management with assurance on the soundness of processes and to identify opportunities to strengthen management practices. The audit of the CSC was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2003-2004. The scope of the audit covered the 2002-2003 and 2003-2004 fiscal years.

The audit team's conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted out between October 6, 2003 and March 15, 2004. In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance;
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH.

The audit team did however identify some areas where management practices and compliance should be strengthened. Our recommendations for the Department are summarized as follows:

- 1. The Arts Policy Branch should address the need for specialized skills in the areas of: environmental assessments, project management and capital budgeting, and financial statement analysis. Consideration should be given to: further officer training in these areas, procurement of these skill sets through outsourcing, and/or establishment of a centre of expertise in these**



areas at the regional level.

2. **The Arts Policy Branch should review, clarify, and communicate to all regions the policy regarding the applicability of percentage limitations on the payment of progress claims. Consideration should be given to balancing the level of acceptable risk in pursuing the program objectives with the need to manage funds and deal with the inherent challenges of the program at the operational level.**
3. **The Arts Policy Branch should establish formalized operational performance measures at the national and regional levels to enhance efficient use and effective allocation of program resources.**
4. **The Arts Policy Branch should formalize and communicate the follow up process for recipient audit findings. The process should include a clear definition of related roles and responsibilities for HQ program management, regional office program and finance staff.**
5. **The Arts Policy Branch should ensure that the template contribution agreement for the CSC program are reviewed and amended to include all provisions as stipulated in the TBS Policy on Transfer Payments.**
6. **The Arts Policy Branch should consider a more detailed Appendix A to be included in contribution agreements to enhance the ability to monitor project progress and strengthen the control exercised over funding project expenditures. Consideration should be given to identifying more detailed deliverable components, establishing milestone dates and agreed upon time lines for deliverables, and requiring dollar amounts to be assigned to eligible expenditure categories.**
7. **The Arts Policy Branch should ensure that CSC program management continues activities directed at revising, implementing, and strengthening elements of CSC program performance reporting, including:**
 - **the development of appropriate measurable indicators reflecting expected results;**
 - **identification of baseline data to be collected;**
 - **implementation of appropriate data collection methodologies including development of guides and templates; and,**
 - **amending of recipient contribution agreements to reflect performance measurement requirements and clearly communicate performance reporting expectations to recipients.**



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8. **The Arts Policy Branch and Corporate Planning and Management Branch should ensure that for the 2005/2006 and future years, performance reporting for the CSC program in the Departmental Report on Plans and Priorities and the Departmental Performance Report conforms to the requirements of the TBS Policy on Transfer Payments.**

1.0 Background

The objectives of the Cultural Spaces Canada Program (CSC) are to:

- Facilitate access to the performing arts, the media or visual arts, and museum collections; and,
- Increase and improve the physical resources for artistic creation and innovation.

The program achieves these objectives by supporting the construction, renovation, or conversion of arts or heritage facilities and by contributing to the acquisition of specialized equipment or to feasibility studies related to the program objectives.

The desired results are:

- a qualitative and quantitative improvement in the available facilities; better working conditions (health and safety);
- greater productivity and efficiency on the part of users;
- increased use of community facilities;
- more participation in presentations and exhibitions;
- more self-generated revenues; and
- a public awareness that facilities have become more accessible and are of good quality.

The support is provided in the form of contributions to:

- the construction of buildings for arts and heritage activities;
- the renovation and conversion of pre-existing buildings for the purpose of arts or heritage activities;
- the purchase of specialized equipment; and,
- any feasibility studies directly related to the program objectives.

Non-profit arts and heritage organizations incorporated under Part II of the Canada Business Corporations Act or under corresponding provincial or territorial legislation can apply. Provincial/territorial governments, municipal or regional governments, and their agencies, as well as First Nations and Inuit equivalent governments, are also eligible. Federal organizations and Federal crown corporations are not eligible for funding.

The program was launched on the occasion of the Tomorrow Starts Today announcement on May 2nd 2001. Total federal funding in the amount of approximately \$80 million over three years was planned. (\$20 million in 2001-02, \$30 million in 2002-03, and \$30 million in 2003-04). Cultural Spaces Canada has thus far financially contributed to 216 projects.

The program is centrally coordinated and regionally managed in concert with delivery of the Infrastructure Canada Program by other federal government departments, to ensure complementarity and avoid duplication. Overall coordination of the CSC is the responsibility of the Arts Development and Programs Directorate of the Arts Policy Branch of PCH.

The audit of the CSC was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2003-2004.

2.0 Audit Objectives and Scope

The purpose of the audit was to provide program management with reasonable assurance on the soundness of its processes and to identify opportunities to strengthen management practices. Accordingly, the audit addressed the following objectives:

Objective 1: Management control framework and due diligence

Management control framework (systems, procedures, controls and resources) and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.

Objective 2: Information used for decision-making

Information used for decision-making and reporting is timely, relevant and reliable.

Objective 3: Risk management strategies and practices

Risk management strategies and practices are suitable and deliver the intended results.

Objective 4: Program design and implementation

Program design and implementation reflects the objectives of PCH.

The scope of the audit covered the 2002-2003 and 2003-2004 fiscal years.

3.0 Audit Approach

The audit was conducted in accordance with generally accepted auditing standards, and the standards and requirements set out in the TBS Policy on Internal Audit.

Work performed included:

- interviews with CSC program management and staff at headquarters and the regions;

- review of minutes of National Review Committee meetings;
- interviews with representatives from PCH Finance Branch and Heritage Programs Directorate;
- reviewing relevant program documentation;
- review of the Joint Formative Evaluation of the Arts Presentation Canada, Cultural Spaces Canada, and the Canadian Arts and Heritage Sustainability Program Final Report (October 2003);
- conducting a risk assessment on key contribution program activities and processes; and,
- conducting detailed reviews of recipient files.

Our audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. These criteria were derived primarily from the “Attributes of a Well-Managed Grant or Contribution Program” outlined in the Office of the Auditor General (OAG) publication, “A Framework for Identifying Risk in Grant and Contribution Programs” and the TBS Policy on Transfer Payments (PTP). The criteria are listed in Appendix A to the report.

4.0 Conclusion

The audit team’s conclusions are based on the assessment of findings against the pre-established criteria as defined in Appendix A and reflect the audit work conducted between October 6, 2003 and March 15, 2004. In the audit team’s opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH.

The audit team did however identify some areas where management practices and compliance should be strengthened. The findings and recommendations that follow address these areas.

5.0 Findings and Recommendations

5.1 Requirements for Specialized Skills

Findings

Review of a sample of project files established that overall, rigorous due diligence is applied by program officers at the project application and assessment stage, and that monitoring of projects is effectively carried out. Interviews with program officers however established that the officers feel they lack certain of the necessary skills which would further enhance their ability to conduct due diligence in their monitoring activities. Areas identified included: environmental assessments; project management and capital budgeting; and financial statement analysis.

The lack of these skills at the program officer level increases the risk that uninformed decisions will be made at the application assessment and evaluation stage, and that subsequent potential risks related to the recipients' capacity to carry out and complete the projects may not be identified.

Recommendation # 1

The Arts Policy Branch should address the need for specialized skills in the areas of: environmental assessments, project management and capital budgeting, and financial statement analysis. Consideration should be given to: further officer training in these areas, procurement of these skill sets through outsourcing, and/or establishment of a centre of expertise in these areas at the regional level.

Management Response

Recommendation accepted.

The Branch will work with the regional offices and in consultation with the Centre of Expertise to develop officer training in the areas of project management and capital budgeting, and financial statement analysis. The Branch will also consider the pertinence of outsourcing specialized skills such as environmental assessments. A working group consisting of regional and headquarters staff will determine the most effective methods to deliver these training areas. Expected completion date: April 2005.

5.2 Payment of Claims

Findings

The CSC program guidelines state that recipients are entitled to reimbursement of eligible expenditures up to thirty-three percent for construction and renovation projects and fifty

percent for specialized equipment purchases and feasibility studies. The guidelines and the individual contribution agreements provide no guidance as to whether individual progress claims should be subject to these percentage limitations or only the total contribution amount. Interviews with program and finance officers confirmed that ambiguity exists regarding policy interpretation on this issue. Currently, the percentage limitation is not applied to progress claims. Payments of claims is made dollar for dollar of eligible amounts less the 10% holdback, and reconciliation to the maximum amount of project funding is not done until the end of the project.

Interviews with regional managers and program officers indicated that payment of claims on a dollar for dollar basis has served as a means to address the challenges of cash management and avoiding lapsing of funds. If the project does not continue until completion, there exists the situation where the Crown has, in effect, assumed most of the project risk.

The audit team is of the opinion that the practice of not applying the percentage limitations to progress claims subjects Crown funds to undue risk since there is the possibility that projects may not be completed due to other sources of funds not materializing, or for other reasons. This is especially relevant in light of the fact that the guidelines do not require written confirmation of other sources of funding. At a minimum, the practice may effectively result in funds being provided in advance of need, as recipients presumably have access to, and can receive funds from other sources while submitting claims to PCH.

For example, the aforementioned risks were underscored by the circumstances arising out of the agreements with the PEI Museum & Heritage Foundation and the Canadian Canoe Museum, whereby the projects were scaled back or not completed due to lack of funding. Consequently, in both cases the Department has over contributed funds that have to be recovered.

Recommendation # 2

The Arts Policy Branch should review, clarify, and communicate to all regions the policy regarding the applicability of percentage limitations on the payment of progress claims. Consideration should be given to balancing the level of acceptable risk in pursuing the program objectives with the need to manage funds and deal with the inherent challenges of the program at the operational level.

Management Response

Recommendation accepted.

The Branch, in consultation with the Centre of Expertise, will clarify and

communicate to the regional offices the applicability of this policy. Specific training on this policy will be delivered by the Centre for Expertise as part of its Program Officer Training workshops. Expected completion date: Fall 2004.

5.3 Operational Performance Measures

Findings

Interviews with HQ and regional managers indicated that formalized systems, with operational performance metrics, have not been established to measure efficiency of operations to deliver the program either within individual offices or across regions. Managers indicated that informal meetings and communications between managers, officers, and staff, serve as a forum to monitor and review efficiency as well as effectiveness of operations and program delivery.

The lack of a formalized system to measure and compare actual outputs against pre-established standards may impair management's ability to identify areas requiring improvement and to allocate program resources efficiently. As there has been increased demand on the program for funding, staff have been required to dedicate more time to application analysis and processing.

The audit team is of the opinion that a more formalized process for measuring and addressing operational efficiency and effectiveness would enhance management's ability to allocate resources in the most efficient manner and ultimately achieve improved productivity.

Recommendation # 3

The Arts Policy Branch should establish formalized operational performance measures at the national and regional levels to enhance efficient use and effective allocation of program resources.

Management Response

Recommendation accepted.

After four years of operation we recognize the need to review the allocation of operational resources. The Branch will examine, with the Centre of Expertise and other partners, existing models and best practices with respect to establishing formalized operational performance measures. Expected completion date: Fall 2005.

5.4 Recipient Audits

Findings

Through review of the CSC program RBAF, the audit team found that the RBAF includes, as one of the risk management tools, the requirement to conduct recipient audits annually. Recipient audits have been conducted pursuant to the RBAF and the audit plan, and the audit findings have been communicated to the various regions. However, through interviews with regional managers and program officers the audit team found that a formal processes for follow up of audit findings has not been established, and the roles and responsibilities of various program stakeholders with regards to the recipient audit process have not been sufficiently defined.

The lack of a formalized follow up process including the clear identification of the roles and responsibilities of program management and staff in this process increases the risk that audit findings, possibly including recoveries of money due to the Crown, will not be appropriately addressed. A follow up processes to recover overpayments is especially relevant for the CSC program as it provides 'one time' funding to recipients.

We understand that program management is in the process of reviewing requirements in this area.

Recommendation # 4

The Arts Policy Branch should formalize and communicate the follow up process for recipient audit findings. The process should include a clear definition of related roles and responsibilities for HQ program management, regional office program and finance staff.

Management Response

Recommendation accepted.

The Branch will take steps to ensure there is a system in place to deal with the current and future recipient audits. Expected completion date: Fall 2004

5.5 Contribution Agreements with Recipients

5.5.1 Basic Provisions

Findings

The audit team reviewed the contribution agreement templates used by the program and compared the terms and conditions in the templates to the basic provisions stipulated by the TBS Policy on Transfer Payments. The audit team found that the following basic provisions are not included in the standard CSC contribution agreement templates:

- Provision for cancellation or reduction of transfer payments in the event that departmental funding levels are changed by Parliament
- For contributions in excess of \$100,000, a requirement for the recipient to declare any and all sources of proposed funding for the project before and/or shortly after the commencement of the agreement, as well as upon completion of the project. A provision for repayment should Total Government Assistance exceed the amounts anticipated.

The current agreements require disclosure only prior to last payment, and although the agreement states that the 'minister may, in her absolute discretion reduce the Contribution accordingly', there is no explicit repayment provision.

- Indemnification clause for the benefit of the Crown
- Requirement for the recipient to declare any amounts owing to the federal government under legislation or contribution agreements and recognition that amounts due to the recipient may be set-off against amounts owing to the government
- Requirement that any person lobbying on behalf of the applicant is registered pursuant to the Lobbyist Registration Act

Not including these provisions in the contribution agreements impairs overall accountability and risks non-compliance to TBS policies, overpayments to recipients, inability to recover overpayments and ultimately possible loss of funds owing to the Crown.

Recommendation # 5

The Arts Policy Branch should ensure that the template contribution agreement for the CSC program are reviewed and amended to include all provisions as stipulated in the TBS Policy on Transfer Payments.

Management Response

Recommendation accepted.

Pending Program Renewal, all 2005-2006 contribution agreements will be based on the Standard Templates developed by the Centre of Expertise. Expected completion date: April 2005.

5.5.2 Project Schedule, Milestones, and Expenditure Category Limits

Findings

Appendix A of the template contribution agreement provides for the description of the project and categories of eligible expenditures. Our review of a sample of project files confirmed that, in the majority of cases, Appendix A consisted of a very brief project description and listing of the eligible expenditure categories, often no more than a short paragraph in length. Appendix A did not provide for a detailed schedule or time lines for project deliverables, and did not assign dollar amounts to individual expenditure categories. This may curtail the ability of program officers to properly monitor progress of the project and identify potential risks related to project completion.

In our opinion, we would expect to see a detailed statement of work as part of the contribution agreement, which establishes dollar limits for expenditure categories as well as milestone dates for deliverables and clauses allowing the recipient the flexibility to transfer funds between expense categories, provided transfers are within pre-established percentage limits.

Larger, multi year agreements such as construction and renovation projects are inherently susceptible to delays and/or budget over runs. For these projects, we would expect a more detailed schedule for deliverables and assigning dollar amounts to individual expenditure categories in contribution agreements with recipients which would enhance the ability of the program to monitor project progress, and would provide a further dimension of control by strengthening the accountability of the recipient to adhere to established budgets and time lines.

Recommendation # 6

The Arts Policy Branch should consider a more detailed Appendix A to be included in contribution agreements to enhance the ability to monitor project progress and strengthen the control exercised over funding project expenditures. Consideration should be given to identifying more detailed deliverable components, establishing milestone dates and agreed upon time lines for deliverables, and requiring dollar amounts to be assigned to eligible

expenditure categories.

Management Response

Recommendation accepted.

Pending Program Renewal, all 2005-2006 contribution agreements will be based on the Standard Templates developed by the Centre of Expertise. A working group consisting of regional and headquarters staff will determine more detailed Appendices to be included in contribution agreements to enhance the ability to monitor project progress and strengthen the control exercised over funding project expenditures. Expected completion date: April 2005.

5.6 Performance Measurement and Reporting

5.6.1 Performance Measurement and the Results-based Management Accountability Framework (RMAF)

Findings

A RMAF for the CSC (June 2001) has been prepared by PCH program management, pursuant to TBS Policy on Transfer Payments. Through interviews, the audit team found that awareness of the RMAF requirements for performance measurement and reporting was low among program officers. Furthermore, regional managers expressed that the RMAF addresses performance at a generally high level and does not provide sufficient guidance and specificity as to detailed measures of performance or the methodology of collection of the data. Consequently, contribution agreements also lack guidance and do not adequately communicate to the recipients the expectations related to performance measurement.

Currently, performance information is provided to the regions through final project reports of the recipients, and the reports are in turn forwarded to HQ for compilation, analysis, and reporting purposes. These reports are not standardized and reporting templates have not been developed to guide the recipients in providing the necessary baseline data required for performance measurement.

The lack of clearly defined indicators and methodology for performance measurement, along with inadequate communication to the recipients of the expectations for performance reporting, increases the risk that the program will not be able to measure and demonstrate the degree to which it was successful in meeting its objectives.

The audit team found that program management are aware of the challenges related to

performance measurement and reporting, and are taking steps to strengthen the process.

Recommendation # 7

The Arts Policy Branch should ensure that CSC program management continues activities directed at revising, implementing, and strengthening elements of CSC program performance reporting, including:

- **the development of appropriate measurable indicators reflecting expected results;**
- **identification of baseline data to be collected;**
- **implementation of appropriate data collection methodologies including development of guides and templates; and,**
- **amending of recipient contribution agreements to reflect performance measurement requirements and clearly communicate performance reporting expectations to recipients.**

Management Response

Recommendation accepted.

The Branch will continue strengthen its ability to report on results. Recommended steps will be taken and the integrated RMAF/RBAF will be revised to reflect the elements of the recommendation. The Branch is currently working with Corporate Review to address the issue and has put together a working Group on Performance indicators. Expected completion date: Revision of the integrated RMAF/RBAF: Fall 2004. Revision of application form and development of reporting templates: January 2005.

5.6.2 Reporting of Program Performance and Results

Findings

TBS Policy on Transfer Payments requires that transfer payment programs in excess of \$5 million, departments must include in the Departmental Report on Plans and Priorities (RPP) supplementary descriptive material, such as stated objectives, expected results and outcomes, and milestones for achievement. In addition, departments must include in the Departmental Performance Report (DPR) evidence of results achieved, related to the objectives and specific planned results and expected outcomes as stated in their Reports on Plans and Priorities. These requirements apply to the CSC program as it has transfers in excess of \$ 5 Million.



The audit team found that the Departmental reporting on the CSC program in the PCH 2002-2003 and 2003-2004 RPP and the DPR for the period ending March 31, 2003 does not comply with the above requirements. We understand that this external reporting of program performance and results is a departmental issue. External reporting is coordinated by the Corporate Planning and Management Branch with information provided by the programs.

Recommendation

- 8. The Arts Policy Branch and Corporate Planning and Management Branch should ensure that for the 2005/2006 and future years, performance reporting of the CSC program in the Departmental Report on Plans and Priorities and the Departmental Performance Report conforms to the requirements of the TBS Policy on Transfer Payments.**

Management Response

Recommendation accepted in consultation with the the Corporate Planning and Management Branch .

Arts Policy understands that measures have been taken at Departmental level to address the issue. The 2003-04 Departmental Performance Report has been already written in accordance to TBS Transfer Payment Policy.

The Branch will give its full collaboration in providing necessary data for the reports. Expected completion date: December 2004.

Appendix A

AUDIT CRITERIA

<p>Audit Objective 1. Management control frameworks and due diligence - <i>Management control framework (systems, procedures, controls and resources) and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.</i></p> <p>Audit Objective 2. Information used for decision-making - <i>Information used for decision-making and reporting is timely, relevant and reliable</i></p> <p>Audit Objective 3. Risk management strategies and practices - Risk <i>management strategies and practices are suitable to deliver the intended results.</i></p>	
<i>Criteria 1.</i>	There are adequate policies, guidelines and training, tools and processes in place to effectively deliver the program, and to ensure stakeholder understanding of program objectives, expected results and eligibility requirements.
<i>Criteria 2.</i>	Roles and responsibilities of stakeholders (HQ/Regions) are clearly defined, communicated and understood.
<i>Criteria 3.</i>	Regional Offices / HQ have adequate operational, financial and information systems and processes in place to: ensure that funds are being spent for the purposes intended; record, track and report on program performance; and, provide the required performance related information to PCH Program Managers.
<i>Criteria 4.</i>	Regional Offices / HQ have adequate resources to effectively deliver / coordinate the program.
<i>Criteria 5.</i>	Monitoring by Program Managers meets the requirements of the Results Based Audit Framework (RBAF) to ensure that: funds are being spent by recipients for the purposes intended; program performance is being recorded, tracked and reported; and, required performance related information is being provided to Program Managers.
<i>Criteria 6.</i>	The Regional and HQ management control frameworks include monitoring of program operational spending, recipient payments, repayments, and recovery activities on a periodic basis to ensure that the program is managed with due regard for economy.
<i>Criteria 7.</i>	The Regional and HQ management control frameworks include established operational performance measures which are periodically reviewed for improvement of management practices.
<i>Criteria 8.</i>	There is relevant and adequate information to assess performance against program objectives and Results-based Management and Accountability Framework (RMAF) requirements, and Program Managers are reviewing this information, and, where issues arise, are taking appropriate action to address them.



<i>Criteria 9.</i>	Program information is communicated to create awareness for all potential applicants.
<i>Criteria 10.</i>	Information obtained during the application, claims and reporting processes is adequate for funding decision-making purposes.
<i>Criteria 11.</i>	The approval process addresses all of the applicable Program Terms and Conditions, and is open, fair and transparent.
<i>Criteria 12.</i>	The funding decision process in place minimizes the risk that funds are not distributed fairly among eligible recipients.
<i>Criteria 13.</i>	Approval decisions at all levels of program and financial approvals comply with the departmental delegated signing authorities and the Financial Authorities Act (FAA).
<i>Criteria 14.</i>	Payments to recipients are in compliance with the relevant contribution agreement clauses.
<i>Criteria 15.</i>	Repayments or recoveries are carried out in accordance with governing contribution agreements and the TBS Policy on Transfer Payments.
<i>Criteria 16.</i>	Recipient audits are planned based on a risk assessment, and are conducted and followed up in accordance with the RBAF to ensure that: Contribution Agreement clauses are adhered to; funds are being spent for the purposes intended; and recipient systems and processes provide for the recording, tracking and reporting of program performance.

Audit Objective 4. Program design and implementation - Program design and implementation reflects the objectives of the Department as set out in the Treasury Board submission.

<i>Criteria 17.</i>	There is appropriate authority for the Program.
<i>Criteria 18.</i>	The RMAF and RBAF have been prepared in accordance with the Treasury Board Secretariat RMAF & RBAF Guidelines.
<i>Criteria 19.</i>	Program Guidelines are in accordance with Program Terms and Conditions.
<i>Criteria 20.</i>	Clauses in contribution agreements with recipients appropriately address the requirements of the Program Terms and Conditions.