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**REPORT ON THE
AUDIT OF THE
CANADIAN TELEVISION FUND**

CORPORATE REVIEW BRANCH

CANADIAN HERITAGE

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Canada



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EXECUTIVE SUMMARY

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage (PCH) conducted an audit of the Canadian Television Fund Program (CTFP). The objectives of the audit were to provide PCH program management with assurance that CTFP management controls and risk management frameworks are effective, and to provide information that can be used to improve CTFP management and to enhance the CTFP's success in meeting its objectives. For the 2001-2002 and 2002-2003 fiscal years, the audit reviewed program design and implementation, program management control framework and due diligence practices, program processes and risk management practices and information for decision-making and reporting.

The CTFP consists of two complementary programs:

- the **Equity Investment Program** (EIP) administered by Telefilm Canada (Telefilm). Under the program, a direct cash equity investment in the production of up to 49% of the eligible production costs is made.
- the **License Fee Program** (LFP) administered by the Canadian Television Fund (CTFC), an independent, non-profit corporation. Under this program, a license fee top-up is provided to producers to supplement their Canadian broadcaster cash licence fees.

The audit team was of the opinion that both the CTFC and Telefilm have generally well designed management control frameworks for the administration of the LFP and EIP respectively. Effective risk management strategies and practices have for the most part been implemented.

Canadian Heritage's monitoring of the program could be strengthened by revising its RMAF to more clearly set out specific performance indicators, the data source/collection method, responsibility for collection and the timing/frequency of collection and then utilizing it as a key management tool for evaluating program performance on an ongoing basis.

Opportunities were identified to enhance the timeliness, relevancy and reliability of information by:

- more fully documenting the decision-making process within Telefilm Canada for EIP applications
- sharing electronic information on potential applicants' track records between the CTFC and Telefilm



Significant progress has been made by the CTFC and Telefilm over the past several years to integrate processes and minimize duplication of effort. Despite this progress, the audit team is of the opinion that some changes are warranted to the program design and implementation to better reflect the objectives of the Department. These include:

- simplification of the current program governance structure that includes two third party delivery agents who need to closely coordinate their activities;
- clearer language in the contribution agreement and MOU with Telefilm on how recoveries on EIP investments are to be utilized;
- joint audits by the CTFC and Telefilm, of recipients that have received both EIP and LFP funding; and
- changes in Telefilm's contribution agreement of the description of the maximum allowable amount of administrative expenses.



1.0 INTRODUCTION AND BACKGROUND

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage (PCH) conducted an audit of the Canadian Television Fund Program (CTFP). The objectives of the audit were to provide PCH program management with assurance that CTFP management controls and risk management frameworks are effective, to provide information that can be used to improve CTFP management and to enhance the CTFP's success in meeting its objectives. For the 2001-2002 and 2002-2003 fiscal years, the audit reviewed program design and implementation, the program management control framework and due diligence practices, program processes and risk management practices and information for decision making and reporting.

The CTFP is managed by the Broadcasting Policy and Innovation Branch within the Cultural Affairs Sector of Canadian Heritage. The objective of the program is to support the creation and broadcast of high-quality, culturally significant, Canadian television programs. Support is provided for four genres: drama, children's programs, documentaries, and variety and performing arts, in English, French and Aboriginal languages. The CTFP consists of two complementary sub-programs:

- The **Equity Investment Program** (EIP) is administered by a Crown corporation, Telefilm Canada (Telefilm). Under the program, applicants receive a direct cash equity investment in the production of up to 49% of the eligible production costs. Funding is provided for EIP by Telefilm from its Parliamentary appropriation and recoupment revenues and by Canadian Heritage through a contribution agreement with Telefilm. There is also a Memorandum of Understanding (MOU) between PCH and Telefilm regarding Telefilm's appropriation monies used to fund EIP.
- The **License Fee Program** (LFP) is administered by the Canadian Television Fund (CTFC), an independent, non-profit corporation. Under this program, a "license fee top-up" is provided to producers to supplement their Canadian broadcaster cash licence fees. Funding is provided by Canadian Heritage through a contribution agreement and from cable companies and direct-to-home satellite service providers in accordance with Canadian Radio-television and Telecommunications Commission Decision 94-10.

The CTFC was established in 1996 as a public-private partnership. Its Board of Directors is composed of members appointed by Canadian Cable Television Association, PCH, the Canadian Association of Broadcasters, the Canadian Film and Television Production Association and the Association des producteurs de films et de télévision du Québec, the Association for Tele-Education of Canada,



the Canadian Association of Film Distributors and Exporters, and the Canadian direct-to-home satellite industry. A Telefilm Board member is currently amongst PCH's appointees to the CTFC Board.

Applicants may apply for financial support from either or both the Equity Investment Program and the License Fee Program. In 2001-02, LFP and EIP provided a total of \$241 million to 583 projects to produce 2,822 hours of programming.

2.0 OBJECTIVES

The overall audit objectives were to provide PCH program management with:

- reasonable assurance on the soundness of its processes,
- information on where the organization is most exposed to risk, and
- recommendations on which remedial actions are available and appropriate.

3.0 SCOPE

The focus of the audit was fiscal years 2001-02, and 2002-03, with consideration given to changes made to program design and implementation and the management control framework in place for fiscal year 2003-2004. Work was conducted in PCH offices in Gatineau, Quebec and at CTF and Telefilm offices in Montreal, Toronto and Vancouver.

4.0 METHODOLOGY

4.1 Audit Criteria

The audit focussed on the following areas:

- **Management control frameworks and management practices.** The audit examined whether management control frameworks (systems, procedures, controls and resources) and management practices are appropriate to ensure compliance, program delivery, program effectiveness and financial integrity.
- **Information.** The audit examined whether information for decision-making and reporting is timely, relevant and reliable.
- **Risk management strategies and practices.** The audit examined whether risk management strategies and practices are suitable and deliver the intended results.



- **Program design and implementation.** The audit examined the extent to which program design and implementation reflect the objectives of the Department.

Criteria against which observations, assessments and conclusions were drawn in conducting this audit were based on:

- relevant provisions of the *Financial Administration Act*, R.S.C., c. F-11;
- relevant provisions of the *Telefilm Canada Act*, R.S.C., c. C-16;
- the requirements of the June, 2000 Treasury Board Secretariat *Policy on Transfer Payments*;
- the approved Terms and Conditions for the Canadian Television Fund program;
- the provisions of the contribution agreement between PCH and CTFC dated August 1, 2001, as amended on March 27, 2002 and September 10, 2002;
- the provisions of the contribution agreement between PCH and Telefilm dated July 27, 2001, as amended on March 27, 2002 and September 10, 2002; and
- the provisions of the Memorandum of Understanding between PCH and Telefilm dated July 27, 2001.

Specific criteria for the four areas on which the audit was focussed are included in Annex A of this report.

4.2 Fieldwork

Audit fieldwork was conducted between June and September, 2003. Specific audit activities included:

- Review of the relevant provisions of the *Financial Administration Act* and the *Telefilm Canada Act*.
- Review of PCH policies and procedures for administration of the program.
- Review of the contribution agreements between PCH and CTFC and between PCH and Telefilm applicable to the 2001-02, 2002-03 and 2003-04 fiscal years.
- Review of the Memorandum of Understanding between PCH and Telefilm relating to EIP.
- Review of the Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the CTFP
- Review of the Telefilm EIP business plan for 2001-02 (PCH file)
- Review of the CTFC LFP business plan for 2001-02 (PCH file).
- Review of the CTFC integrated business plans for 2002-03 and 2003-04 (PCH file).
- Review of the CTFC Integrated Annual Report for 2001-02.
- Review of CTFC integrated interim activity reports for 2002-03 (PCH file).



- Review of CTFC LFP cash flow projections and reports for 2002-03.
- Review of Telefilm cash flow projections and reports for 2002-03 (PCH file).
- Review of a representative sample of LFP project files for 2001-02 and 2002-03 (see Table 1).
- Review of Telefilm’s internal auditor’s 2001 and 2002 reports relating to EIP.
- Review of a representative sample of EIP project files for 2003-04 (see Table 2).
- Review of Telefilm financial data/records.
- interviews with management and staff responsible for the program within Canadian Heritage, the CTFC and Telefilm.

In conducting the fieldwork, the audit team found that Telefilm’s internal auditor conducted extensive reviews of the EIP program and related Telefilm activities in 2001 and 2002, and that Telefilm had begun implementing its management response to the internal auditor’s recommendations in December, 2002. For the EIP component of CTFP, the audit team therefore focused on examining implementation of the management response in 2003-04, including changes to the EIP program design and management control framework.

A stratified random sample of files was examined for both LFP and EIP. Stratification criteria for the LFP sample were genre, language, result (acceptance/rejection) and dollar value. Criteria for the EIP sample were genre, language, regional office, decision level (national/regional), result and dollar value.

Table 1: LFP File Sample

Year	Genre				Language		Application Result		Application Value (\$)	Commitment Value (\$)	Total
	Drama	Children’s	Documentary	Variety Perf. Arts	English	French	Accepted	Rejected			
2001-02	7	3	3	2	9	6	10	5	8,629,224	8,025,754	15
2002-03	3	2	9	1	12	3	8	7	10,752,184	7,075,032	15
Total	10	5	12	3	21	9	18	12	19,381,408	15,100,786	30



Table 2: EIP File Sample

Decision	Genre				Language			Office			Result		Application Value (\$)	Commitment Value (\$)	Contracted*
	Drama	Children's	Documentary	Variety Perf. Arts	English	French	Aboriginal	Vancouver	Toronto	Montreal	Accepted	Rejected			
Regional	12	4	11	2	9	11	1	7	3	10	15	5	7,701,403	4,725,003	8
National	3	5	2	0	15	3	0	7	8	4	12	7	26,136,612	19,207,666	5
Total	15	9	13	2	24	14	1	14	11	14	27	12	33,838,015	23,932,669	13

* This number represents the number of Accepted applications on which Telefilm had entered into contract with the applicant at the time the audit fieldwork was conducted.

5.0 CONCLUSIONS

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

- Both the CTFC and Telefilm have generally well-designed management control frameworks for the administration of the LFP and EIP respectively. Canadian Heritage's monitoring of the program could be strengthened by revising its RMAF to set out more clearly specific performance indicators, the data source/collection method, responsibility for collection and the timing/frequency of collection, and then utilizing the RMAF as a key management tool for evaluating program performance on an ongoing basis.
- Opportunities exist to enhance the timeliness, relevancy and reliability of information by:
 - more fully documenting the decision-making process within Telefilm Canada for EIP applications; and
 - sharing electronic information on applicants' and funding recipients' track



records between the CTFC and Telefilm.

- Effective risk management strategies and practices have for the most part been implemented. The only risk in the CTFP RBAF that has eventuated to some degree is that related to program reporting. A revised RMAF should mitigate this risk.
- significant progress has been realized by the CTFC and Telefilm over the past several years in integrating processes and minimizing duplication of effort. Despite this progress, some changes are warranted to the program design and implementation to better reflect the objectives of the Department. These include:
 - simplification of the current program governance structure that includes two third party delivery agents who need to closely coordinate their activities;
 - clearer language in the contribution agreement and MOU with Telefilm on how recoveries on EIP investments are to be utilized;
 - joint audits by the CTFC and Telefilm of recipients that have received both EIP and LFP funding; and
 - changes in Telefilm's contribution agreement with regard to the definition of the maximum allowable amount of administrative expenses.

6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Management Control Frameworks and Management Practices

Framework within PCH

The *Policy on Transfer Payments*, the approved terms and conditions for the Canadian Television Fund, and the contribution agreements with the CTFC and Telefilm set out specific requirements for Canadian Heritage with respect to performance monitoring. The CTFC and Telefilm were required:

- to submit a projected monthly cash flow statement before the start of the fiscal year;
- to provide a Business Plan for 2001-2002 and an Integrated Business Plan for 2002-2003 before the start of the fiscal year;
- to provide throughout the year, periodic actual cashflow statements and interim activity reports. In 2002-2003 the activity reports were to be integrated;
- to provide an integrated annual financial statement and activity report; and
- to implement the performance measures identified in the Results-based



Management and Accountability Framework (RMAF).

Since the design and delivery of the detailed program activities is carried out by the CTFC and Telefilm. Performance monitoring is a key component of PCH's management control framework for this program. The required information was provided, although was frequently provided late by one of the delivery organizations. In addition, the audit team found:

- incomplete information on the CTFC and Telefilm's activities and cash flows was found in PCH program and financial files. It was determined that the information had been sent electronically to PCH but had not been placed on file. Steps were initiated by CTFP program management during the fieldwork phase of the audit to review its file structure and to implement measures to ensure files are complete and integrated.
- information was consistently received from Telefilm later than the date set out in its contribution agreement.

There was limited evidence on file of ongoing analysis or follow-up on the information received. Analysis was undertaken when there was a specific requirement that needed to be addressed.

6.1.1 Recommendation

That the Director General, Broadcasting and Innovation, ensure that files contain an appropriate record of analysis and follow-up of information provided by Telefilm.

6.1.1 Management Response

This recommendation has been addressed. In October 2003, the Directorate General launched a review of its entire filing system. Under the direction of the Director and Manager of Private Broadcasting, several employees worked together to re-design and expand the CTF files to provide more precise file sections.

In addition, in November 2003, new administrative processes were put in place and are being used to strengthen the approval of payments made to both the Canadian Television Fund Corporation (CTFC) and Telefilm Canada. The new system is designed to ensure that all the information received is filed properly.



The RMAF was developed before the Treasury Board Secretariat's (TBS) *Guide for the Development of Results-based Management and Accountability Frameworks* was finalized. As a result, the RMAF does not clearly set out specific performance indicators, the data source/collection method, responsibility for collection and the timing/frequency of collection. The inclusion of this detail would, in the audit team's opinion, make the RMAF a more effective management tool.

The integrated 2001-2002 annual activity report coordinated by the CTFC for the CTFP provided detailed information on:

- total projects supported;
- total budgets of projects supported and the total CTFC and Telefilm contribution;
- total new hours produced by genre (children's, documentary, drama, variety and performing arts (VAPA), feature films);
- total number of participating broadcasters;
- project numbers and budgets by genre and language;
- total number of hours, number of projects, funding provided and total production budget by province;
- total number of hours, number of projects, funding provided and total production budget by size of firm (i.e., small or medium enterprise (SME)¹; and
- total number of hours, number of projects, funding provided and total production budget for minority official language productions (i.e. French-language productions outside Quebec and English-language productions in Quebec).

This information is required by PCH so that it can make adjustments to the program on a timely basis to enhance its effectiveness and efficiency.

6.1.2 Recommendation

That the Director General, Broadcasting and Innovation, prepare an RMAF in accordance with the Treasury Board Secretariat's *Guide for the Development of Results-based Management and Accountability Frameworks* and use it as a key tool in monitoring, on an on-going basis, the performance of the Canadian Television Fund program.

6.1.2 Management Response

¹SMEs were defined in the report as companies having gross annual consolidated revenues of less than \$25 million averaged over the past three years or less, and that were not related to any company that exceeds this threshold.



This recommendation is being addressed. At the time the CTF RMAF was developed, the Treasury Board Secretariat (TBS) had not yet completed and published its *Guide for the Development of Results-based Management and Accountability Frameworks*. The CTF RMAF was put together based on general directions and requirements provided by TBS. The program, in partnership with the CTFC and Telefilm, focussed on what appeared to be the most useful indicators on the list that appeared in the CTF RMAF at that time.

Consequently, information is collected for certain indicators but not for others. In addition, the Program is currently beginning a program evaluation which is expected to shed light on how the RMAF could be improved.

A new RMAF will be developed at that time which will be prepared based on the TBS *Guide for the Development of Results-based Management and Accountability Frameworks*. In the meantime, the CTFC will improve its measurement of audiences to Canadian television programs eligible for CTF funding. This will enable the Fund and the Program to better assess the performance of the program.

Delivery Agents' Management Control Framework

Both the CTFC and Telefilm were found to have generally well-designed management control frameworks for the administration of the LFP and EIP respectively:

- eligibility criteria for recipients reflected the requirements in the approved program terms and conditions and the agreements with PCH;
- detailed guidelines have been developed by the CTFC and Telefilm for use by their staff when evaluating funding proposals; and
- the websites for the CTFC and Telefilm provide comprehensive information on the program and application processes for potential applicants.

A review of a sample of the CTFC's files showed that a clear, comprehensive and consistent approach for reviewing applicant proposals was in place and was being followed. Standard checklists and templates were used at all levels of the process. Documents that could not be found in files were quickly located by the file co-ordinator. Applicants' files for productions that were rejected on the basis of ineligibility or over-subscription included documentation that supported the decision. CTFC internal audit staff review files randomly to ensure quality control and consistent application of the



ranking process.

Files on which analysts raised issues with respect to genre, eligibility or risk were reviewed and the issue decided by an Internal Review Committee (IRC). Commencing in fiscal year 2002-2003, there was a formal appeal process in place for applicants who were dissatisfied with the CTFC's decision on LFP funding. The CTFC's Chief Executive Officer made the decision on the appeals.

In the EIP program, national comparative evaluations for production projects seeking \$1 million or more are carried out by the four regional office television unit directors (Western, Ontario and Nunavut, Quebec, Atlantic) and the television Sector Head (Operations) and presented to the Regional Directors and Executive Director. Projects seeking less than \$1 million are evaluated comparatively at the regional level.

The Quebec television unit carries out French national and local comparatives and presents recommendations to the Quebec Regional Director, in the case of regional comparative evaluations, and to the television Sector Heads and the Executive Director in the case of national comparative evaluations.

While the EIP electronic and hard copy files reviewed demonstrated careful and detailed analysis conducted in accordance with the program criteria, there was no documentation of the actual decision-making process at either the regional or national level, other than the final decision, which consisted of a final grid ranking signed by the Executive Director (national decisions) or regional director (regional decisions). Based on interviews with EIP program staff, the decision process appeared to be rigorous and appropriately applied program criteria. However, the absence of adequate documentation means that:

- there is no record that allows for assessment of the consistency with which program criteria are applied across the regional offices;
- there is no record that supports the assessment of analysts' evaluation consistency;
- there is no record to support refinement of Guidelines and criteria for subsequent years; and
- justification and accountability cannot be adequately demonstrated.

6.1.3 Recommendation

That the Director General, Broadcasting and Innovation, encourage Telefilm to fully document the decision-making process and decisions for EIP applications.



6.1.3 Management Response

This recommendation has been addressed. The Director General, Broadcasting Policy and Innovation has raised this issue with Telefilm Canada and indicated to TFC that the Program supports this recommendation. Telefilm is well aware of this issue and agrees with this recommendation.

Telefilm Canada's own internal auditors identified the same problems back in 2002. Since then, a series of remedial actions have been put in place to address issues dealing mainly with the need for Telefilm to fully document the decision-making process and decisions for all its programs, including the EIP. Telefilm has clarified the objectives for each of the programs. It also developed common tools for decision-making (i.e. criteria, grids, point systems, etc.) and implemented a national comparative process to ensure the integrity of the decision-making process. Telefilm is currently implementing the last portion of this plan i.e., quality-control mechanisms throughout its delivery units which will lead to the full documentation of the decision-making process for EIP.

Training

To ensure consistency, the CTFC assigned all LFP training of new analysts to one individual in Human Resources. A training manual has been developed that is continually updated to include new policies and guidelines.

Telefilm has no formal training plan for its analysts, but relies on "on the job" training. Most analysts have a background in production or entertainment law. Emphasis is now being placed on hiring staff with a background in marketing and/or broadcasting. The analysis of the files sampled showed that staff have a high level of knowledge of the television production industry and market, and that "on the job" training appears to have been sufficient.

Conflict of Interest

One Telefilm regional office engages EIP program analysts on contract during heavy workload periods. Since the contract analysts come from and return to the production industry, there is potential for conflict of interest. Telefilm has a conflict of interest policy with general provisions regarding avoidance of conflict during employment, and specific provisions precluding "managers" from representing producers to Telefilm for a defined



period following their employment with Telefilm.

The audit team was told that these provisions are applied de facto to all employees. Telefilm also has a policy regarding outside readers who are contract analysts, which enhances Telefilm Canada's framework for dealing with conflict of interest. The audit team was told that Telefilm carefully monitors the previous employment of contract analysts to preclude their assignment to applications in which they may have an interest. The audit team found no evidence of actual conflicts; however, in the absence of documentation for comparative evaluation decision-making, in which there is wide analyst participation, it cannot be clearly demonstrated, should the need arise, that analysts did not participate in decisions in which they had an interest. Telefilm cannot effectively control where analysts work following their contract with Telefilm, and there is potential for perceived conflict of interest if a contract analyst subsequently works for a

production company whose application they evaluated or were involved in making a decision on.

The Director of the regional office views the use of contract analysts as a good tool for creating a better understanding of CTFP in the production sector. While this view has validity, the audit team believes that on balance, it is outweighed by the potential for perceived conflicts of interest.

6.1.4 Recommendation

That the Director General, Broadcasting and Innovation, encourage Telefilm to pursue organisational, resourcing, and workload distribution practices that minimize the need to engage short-term contract analysts.

6.1.4 Management Response

This recommendation has been addressed. The Director General, Broadcasting Policy and Innovation has raised this issue with Telefilm Canada and indicated to TFC that the Program supports this recommendation.

The Audit was of the view that since the contract analysts came from and returned to the production industry, there is a potential for conflict of interest. That being said, the issue of short-term contract analysts coming from the industry was identified in the Audit Report solely to be the case in Telefilm's Montreal office.



The CTF's new operational procedures were announced in November, 2003 and put in place by both the CTF Corporation and Telefilm as of April 1, 2004. They have led to a streamlined approach in the administration of the funding streams of the Fund and a reduction in the administrative procedures. Telefilm is expected to rely almost exclusively on its internal expertise to assess the applications it receives. Telefilm does not expect to hire contract analysts as in the past. These temporary practices were due to heavy workload periods and very tight schedules to respond to clients requests for funding.

Telefilm Canada's Legislated Mandate

Telefilm Canada's objectives as set out in the *Telefilm Canada Act* are to "foster and promote the development of a feature film industry in Canada". It has specific authority to:

- invest in individual Canadian feature film productions in return for a share in the proceeds from any such production;
- make loans to producers of individual Canadian feature film productions and charge interest thereon; and
- advise and assist the producers of Canadian feature films in the distribution of those films and in the administrative functions fo feature film production.

While some of the productions being funded under the EIP qualify as feature films as defined in Telefilm's legislative mandate, most do not². Canadian Heritage and Telefilm are aware of this issue and at the time of the audit, measures were underway to review Telefilm's legislative mandate and authorities.

6.2 Timeliness, Relevance and Reliability of Information

Due to the structure of the CTFP, there are a series of information flows that must occur so that management at all levels has the information required to optimally manage the program. Information must flow to PCH from the CTFC and Telefilm; information must be shared by the CTFC and Telefilm; and both the CTFC and Telefilm must have information from the individual recipients with whom they are working.

²In 2001-2002, \$14.5 M of the total \$241 M funded by the CTFP supported feature films.



Integrated Reports to PCH

The preparation of an integrated business plan, financial statement and overall activity report is coordinated by the CTFC. Challenges have been experienced in the preparation of these reports (particularly with the production of the integrated financial report) within the timeframes set out in the contribution agreements.

Between the CTFC and Telefilm

In an effort to enhance efficiency in processing applications, commencing with the February 2003 intake of applications for 2003-2004 funding, CTFC staff determined if an application met the four essential requirements and was an eligible genre for both the EIP and LFP. Telefilm staff determined for both programs that if an applicant was eligible, if it qualified as a small/medium enterprise, and determined the type of completion guarantee that would be required. To maximize the efficiency of this process, it is essential that information on applicant track records and the current status of applications be shared by the two organizations.

Information is not, however, shared electronically between the CTFC and Telefilm. As a result, decisions made by one program on behalf of both are not formally recorded in the other program's electronic or hard files. Telefilm has developed extensive producer track record data that could be useful for the CTFC's LFP applicant risk analysis. Producer default information is only shared between the CTFC and Telefilm on an ad-hoc basis.

6.2.1 Recommendation

That the Director General, Broadcasting and Innovation, encourage the CTFC and Telefilm to develop processes that would facilitate the sharing of information collected by one of them, that the other would benefit from utilizing.

6.2.1 Management Response

This recommendation is being addressed. Since the last major revisions brought to the Fund in 2000-2001, Telefilm and the CTFC have been sharing much information and reporting on an integrated basis, though annual business plans, annual activity reports, annual reports and interim activity reports.

The audit report points to the issue of sharing information



electronically, particularly with respect to applicant track records and the current status of applications.

That being said, both organizations are subject to the protection of personal information provided by clients. To remedy to this impediment a new authorisation form has been created and will from now on have to be signed by their clients.

Also, a protocol between the CTFC and Telefilm was signed in fiscal year 2003-2004 on the administration of the CTF funding streams, including provisions on the exchange of information on status of applicants' requests for funding. They also developed together a guide to evaluate the productions costs which will make the two organisations even more integrated on specific aspects of projects assessment.

While there is still some incompatibility between both organisations' computer systems; they are working together to resolve it in an effort to share more information electronically.

Decision Making Process

As noted above, the CTFC has a well-documented process that supports the decisions taken. The CTFC's random reviews of files by CTFC internal auditors provide assurance on the relevance and reliability of the information. Telefilm also has the information it requires although, as already noted, the rationale for its decisions needs, in the audit team's opinion, to be better documented. Both organizations benefit from staff who are very knowledgeable about the industry they are dealing with, and know, based on their own experience or pre-developed criteria, when to request additional information to support the decision making process.

Recipient Reporting

Both Telefilm and the CTFC have payment draw-down schedules that are predicated on defined recipient activity and reporting milestones. The files sampled demonstrated that draw-down requirements, including reporting, were enforced by both organizations and that information was analysed and follow-up action was taken to obtain explanations of variances or anything outside the norm.

In March 2003, Telefilm and the CTFC implemented a common, comprehensive



Accounting and Reporting Requirements (ARR) policy. Canada Customs and Revenue Agency (CCRA) reviewed and supports the ARR, which sets out the type of activity and financial information that must be provided by recipients at various stages of a project. The required documents map to the MOU and contribution agreement requirements for eligible projects. A standard reporting template is provided to recipients. A review of EIP applications for 2003-2004 showed that all finalized agreements with recipients incorporated the drawdown and final payment reporting requirements set out in the ARR.

6.3 Risk Management Strategies and Practices

The Risk-based Audit Framework prepared for the CTFP identified the following risks:

- unclear or conflicting mandates within an organization that can create a risk of promoting one objective at the expense of another (i.e., regional, linguistic, multicultural and aboriginal objectives);
- federally supported TV productions do not provide diverse and distinctively Canadian views to Canadians;
- real or perceived inappropriate decisions made as a result of conflict of interest;
- projects approved for ineligible recipients, expenditures, or do not meet funding criteria as per program terms and conditions;
- financial assistance could exceed allowable limits of total project budget; and
- program reports submitted by the CTFC and Telefilm do not meet expectations of the Contribution Agreements.

Through the requirements set out in the contribution agreements with the CTFC and Telefilm, the detailed eligibility criteria established for the EIP and LFP, the integrated business plan, and the strong management control framework established by both the CTFC and Telefilm, almost all of the identified risks have been addressed. The only risk that, in the audit team's opinion, has eventuated to a degree relates to program reporting, where the audit team believes better information requirements need to be defined. If recommendation 6.1.2 of this report is implemented, the audit team believes that this risk will be mitigated.

6.4 Program Design and Implementation

Governance Structure

The current governance structure for the CTFP is complex. It uses two delivery agents



that have different legal structures and different priorities. Each delivery agent has its own contribution agreement with Canadian Heritage. Despite these differences, the CTFC and Telefilm must work together closely as many recipients require funding under both the EIP and LFP to proceed with their production. In addition, PCH has requested integrated reporting from the two organizations.

The program delivery framework is set out in the *Governance Structure* document that has been approved by the Board of Directors of both the CTFC and Telefilm. It describes four realities associated with the delivery of the program:

- the Telefilm Board of Directors is responsible for approving the business plan, administrative budget and Guidelines for the EIP;
- Telefilm is obligated under the EIP Contribution Agreement to cooperate with the CTFC in the development of an integrated business plan, administrative budget and Guidelines for the EIP and LFP collectively;
- the CTFC is obligated under its own Contribution Agreement to mutually approve, along with the Board of Directors of Telefilm, the business plan, administrative budget and Guidelines for the EIP; and
- PCH wants the CTFC to be proactive in developing a more integrated management approach to the operation of the two Programs without impacting on Telefilm's legal and fiduciary responsibilities for the EIP.

To facilitate this relationship, a Telefilm Board member recommended by the Telefilm Board is one of the five Directors nominated to the CTFC Board by the Minister of Canadian Heritage. Telefilm's nominee is an *ex officio* member of the CTFC Executive Committee, if not otherwise an officer of the corporation. The CEO of the CTFC is not a member of the Board but is mandated to support it as required. Both Telefilm's Executive Director and its EIP Program Head are identified as staff supporting the CTFC's Executive Committee.

The CTFC management team organization chart provided in the *Governance Structures* document shows Telefilm's EIP Director reporting to the CTFC's Chief Executive Officer on a "dotted line" basis, and to Telefilm's Executive Director on a direct line basis. In fact, there are two Telefilm Sector Heads (Operations and Policy) for EIP, and their role is primarily a national coordinating one. Both generally attend CTFC Management Committee meetings and, from the CTFC CEO's perspective, make a positive contribution to the discussion. However, responsibility for Telefilm EIP staff and the day-to-day operation of the program lies with Telefilm's four Regional Directors who report to the Executive Director.

In the audit team's opinion, this structure presents a number of inherent strains that are



impeding the efficiency of program delivery. They include:

- *The use of two delivery agents to deliver separate, yet linked components of the same program.* CTFC has responsibility for coordinating aspects of both programs but has been given no tools other than moral suasion to do so. Canadian Heritage has separate contribution agreements with each delivery agent and provides funding directly to each.
- *Program coordination.* While the CTFC has responsibility for coordinating aspects of both programs, Telefilm could be perceived as having more influence with the Department of Canadian Heritage, making the CTFC's coordination role more difficult. A Telefilm Board member is guaranteed a position on the CTFC Board, but not vice versa. The Telefilm Board, through its Chair, has a direct reporting relationship to the Minister of Canadian Heritage, the CTFC Board does not.
- *The EIP is delivered by Telefilm using monies from both its appropriation and from a contribution from Canadian Heritage.* This creates mixed accountabilities as Telefilm is responsible to Parliament through the Minister of Canadian Heritage for the use of its appropriation, and is responsible to the Department of Canadian Heritage for the use of the contribution. Since the funds are pooled to provide equity funding to producers, it is impossible to isolate the results achieved by the funds provided under the contribution agreement.

Further, the Government's Expenditure Plan and the Main Estimates indicate that in 2001-2002 and 2002-2003, \$47,638,000 of Telefilm's total appropriation was to be used to provide financial assistance for the production of television programs as part of the Canadian Television Fund. A further \$14 million is identified to cover the services required to assess, select and administer projects to be assisted. There was also an assumption that almost 20% of the amount earmarked in Telefilm's appropriation for EIP and the Canada Feature Film Fund would be recouped. (Refer to Appendix A for details on Telefilm's appropriation.) In 2001-2002 and 2002-2003, actual recoveries on programming investments were equivalent to 23% and 24% respectively of the appropriation to be used for the EIP.

The Terms and Conditions applicable to EIP provide that "any recoupment from investment made using the resources allocated to the EIP ... shall return to the Program to provide greater investment opportunities" [emphasis added]. Both the MOU and the Contribution Agreement require that any recoupment from the



EIP be returned to the Program³. The MOU further requires that Telefilm agree to commit no less than \$45 million of its annual operating budget to the EIP. It is clear from Telefilm's audited financial statements (see table 3) that it is using the recoveries to meet this commitment. This does not appear to reflect the intent of the Terms and Conditions. Normally, when an agreement requires that funds get returned to an operational budget, the intent is that the organization will provide additional funds above and beyond existing commitments and funds will not get used to reduce the commitment an organization would have to make from its funds otherwise available.

- *Delivery of the EIP by a Crown Corporation subject to the requirements of the Financial Administration Act.* The CTFC as a non profit corporation, has the ability to create reserves for unexpended funds that have come from sources other than its contribution from Canadian Heritage. It frequently uses that capacity at fiscal year end to manage its commitments and smooth out the flow of funds to producers from year to year. The television industry is such that unforeseeable delays frequently occur, resulting in production occurring months or years later than originally envisaged. Predicting how much of the EIP and LFP funding will actually be used in a given year is difficult. Telefilm has been provided with very limited ability to carry funds not needed in one fiscal year to another.
- *Canadian Heritage's representation on the CTFC Board of Directors.* While such participation is permitted, the TBS *Policy on Transfer Payments*⁴ requires that "such involvement must not be seen to be exercising control on the committee or board or on the use of the funds". In many respects, it is easier for government departments to achieve their program objectives by detailing their requirements in the contribution agreement and not take any role in the governance of a third-party delivering a program on their behalf.

The audit team understands that PCH program management is in the process of reviewing the governance structure of the CTFP. The audit team believes that this review is timely, especially in light of the plan to revise the *Telefilm Canada Act*. There are a range of potential options available to the Department that could result in streamlined administration of the program, clearer accountabilities, and better integration of the CTFP's two components. These include:

³Paragraph 7.1.11 of the contribution agreement and 2.1 (d) of the Memorandum of Understanding.

⁴Paragraph 7.11.4, *Policy on Transfer Payments*.



- status quo, with clarifications of roles and responsibilities;
- delivery of all aspects of the program by a non profit corporation;
- delivery of all aspects of the program by Telefilm Canada with amended legislation, or another Crown corporation; and
- delivery of all aspects of the program by Canadian Heritage.

Revisions to the *Telefilm Canada Act* are anticipated in the 2004-2005 fiscal year. The audit team believes that it would be beneficial to clarify the language in the contribution agreement and MOU with Telefilm on how recoveries on programming investments are to be treated.

6.4.1 Recommendation

That the Director General, Broadcasting and Innovation, amend the existing contribution agreement and MOU with Telefilm Canada for the EIP to clarify, in accordance with the approved terms and Conditions, whether recoupment from investments can be used to offset the funding Telefilm would otherwise have to provide from its appropriation, or whether it is to be used solely to supplement what would otherwise be available from Telefilm's appropriation.

6.4.1 Management Response

This recommendation is being addressed.

New wording has been added to the Contribution Agreement and MOU to clarify when and how recoupments by Telefilm are to supplement its investments in the form of appropriations. The new wording also specifies the minimum investment that needs to be made by Telefilm Canada (combining appropriation and recoupments). It also reflects the terms and conditions and discussions at the CTF Board level. The new wording will be integrated into the new agreement and MOU ratified by both Telefilm and the Program in June, 2004.

6.4.2 Recommendation

That the Director General, Broadcasting and Innovation, continue and conclude a review of the existing governance structure to facilitate streamlined program administration, clearer



accountabilities, and better integration of the CTFP's two components.

6.4.2 Management Response

This recommendation is being addressed. In the summer 2003, the Program and the CTF began an in-depth review of the Fund to improve it and make it more efficient.

In 2003-2004, the Board of Directors of the Fund has focused on improving the operations of the Fund. As it was announced in November 2003, the Fund has taken a new approach to simplify its administrative processes and make audience ratings a critical factor in its funding decisions. Although the Fund's basic eligibility criteria and the types of programs that are eligible remain unchanged, important changes have been implemented in the way funding is managed.

In its response to the Standing Committee on Canadian Heritage Report entitled: *Our Cultural Sovereignty: The Second Century of Canadian Broadcasting*, the Government committed to simplify and clarify the structure of the Fund and to consider the "one board - one administration" model. Following the tabling of the Government's response in November 2003, the Program has pursued further consultations with the industry which culminated by a second roundtable discussion held on April 15, 2004. The Program is currently developing options taking into consideration the views of stakeholders. Any option will include a transition period which could take 12 to 18 months.

Duplication of Effort

Until 2003-04, there was duplication of analysis and decision-making effort for LFP and EIP applications. Commencing with the February 2003 intake of applications for 2003-04 funding, LFP staff determine for both programs if a project meets the four essential requirements and is an eligible genre. EIP staff determine for both programs if an applicant is eligible, if it qualifies as a small/medium enterprise, and determine the type of completion guarantee that will be required. A common Accounting and Reporting Requirements policy came into effect in March 2003.



Both Telefilm and the LFP currently conduct separate risk-based recipient audit programs, although the majority of productions receive funding from both EIP and LFP. Where a producer receives funding under both programs, it would be more efficient to have one audit confirm the eligibility of the costs for both and to confirm that no costs were claimed twice.

6.4.3 Recommendation

That the Director General, Broadcasting and Innovation, encourage the CTFC and Telefilm to undertake consolidated audits of recipients wherever a recipient has received funding under both the EIP and LFP.

6.4.3 Management Response

This recommendation is being addressed. The recommendation is consistent with ongoing efforts to harmonize and streamline the operations of the CTFC. Both organisations are working towards doing consolidated audits within the next year (2004-2005).

The Program intends to include a clause in its contribution agreements with both the CTFC and Telefilm Canada requiring them to lead consolidated audits of clients for clients receiving both licence fee top-up and equity investment funding support. The agreements will be ratified by both parties in June, 2004.

The decision to streamline the administrative responsibilities related to both administrators of the Fund and the clearer division of the work based on the different funding streams of the Fund should facilitate the consolidated audit of clients receiving both license-fee top-ups and equity investments.

Administration Costs

Appendix 'A' of the PCH contribution agreement with CTFC provides that overall administration costs shall not exceed 7% of the total resources of the Fund. "Fund" is defined in the agreement as "the Corporation that operates various programs designed to support the Canadian television industry, and including the Equity Investment Program and the Licence Fee Program". Administration costs are not defined.



Appendix 'A' of the contribution agreement with Telefilm requires Telefilm to maintain an account for the contribution separate from its own (appropriation) contribution.

Administration costs are first to be charged against Telefilm's appropriation. Once the appropriation has been exhausted, all "reasonable" costs may be charged to EIP, and may not exceed 7% of the total resources of the Fund.

CTFC is thus accountable for ensuring that overall administration costs do not exceed 7%, but has no effective control over the amount attributed to administration costs by Telefilm, since PCH funds for EIP are advanced to Telefilm under a separate contribution agreement. While Telefilm's administration costs (identified by its Activity Based Costing system) were less than 7% of the total amount it expended on EIP in both 2001-2002 and 2002-2003, the wording of its contribution agreement would allow Telefilm alone to exhaust the allowable administration costs for the entire Fund (i.e. LFP and EIP).

6.4.4 Recommendation

That the Director General, Broadcasting and Innovation, amend the contribution agreement with Canadian Television Fund (CTFC) to include an appropriate definition of the administration costs that it may charge to the CTFP.

6.4.4 Management Response

This recommendation is being addressed through amendments to the Contribution Agreements with both the Canadian Television Fund Corporation and Telefilm Canada.

Telefilm's and CTFC's Contribution Agreements now include the following definition of administrative costs:

"Administrative Costs" mean all costs incurred by the Corporation (or Telefilm Canada) and related to the following activities: salaries and benefits, professional services, training and staff relations, office and occupancy, telecommunications, travel, relocations, communications, amortization and other activities directly related to the administration of all funding streams of production support.

The contribution agreement will be ratified in June, 2004.

6.4.5 Recommendation



That the Director General, Broadcasting and Innovation, amend the contribution agreement with Telefilm to include an appropriate definition of and limitation on the administration costs that it may charge to the CTFP.

6.4.5 Management Response

This recommendation is being addressed through amendments to the Contribution Agreement with Telefilm Canada. The clause now states:

“Administration costs will first be charged against Telefilm’s appropriation. Once the appropriation has been exhausted, then all reasonable administration costs will be charged to the English Drama Funding Stream and the Special Initiatives Funding Stream. For 2004-2005 and 2005-2006, Telefilm shall ensure that its share of administration costs does not exceed that which has been approved by the CTF Board of Directors in the Integrated Annual Business Plan.”

The contribution agreement will be ratified in June, 2004.



APPENDIX A

TELEFILM'S APPROPRIATION AND EXPENDITURES ON EIP 2001-2002 AND 2002-2003

	2001-2002	2002-2003
Summary of Funding Through Appropriations⁵	('000)	('000)
Administration	\$13,956	\$14,028
Canadian Television Fund	\$47,638	\$47,638
Canada Feature Film Fund	\$79,150	\$90,650
Support of Professional Development and Complementary Activities	\$10,488	\$10,488
Subtotal	\$151,232	\$162,804
Less: Expected Revenues	\$25,700	\$25,700
Total Budgetary Requirements	\$125,532	\$137,104

EIP Statement of Operations and Equity⁶	('000)	('000)
Revenue		
Contributions from PCH	\$56,175	\$47,275
Transfers from LFP	\$8,448	\$26,761
Portion of Parliamentary appropriation		
Investments in EIP	\$35,438	\$35,438
Operating Costs	\$4,686	\$3,811
Recoveries on programming investments	\$10,904	\$11,459
Programming investments revenues	\$44	\$350
Total Revenue	\$115,695	\$125,094
Expenses		
Programming investments	\$102,912	\$114,206
Operating Costs	\$7,175	\$8,090
Total Expenses	\$110,087	\$122,296

⁵2002-2003 Estimates: Parts I and II: The Government Expenditure Plan and The Main Estimates, page 4-12

⁶Draft Financial Statements for the EIP, for the year ending March 31, 2003



	2001-2002	2002-2003
Excess of Revenue over Expenses	\$5,608	\$2,798

APPENDIX B SPECIFIC AUDIT CRITERIA

The following are the specific audit criteria for each audit objective:

A. Management Control Frameworks and Management Practices

- The program complies with appropriate acts, regulations, terms and conditions, policies and appropriate agreements.
- The management control framework identifies the intended results, ensures that the results achieved are monitored and assessed on a regular basis, and supports sound management practices.
- Decisions concerning the approval of recipients and of projects respect the concepts of due diligence, namely a sound justification, a reasonable analysis and accountability

B. Information for Decision-Making and Reporting

- The program reporting framework addresses the program's stated objective.
- Management reports and information contained in the recipient files are provided in a way that is conducive to their use in the program accountability and decision making-process.
- The program control framework addresses the management information requirements and expected attributes (verifiable, relevant, complete).

C. Risk Management Strategies and Practices

- The program's key risks are expressed and assessed in specific results-oriented terms related to client needs and program objectives and, are measured and evaluated on a regular basis.
- Appropriate strategic and operational plans are developed, applied, reviewed, and updated with suitable frequency.

D. Program Design and Implementation

- Program design elements, such as legislation, accountability agreements, terms and conditions, eligibility criteria, applicant guidelines, criteria and processes for evaluating applications, process for payment of funds, means of communicating program information, and monitoring of results are appropriate, relevant and complete.
- Agreements are applied consistently.
- Program activities and funding mechanism are delivered, measured and reported in a way that is relevant to the departmental objective.



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