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REPORT ON

THE AUDIT OF THE MOVABLE CULTURAL PROPERTY PROGRAM (MCPP)

CORPORATE REVIEW BRANCH

DEPARTMENT OF CANADIAN HERITAGE

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Canada



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ANNEX A



EXECUTIVE SUMMARY

The audit of the Movable Cultural Property Program (MCP) was conducted pursuant to the approved Department of Canadian Heritage Audit and Evaluation Plan for 2003-2004. The objective of this audit was to provide program management with assurance on the soundness of processes, and to determine where the organization is most exposed to risk and to identify which remedial actions are available and appropriate.

The audit team's conclusions are based on the assessment of findings against the pre-established objectives as defined in section 2 and reflect audit work conducted between September 2, and September 30, 2003. 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 supports sound management practices. Management decisions respect the concepts of due diligence, namely sound justifications, reasonable analysis and accountability. While the program intended results have been identified, reporting of results achieved has not been formalized.
- Information used for decision-making is adequate. Qualitative information was not available.
- Operational risk management strategies and practices are appropriate and adequate.
- Formal strategies that would address risks related to program's objectives and ways to mitigate these risks have yet to be developed.
- The Program design and implementation reflect the objectives of the Department.

The audit team identified some areas where management practices and processes can be strengthened:

- A Result-based Management Accountability Framework (RMAF) and a Risk-based Audit Framework (RBAF) should be developed, first to comply with the Treasury Board policy on Transfer Payments Policy and second, to provide the Program with the appropriate measures and mechanisms to measure and report on results.

- The MCPP database requires additional documentation.
- The program needs to develop a formal management process to address risks related to the program strategic management.



1.0 BACKGROUND

The 2003-04 audit plan of the Assurance Services Directorate, Corporate Review Branch of the Department of Canadian Heritage (PCH) identified the need to conduct an audit of the Movable Cultural Property Program (MCPPE). The requirement was established as a result of a departmental-wide program risk assessment.

The *Cultural Property Export and Import Act* came into force on September 6, 1977. The *Act* regulates the import and export of cultural property, provides grants to assist with the acquisition of cultural property in special cases, and provides special tax incentives to encourage Canadians to donate or sell important objects to designated heritage institutions in Canada. The *Act* is administered by the Canadian Cultural Property Export Review Board and the Department of Canadian Heritage.

The objective of the Movable Cultural Property Program is to protect objects of cultural significance to Canada and to ensure respect of our international obligations pursuant to ratified treaties as reflected in the *Cultural Property Export and Import Act*. It does this by:

- regulating the export of cultural objects;
- entering into international agreements that prevent the illicit trafficking of cultural property;
- coordinating with the Canada Border Services Agency, the identification and authentication of objects destined for import into Canada to prevent the illicit traffic of cultural property;
- providing grants to assist in the acquisition of significant cultural property threatened with export or located outside the country; and
- designating well-managed custodial institutions and public authorities so that they are eligible to apply for cultural property grants and to apply for certification of cultural property to the Canadian Cultural Property Export Review Board to have donations and sales certified as cultural property for income tax purposes.
- certifying, through the Canadian Cultural Property Export Review Board, cultural property donated or sold to designated institutions for income tax purposes.



1.1 Export Control

The Export component of the Program ensures that a permit is requested for the export of items of cultural property identified on the Canadian Cultural Property Export Control List. Through the Canada Border Services Agency an average of 400 to 500 permit applications are processed annually, covering cultural property worth some \$40 million. Approximately 15% of these applications are for temporary permits, for a purpose such as exhibition, conservation and research. The other 85% are applications for permanent export permits, for a purpose such as sale on international markets or delivery to foreign buyers.

Of the applications for permanent export permits, approximately 5% are denied because the object in question is deemed, by an expert examiner, to be of "outstanding significance and national importance".

The Review Board reviews appeals for export permits that have been denied and for which an appeal has been requested. During the two last fiscal years, the Board heard 35 appeals of export permits that had been refused, and established a delay period in each case.

1.2 Prevention of Illicit Trafficking of Cultural Property

This program activity administers section 37 of the *Cultural Property Export and Import Act*, the mechanism through which Canada undertakes to respect the terms of the 1970 UNESCO Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property. Under this provision, from the date when Canada and an object's country of origin became signatories to the convention, any object that is identified as protected cultural property by its country of origin that is exported illegally cannot be imported into Canada.

1.3 Designation of Institutions and Public Authorities

In order to receive donations or sales of certified cultural property, Canadian institutions and public authorities such as band councils must be "designated" by the Minister through the MCPP. This process ensures that Cultural Property Income Tax Certificates are issued only to designated institutions that are publicly owned and that have the required professional collections management capability and appropriate environmental controls for the preservation of cultural property. Institutions and public authorities must also be designated to be eligible to apply for MCPP Grants or Loans.

The program allows two types of designation: Category “A” and Category “B” designation status. Category “A” designation is for an indefinite period of time and for a general purpose and relates to institutions or public authorities having mandates to collect and preserve specific categories of movable cultural property.

An institution or public authority would apply for Category “B” designation if it does not meet all the criteria for Category “A” designation yet wishes to apply to the Canadian Cultural Property Export Review Board to have specific proposed acquisitions certified or to apply for a Movable Cultural Property Grant or Loan for a specific object. Category ‘B’ may be granted on a one-time basis or to institutions striving to achieve Category ‘A’ status.

The department approves, on average, one Category “A” designation per year and an average of 30 Category “B” designations per year. There exist currently approximately 250 Category ‘A’ designated institutions across Canada.

1.4 Certification of Cultural Property

This activity involves the certification of cultural property for the purpose of issuing Cultural Property Income Tax Certificates (CCRA Form T871) to individual or corporate donors and vendors. The issuance of Cultural Property Income Tax Certificates has allowed Canadian collecting institutions to build and enrich their collections and contributes to the preservation of the nation's heritage.

The Program receives over 1000 applications for certification per year, representing an annual average fair market value of over \$100 million in certified cultural property donated or sold to Canadian institutions.

2.0 OBJECTIVE

The objective of this audit was to provide program management with assurance on the soundness of processes and to determine where the organization is most exposed to risk and to identify which remedial actions are available and appropriate. More specifically, the objective of this audit was to determine if the following criteria were met:

- Management control frameworks and practices are appropriate to ensure compliance, effectiveness and financial integrity;
- Information used for decision-making and reporting is timely, relevant and



reliable;

- Risk management strategies and practices are suitable and deliver the intended results; and
- Program design and implementation reflect the objectives of the Department.

3.0 AUDIT SCOPE

The audit examined the program in relation to the respective objectives. The scope of the audit covered the program activities for fiscal years ended March 31, 2001 to March 31, 2003. Grants provided during the fiscal years 2001-02 and 2002-03 were subject to the audit.

4.0 AUDIT APPROACH

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

The audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn.

Work performed included:

- review of relevant program documentation. A list of these documents is presented in "Annex A";
- interviews with program staff identified in "Annex A";
- a risk assessment on key program activities and processes; and,
- a review of a sample of recipient files based on risk assessment.

5.0 STATEMENT OF ASSURANCE

The audit team's conclusions are based on the assessment of findings against the preestablished objectives as defined in section 2 and reflect audit work conducted between September 2 and October 10, 2003. 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 supports sound management practices. Management decisions respect the concepts of due diligence, namely sound justifications, reasonable analysis and accountability. While the Program intended results have been identified, reporting of results achieved has not been formalized.
- Information used for decision-making is adequate. Qualitative information was not available.
- Operational risk management strategies and practices are appropriate and adequate.
- Formal strategies that would address risks related to program's objectives and ways to mitigate these risks have yet to be developed .
- Program design and implementation reflect the objectives of the Department.

The audit team identified some areas where management practices and processes can be strengthened. The findings and recommendations that follow address these areas.

6.0 FINDINGS AND RECOMMENDATIONS

6.1 Management Practices and Processes

The management control framework presently in place supports sounds management practices. It includes a number of strategies and processes to ensure compliance with the *Act*. These strategies and practices could be summarised for each application as follows:

- Eligibility is appropriately determined by MCP staff.
- Issues of outstanding significance, national importance and fair market value are assessed by the Review Board.
- Management exercises appropriate accountability.



However, we noted that the Program does not have a Result-based Management Accountability Framework. Reports on results achieved have not been formalized.

Program results are obtained through the development of an adequate Results-based Management Accountability Framework, which is also required by the Treasury Board policy on transfer payments when an organization issues grants and/or contributions.

An RMAF needs to be developed which contains performance indicators, data source and collection method to measure accomplishment against the program's objectives.

6.1.1 Recommendation

It is recommended that the Director, Movable Cultural Property develop a Results-based Management Accountability Framework (RMAF) to comply with Treasury Board policy on Transfer Payments and to provide the Program with appropriate mechanisms to measure and report on results.

6.1.2 Management Response

Recommendation accepted. The Director, Movable Cultural Property will develop a Results-Based Management Accountability Framework (RMAF) to comply with the Treasury Board policy on Transfer Payments and to provide the Program with appropriate mechanisms to measure and report on results by the end of December 2004.

6.2 Comprehensive Database for the Program

In fiscal year 1991-92, the MCPP initiated the development of an accessible and comprehensive database, to better carry out Ministerial responsibilities under the *Cultural Property Export and Import Act* and provide an accessible and comprehensive database for the Program. Necessary resources were allocated to develop and expand the use of a computer application.

To properly and safely develop an extensive computer application, certain activities must be initiated and documents produced such as: project definition, users need identification, feasibility study, system description, a user manual etc.

We noted that the database development is almost complete and these documents

have not been produced. These documents are required to confirm that the final product adequately answers specifications as they were initially stated by management. They document the application functionality which will be needed in the future to properly execute any further modifications to the database. Finally, they ensure proper training of any potential users and staff.

6.2.1 Recommendation

It is recommended that the Director, Movable Cultural Property ensure that the development and implementation of the comprehensive MCPP database is adequately documented.

6.2.2 Management Response

Recommendation accepted. In 1991-1992, a project definition, user needs identification, feasibility study, and system description were developed but have subsequently been archived and are not available.

In 1995, necessary resources were allocated to redevelop and expand the computer application using another software, a more stable and useful system built on the foundation of the preceding system. All user specifications have been documented and are available.

All changes to the system developed through the current software are logged and documented to binders. We are currently consolidating back-up support on-site for system documentation. An online user manual is scheduled for development by the end of February 2005.

6.3 Information Used for Decision-making and Reporting

Information used for decision-making is adequate, however, several areas for improvement were noted. The program reporting framework does not address the program's stated objectives.

Current reports (financial and narrative) account for the program's day to day operations eg., documents to be submitted to the Review Board, etc. Quantitative MCPP data related to the objectives (tables, trends, statistics, etc.) was available in a draft report that covers a ten year period. However, qualitative information (program strength and weaknesses, etc.) was not available. Similarly intended results against objectives have



not been formalized.

An RMAF needs to be developed which contains performance indicators, data source and collection method to measure accomplishment against the program's objectives.

6.3.1 Recommendation

It is recommended that the Director, Movable Cultural Property develop a performance measurement plan and process to capture and roll up performance information on the program and report on the intended results for the program's objectives as identified in an RMAF to be developed.

6.3.2 Management Response

Recommendation accepted. The Director, Movable Cultural Property will develop a performance measurement plan and process to capture and roll-up performance information on the program and report on the intended results for the program's objectives as identified in an RMAF to be developed by the end of December 2004. A cumulative report covering a decade will be published by the end of November 2004.

6.4 Risk Management Strategies and Practices

Operational risk management strategies and practices are appropriate and adequate. As mentioned in section 5, these strategies and processes include, for each application, an eligibility process, an assessment of items by the Review Board or Expert Examiners and appropriate accountability. Consequently, the operational risk is minimal.

However, our review of the management framework, interviews with management, and the review of documentation highlighted the fact that the program needs a formal management process to address risks related to the program management and its strategic delivery. Key risks have not yet been itemized, their probability of occurrence and impact on the program have not been described, and formally documented, or risk mitigation strategies developed.

6.4.1 Recommendation

It is recommended that the Director, Movable Cultural Property develop formal strategies to address risks related to program's objectives,



implement measures to mitigate or control these risks and report on the risk management process.

6.4.2 Management Response

Recommendation accepted: The Director, Movable Cultural Property will develop a Risk-Based Audit Framework (RBAF) to address risk related to the program's objectives and implement risk mitigation strategies and report on the risk management process by the end of December 2004.



Annex A

Program Documentation

Cultural Property Export and Import Act

Movable Cultural Property Program

Canadian Cultural Property Export Review Board

Cultural Property Grants and Loans Program

Designation of Institutions and Public Authorities and Forms (3)

- Application for designation;
- Collection Preservation Assessment;
- Fire Protection Assessment; and
- Security Assessment.

Certification of Cultural Property for Income Tax Purposes: Information, Procedures and Forms including Guidelines for “Outstanding Significance and National Importance”.

Exporting Cultural Property from Canada

- A Guide to Exporting Cultural Property from Canada
- Canadian Cultural Property Export Control List
- Cultural Property Export Regulations

Protecting Canada’s Treasures (draft).

Ten-year Retrospective Report of the *Cultural Property Export and Import Act* (draft).



Program Staff Interviewed

Catherine Jensen, Program Director

Sonia Lismer, Manager, Movable Cultural Property Program

Sutheat Tim, Acting Senior Program Officer

Debbie Marleau, Program Officer