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**REPORT ON THE  
AUDIT OF THE URBAN MULTIPURPOSE ABORIGINAL  
YOUTH CENTRES INITIATIVE (UMAYC)**

**CORPORATE REVIEW BRANCH**

**CANADIAN HERITAGE**

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## EXECUTIVE SUMMARY

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage, conducted an audit of the Urban Multipurpose Aboriginal Youth Centres (UMAYC) initiative. The objectives of the audit were to provide UMAC Program management with assurance that management controls, risk management frameworks and overall governance structure are effective and information that can be used to improve the management of the Initiative, to develop risk management frameworks where appropriate, and to enhance the Initiative's success in meeting its objectives. For the 2000-01 and 2001-02 fiscal years, the audit reviewed initiative design and implementation; initiative management control framework and due diligence, and initiative processes and risk management practices.

The UMAC was approved in 1998. In keeping with the government's commitments made in its election platform in 1997, its subsequent Speech from the Throne, and its response to the Royal Commission on Aboriginal Peoples (RCAP) Final Report, *Gathering Strength: Canada's Aboriginal Action Plan*, the initiative is targeted at urban Aboriginal youth aged 15-24 (and where circumstances warrant, Aboriginal youth aged 10-14 and 25-29 years), living in off-reserve communities of more than 1,000. The primary goal was to create a network of urban Aboriginal youth centres to support and assist urban Aboriginal youth in enhancing their economic, social and personal prospects. Canadian Heritage partnered with three national Aboriginal organizations and Aboriginal youth, to deliver the program. In six cities in western Canada PCH's regional offices also manage a component of the initiative.

The audit team was unable to provide assurance that management controls, risk management frameworks and the overall governance structure are effective. Four key issues underlie the observations and recommendations contained in the report:

- There are significant deficiencies in key program documents, notably the approved Terms and Conditions and Contribution Agreement templates, which inhibit a clear understanding by PCH program staff and recipients of who is eligible for funding, under what conditions, for what purposes, and in what amounts. The documents impede the ability of program management at all levels to explain how recipients are expected to benefit from funding and adversely affect ensuring that funding is used for the purposes agreed.



- PCH processes, procedures and work tools for administration of UMAC initiative lack effectiveness in some areas and there is an insufficient level of direction and coordination at the national level. As a result, potential applicants may not be aware of the program, deserving projects have been compromised, problems with project and program performance are not resolved quickly and appropriately, and program integrity and the capacity of management reporting to demonstrate a good knowledge of program performance have been impaired.
- Some officers administering contribution agreements (CAs) within PCH, some delivery agents and some recipients, do not possess the required skills and have not received appropriate training, resulting in an adverse impact on the effectiveness, efficiency and integrity of implementation of the initiative.
- At least twenty-two per cent (\$892,649) of the funds available for the administration of the program were either not spent and lapsed, were spent on other programs or were returned by this program to meet Branch-wide budget reduction targets during 2000-2001 and 2001-2002.

The audit team observed some good management practices that if applied across the Program, could enhance program management practices.

These practices were noted in the Winnipeg Regional Office:

- PCH Winnipeg, in conjunction with the Aboriginal Youth Advisory Committee (AYAC), formally decided on the age of targeted beneficiaries and stipulated specific criteria for this decision.
- Proposal budget guidelines used by PCH Winnipeg specifically require that all administration costs be itemized. Administration “fees” are challenged by the AYAC during the proposal review process.
- PCH Winnipeg provided sufficient information on file to determine whether UMAC projects administered by representative organizations are open to all youth.
- PCH Winnipeg has implemented a clearly documented proposal process that, in the audit team’s opinion, could serve as a model of rigour and transparency.
- Financial reporting templates have been developed that allow analyses of interim reporting and cash flow to be conducted more easily and efficiently.
- Interim activity and financial reports, where necessary, are analysed together to ensure activities support reported expenditures.
- Program staff have explicitly recognized the risks associated with certain types of recipients and have implemented risk mitigation strategies.



The National Association of Friendship Centres (NAFC) has implemented the following practices that have enhanced project monitoring:

- The NAFC has developed a proposal template that all applicants are required to use. The template provides comprehensive information in a consistent manner that facilitates proposal assessment.
- Assessment has been delegated to NAFC's Provincial Territorial Associations (PTAs) in accordance with a funding formula approved at an NAFC annual general meeting in 2000. Proposals were evaluated by regional program committees. The process is overseen by a National Project Review Committee, which approves final funding recommendations to the NAFC board.
- Financial reporting templates have been developed that allow analyses of interim reporting and cash flow to be conducted more easily and efficiently.
- The NAFC has developed comprehensive reporting and monitoring templates, standards and policies that address program Terms and Conditions and meet the requirements set out in the Treasury Board *Policy on Transfer Payments*.
- The NAFC has implemented practices to reduce the risk of loss of funds and inappropriate use of funds by limiting the amount of funds an organization can receive, making payments conditional on reports, use of monitoring templates. In addition, the Manitoba Association of Friendship Centres (MAC) uses a mandatory proposal template that captures information that supports effective risk assessment.



## 1.0 INTRODUCTION AND BACKGROUND

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage, conducted an audit of the Urban Multipurpose Aboriginal Youth Centres (UMAYC) initiative. The objectives of the audit were to provide UMACY Program management with assurance that management controls, risk management frameworks and overall governance structure are effective and information that can be used to improve the management of the Initiative, to develop risk management frameworks where appropriate, and to enhance the Initiative's success in meeting its objectives. For the 2000-01 and 2001-02 fiscal years, the audit reviewed initiative design and implementation; initiative management control framework and due diligence, and initiative processes and risk management practices.

UMAYC was approved in 1998. In keeping with the government's commitments made in its election platform in 1997, its subsequent Speech from the Throne, and its response to the Royal Commission on Aboriginal Peoples (RCAP) Final Report, *Gathering Strength: Canada's Aboriginal Action Plan*, the initiative is targeted at urban Aboriginal youth aged 15-24 (and where circumstances warrant, Aboriginal youth aged 10-14 and 25-29 years), living in off-reserve communities of more than 1,000 people. The primary goal is to create a network of urban Aboriginal youth centres to support and assist urban Aboriginal youth in enhancing their economic, social and personal prospects. Individual projects focus on a wide range of Aboriginal youth issues, needs and goals, including:

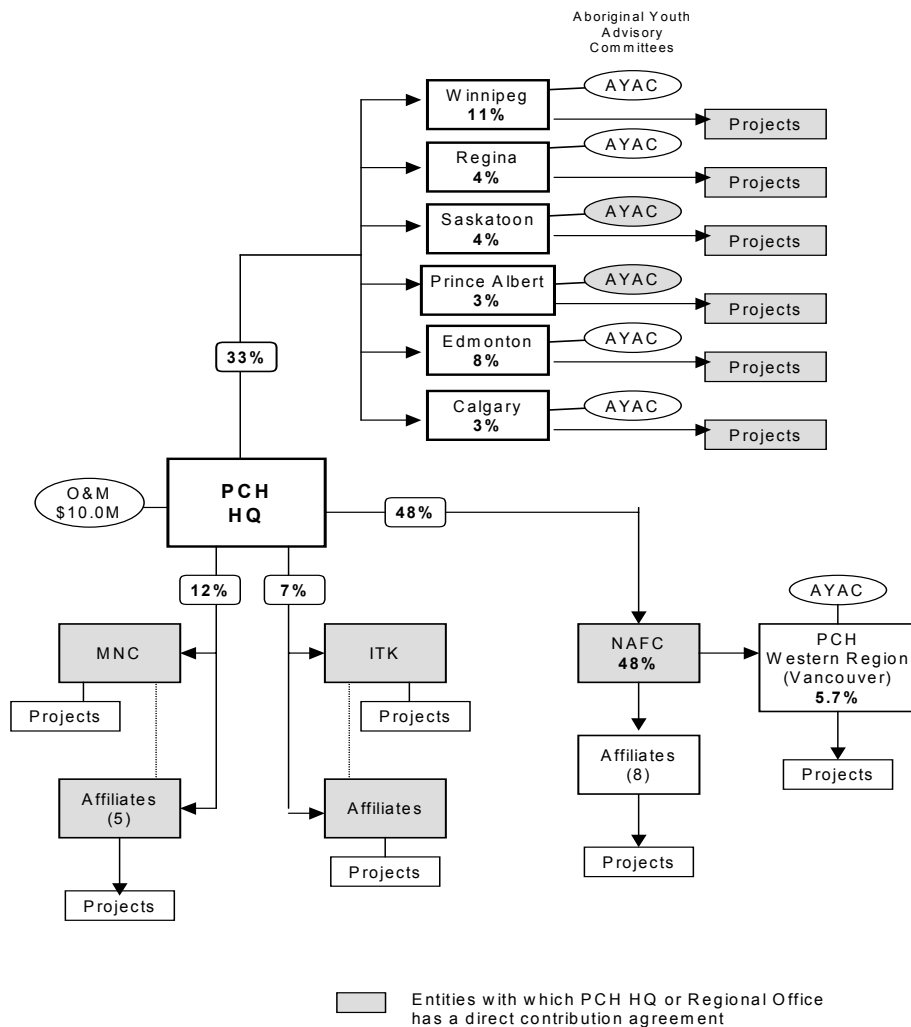
- encouraging educational completion and attainment;
- increasing effective participation in employment, skill development, career counselling and training programs;
- addressing life skills, including parenting;
- increasing participation in health, cultural, recreational and development projects;
- facilitating successful participation in community life, as an alternative to negative environments; and
- activities, strategies and programs that strengthen positive ties between Aboriginal youth and others in both Aboriginal and non-Aboriginal communities.

Recognizing that Aboriginal people must participate fully in the design and delivery of programs affecting their lives and communities, Canadian Heritage has partnered with three national Aboriginal organizations (National Association of Friendship Centres (NAFC), Métis National Council (MNC), and the Inuit Tapirisat of Canada (ITC) (now the Inuit Tapiriit Kanatami (ITK)), their provincial and regional organizations, and Aboriginal youth, to deliver the program. In six cities in western Canada (Calgary, Edmonton,



Prince Albert, Regina, Saskatoon, and Winnipeg), referred collectively as the W-6, PCH's regional offices also manage a component of the initiative.

The relationship between the key stakeholders in the UMAC initiative is shown in the following figure. Percentages represent the percentage of overall UMAC funding, excluding PCH operating and maintenance (O & M) expenditures, allocated to the various delivery agents.



## 2.0 OBJECTIVES

The objectives of the audit were to provide UMAC program management with:

- assurance that management controls, risk management frameworks and the overall governance structure are effective; and
- information that can be used to improve the management of the Initiative, to develop risk management frameworks where appropriate, and to enhance the Initiative's success in meeting its objectives.

## 3.0 SCOPE

The audit was conducted from January to March, 2003. The audit examined the following three areas for the 2000-2001 and 2001-2002 fiscal years:

- **Program design and implementation.** The audit examined the extent to which the program design and implementation reflects the intent of PCH and Treasury Board.
- **Management control framework and due diligence.** The audit examined the Initiative's operational policies, procedures and practices to determine if an effective management control framework is in place and whether due diligence has been applied.
- **Program processes and risk management.** The audit sought to identify the strengths of UMAC processes and provide advice for improvement.

## 4.0 METHODOLOGY

The audit was conducted in three phases according to the criteria noted below. Criteria against which observations, assessments and conclusions were drawn in conducting this audit were based on:

- the requirements of the October, 1996 and June, 2000 Treasury Board Secretariat *Policy on Transfer Payments*<sup>1</sup>;

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<sup>1</sup> The revised policy took effect on June 1, 2000 and replaced the *Policy* dated October 15, 1996 and the *Policy on Repayable Contributions*. The approved terms and conditions for existing transfer payment programs continue to apply until the earlier of their expiry date or March 31, 2005, at which time Departments must obtain Treasury Board approval to replace or renew the existing terms and conditions.





- the approved terms and conditions (Ts & Cs) for the UMAC initiative dated April 29, 1999;
- contribution agreements (CAs) between Canadian Heritage and the delivery agents or recipients with which the Department had a direct agreement covering the fiscal years 2000-01 or 2001-02;
- the attributes of a well managed contribution program as set out in the Auditor General of Canada's 1998 Report, Chapter 27, *Grants and Contributions*. Those attributes are:
  - selection of the appropriate funding mechanism;
  - program management at all levels can explain how recipients are expected to benefit from funding
  - program officers understand who is eligible for funding, under what conditions, for what purposes, and in what amounts;
  - potential applicants are aware of the program;
  - projects make sense for the applicant to carry out and for the program to fund;
  - more deserving projects are funded at an appropriate level;
  - funding is used for the purposes agreed;
  - problems with project and program performance are resolved quickly;
  - management reporting demonstrates a good knowledge of program performance;
  - money owed to the government is collected.

Specific audit methodology included:

- Review of PCH headquarters policies and procedures for administration of the initiative.
- Review of PCH Regional Office policies and procedures for administration of the initiative, including Aboriginal Youth Advisory Committee processes, in Winnipeg, Saskatoon, Regina and Prince Albert.
- Review of a representative sample of UMAC CAs and related files for the 2000-01 and 2001-02 fiscal years administered by PCH headquarters and the Regional Offices responsible for Winnipeg, Saskatoon and Regina (see Table 1).
- Review of the UMAC CA used by the PCH Edmonton Regional Office in fiscal years 2000-01 and 2001-02.
- Review of a representative sample of CAs and related files administered by the National Association of Friendship Centres (NAFC), Manitoba Association of

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An Information Notice issued by TBS on June 1, 2000 indicated that only transfer payment agreements signed after August 31, 2000 were required to reflect the change in policy.



- Friendship Centres (MAC), and Aboriginal Friendship Centres of Saskatchewan (AFCS) in fiscal years 2000-01 and 2001-02 (see Table 1).
- Review of a representative sample of CAs and related files administered by the Manitoba Métis Federation (MMF) in fiscal years 2000-01 and 2001-02 (see Table 1).

**Table 1: Population Size and Sample Selected**

Office/Organisation	FY 2000-01		FY 2001-02	
	Applications	Sample	Applications	Sample
PCH Headquarters	15**	7	14**	6
PCH Winnipeg	18**	6	14**	6
PCH Saskatoon	12**	5	11**	4
PCH Regina	18**	5	24**	5
PCH Prince Albert	9**	3	8**	3
NAFC	69**	7	74**	23
MAC	10*	2	10*	2
MMF	7**	3	7**	3
AFCS	11*	4	12**	4
TOTAL	169	42	174	56

\* Includes approved and rejected funding applications, where available

\*\* Includes approved applications only.

- Interviews of the Acting Director and Acting Manager, Aboriginal Programs Directorate (APD)<sup>2</sup>, at PCH headquarters.
- Interviews of program officers responsible for UMAC administration in the Aboriginal Programs Directorate at PCH headquarters.
- Interviews of the Operations Manager at PCH's Winnipeg Regional Office and program officers responsible for UMAC administration in Winnipeg, Saskatoon, Regina and Prince Albert.

<sup>2</sup> During the fiscal years subject to this audit, the Directorate was named the Aboriginal Peoples' and Human Rights Programs Directorate.



- Interviews of members of the Aboriginal Youth Advisory Committees for Winnipeg, Saskatoon, Regina and Prince Albert.
- Interviews of the NAFC Executive Director, the NAFC program officers responsible for administration of UMAC contributions during the audit years; the MAC Provincial Coordinator, Director of Operations, and the Regional Desk responsible for UMAC; and the AFCS Regional Desk responsible for UMAC.
- Interview with the Assistant Senior Manager of Regina Treaty Status Indian Services (RTSIS) responsible for RTSIS UMAC projects.
- Site visit to White Buffalo Youth Lodge, Saskatoon.
- Review of accounting records relating to White Buffalo Youth Lodge held by Saskatchewan Tribal Council, the funding recipient.

## 5.0 CONCLUSIONS

The audit was conducted in accordance with the professional practice standards set out in the Treasury Board of Canada Secretariat's *Policy on Internal Audit* and by the Institute of Internal Auditors. Based on the audit methodology employed, the audit team was unable to provide assurance to UMAC program management that management controls, risk management frameworks and the overall governance structure are effective. The audit team provided information that can be used to improve the management of the Initiative, to develop risk management frameworks where appropriate, and to enhance the Initiative's success in meeting its objectives.

Four key issues underlie the observations and recommendations contained in the report:

- There are significant deficiencies in key program documents, notably the approved Ts & Cs and CA templates, which inhibit a clear understanding by PCH program staff and recipients of who is eligible for funding, under what conditions, for what purposes, and in what amounts. The documents impede the ability of program management at all levels to explain how recipients are expected to benefit from funding and adversely affect ensuring that funding is used for the purposes agreed.
- PCH processes, procedures and work tools for administration of the UMAC initiative lack effectiveness in some areas and there is an insufficient level of direction and coordination at the national level. As a result, potential applicants may not be aware of the program, deserving projects have been compromised. For example, projects cancelled or foreshortened, problems with project and



program performance are not resolved in a timely fashion, and program integrity and the capacity of management reporting to demonstrate a good knowledge of program performance have been impaired.

- Some officers administering contribution agreements (CAs) within PCH, some delivery agents and some recipients, do not possess the required skills and have not received appropriate training, resulting in an adverse impact on the effectiveness, efficiency and integrity of implementation of the initiative.
- At least twenty-two per cent (\$892,649) of the funds available to Canadian Heritage for the administration of the program were either not spent and lapsed, were spent on other programs or were disproportionately returned by this program to meet Branch-wide budget reduction targets during 2000-2001 and 2001-2002.

## 6.0 OBSERVATIONS AND RECOMMENDATIONS

### 6.1 *Program Design and Implementation*

Program managers are to design and implement programs in a manner consistent with delegated authorities and government policy. These differences relate to:

- ***Consistency between CAs and the approved Ts & Cs.*** The audit team was unable to find evidence in PCH files documenting how CA templates were established. APD program staff at headquarters informed the audit team that PCH Financial Management Branch, Legal Services Unit, and APD staff provided input. The file review found that CAs written by certain partners in the delivery process and specific regional offices were inconsistent with the applicable approved Ts & Cs. Specifically:
  - the CAs with W-6 recipients in Saskatoon, Regina and Prince Albert allow up to 5% of funds to be carried over and unexpended funds exceeding 5% to be deducted from funding under a subsequent agreement. The CAs with Winnipeg W-6 recipients comply with the W-6 Ts & Cs, which differ in this respect from those applicable for funding delivered through the NAFC, MNC and ITK.
  - MMF CAs used as a template, an agreement developed for a program used by another federal government department. The agreement does not reflect any of the UMACYCs Ts & Cs or program requirements.



The review of CAs between NAFC and its Provincial Territorial Associations (PTAs), and between MAC and AFCS and their respective recipients, found that the CAs were clear, comprehensive and accurately reflected the Ts & Cs and program requirements. The CAs did however reflect the deficiencies noted below.

These inconsistencies have been exacerbated by the absence of clear, uniform policies, implemented across the initiative, addressing the areas in question. These areas include: the eligibility and treatment of capital construction or renewal costs; the acquisition and disposition of other (non-construction) capital assets; and the definition and level of eligibility of administrative costs.

The audit team identified areas in which the Ts & Cs are clear, but practices vary widely across the initiative, notably with respect to the target age group of project beneficiaries and the status-blind guiding principle. APD has not established and implemented uniform, initiative-wide policies in these areas, and PCH headquarters program staff, PCH regional office program staff, and the various Aboriginal delivery organisations have all developed their own interpretations of the Ts & Cs.

#### **6.1.1 Recommendation to the Director, Aboriginal Programs Directorate:**

**Implement a clear, coordinated process for the establishment, amendment and approval of CA templates and a policy requiring the use of approved templates at all funding-delivery levels.**

#### **6.1.1 Management Response**

**The Aboriginal Affairs Branch (AAB) is working with regional offices and the Grants and Contributions Centre of Expertise to prepare CA templates. Ongoing.**

**Approved CA templates will be provided to funding partners and regional staff and use will be encouraged at all funding delivery levels. Ongoing.**

Evidence in the files reviewed indicated that many recipients do not understand the requirements of the CAs used by PCH. All PCH program officers interviewed



indicated that they spend considerable time explaining the requirements to recipients; the officers responsible for Winnipeg and Regina include this as a specific scheduled step in the administration process.

Capacity within Initiative management and the lack of a PCH program manual (addressed below) may account for some of the difficulty experienced by recipients in understanding CA requirements. Concise agreements that clearly and logically set out the parties' obligations would promote compliance and efficient use of program officers' time.

#### **6.1.2 Recommendation to the Director, Aboriginal Programs Directorate:**

**Undertake a comprehensive review of CA templates used by PCH to administer UMAC to ensure that the agreements:**

- **accurately reflect the approved Ts & Cs and the Treasury Board *Policy on Transfer Payments*;**
- **clearly, logically and concisely set out what is required of the recipient;**
- **accurately reflect all PCH policies relating to UMAC, including policies established to address the eligibility of capital expenditures and administration costs and target age groups;**
- **use of approved templates at all funding delivery levels; and**
- **in the case of third and fourth party agreements, require that contribution agreements entered into by delivery agents reflect the terms, conditions, policies and requirements of the agreement with PCH.**

#### **6.1.2 Management Response**

**As discussed in Recommendation 6.1.1, PCH is preparing its CA templates to also:**

- **accurately reflect the approved Ts&Cs and the Treasury Board *Policy on Transfer Payments*;**
- **clearly, logically and concisely set out what is required of the recipients at each level of the CA;**
- **accurately reflect all PCH policies relating to UMAC, including policies established to address the eligibility of**



capital expenditures and administration costs and target age groups.

- In the case of 3<sup>rd</sup> and 4<sup>th</sup> party agreements, it is the responsibility of 2<sup>nd</sup> parties to reflect PCH terms, conditions, policies and requirements in agreements with 3<sup>rd</sup> party, and the responsibility of 3<sup>rd</sup> parties to reflect PCH terms, conditions, policies and requirements in agreements with 4<sup>th</sup> party. Ongoing. Program renewal process underway. Completed by March 2005.

**PCH will encourage the use of approved templates at all funding delivery levels. Ongoing.**

- **Age of the Targeted Beneficiaries.** The approved Ts & Cs include, as a guiding principle, the stipulation that UMACC “will serve the needs of urban Aboriginal youth, ages 15-24 years... and, where circumstances warrant, may include Aboriginal children and youth ages 10-14 years, or young Aboriginal adults ages 25-29 years”. No criteria are included in the Ts & Cs for determining when the target age group may be extended. PCH has not established policies or guidelines in this regard.

The audit team found that practices for determining the eligibility of projects and ensuring that they were effectively delivered to the targeted age group varied widely across the UMACC initiative. For example, PCH’s Winnipeg program staff and the Winnipeg AYAC formally decided that because gangs are recruiting Aboriginal children as young as 8, Winnipeg will fund projects for 10-14 year-olds when available funds are not exhausted by projects for the primary target group. One large PCH-approved project in Saskatoon provided services to children and youth from pre-school to 21 but no rationale was provided in relation to the objectives of this program. The review of NAFC files indicated that the focus of many projects did not distinguish between the primary and extended age groups, although NAFC collects a quarterly age-demographic statistics. Many other proposals and CAs reviewed by the audit team did not address participant age and there was no evidence in the relevant files from which the audit team could assess if the UMACC age objective was met.

**6.1.3 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish a policy addressing implementation of the UMACC guiding principle regarding target age groups.**





### 6.1.3 Management Response

**PCH will clarify the UMACY guiding principle regarding target age groups. Program Renewal process underway. To be completed March 2005.**

- ***Eligible Administrative Costs***

The file review indicated that the practices with regard to the application of a limit on administrative expenses varied widely across the UMACY initiative:

- PCH's CAs with the NAFC, the MNC's provincial affiliates and 3 Inuit organisations do not define eligible administration expenses. Program administration activities are defined as "those actions necessary to administer the budget for program delivery, including the provision of technical advice, assistance and general support to eligible recipients; the receipt and processing of applications; and the maintenance and operations of an office, including the establishment and maintenance of financial controls and reporting systems, and related endeavours ...".
- CAs between PCH and MNC's provincial affiliates include a flat, un-itemised 15% administration fee. MMF's CAs with its 7 regions did not include a flat fee, but each included identical expense allocations to administrative items such as recruitment, postage, office supplies and telephone and fax that constitute between 14%-15% of each project's funding.

These CAs also allow recipients to transfer up to 15% between expenditure items, including administration expenses, without further authorisation. As much as 40.5% of UMACY funding flowing through the MMF could be expended on administration costs without further authorisation. The MMF indicated that volunteer programs have very high transaction costs, particularly with regard to training, certification in accordance with legal requirements, accountability and insurance.

- CAs between PCH and MNC and four ITK affiliates do not define administration activities. The agreements with MNC include a flat, un-itemised 15% administration fee. These agreements also include a





provision allowing up to 15% to be transferred between budget items without further authorisation; the agreements would thus allow up to 27.75% of funding received by MNC (\$99,567 of \$358,800 in each of 2000-01 and 2001-02) to be spent on undefined administration costs. In the absence of a full recipient audit, the audit team was unable to determine the actual amount of administration expenditures.

- NAFC decided in an Annual General Meeting to limit NAFC and PTA aggregate administration costs to 10% of NAFC-administered funding. File review indicated that these costs are itemised and the activities associated with them fall within “administration activities” as defined in the CAs between PCH and NAFC, and NAFC and its PTAs. Further, aggregate NAFC and PTA administration expenses in the two audit years did not exceed 10% of NAFC-administered funding. The audit team was unable to assess the reasonableness of some costs attributed to UMACY administration. Files at one PTA with two employees indicated that 64% of its total office rent and 67% of office supplies were charged to UMACY, although only 11% of its general program administration expenses (excluding extraordinary one-time expenses) was charged to UMACY. Since the PTA is co-located with other organisations, it could not be determined without a recipient audit if the rent and supplies allocations were reasonable.

The NAFC UMACY reference manual provides that projects may incur up to 15% in administration expenses. The file review indicated project administration expenses varied, with one exception, between 5%-15%. Although a definitive conclusion cannot be drawn in the absence of a recipient audit, it appears likely that total administration expenses associated with NAFC-administered funding (i.e. NAFC/PTA costs of 10%, plus project recipient costs of 5%-15%) exceeded 15% of total NAFC delivery stream funds.

- The proposal budget guidelines used by PCH’s Winnipeg office require that all administration costs be itemized. The audit found that the AYAC charged with reviewing and recommending proposals challenges budget items that appeared to be an administration “fee”.
- PCH program officers responsible for the W-6 funding stream in Saskatoon, Regina and Prince Albert stated that itemised administration costs are required from applicants. Project files for Prince Albert indicated



that CAs include itemised costs under the heading “project delivery costs”. The files for Regina projects include extensive correspondence between the PCH program officer and the multi-project recipient of approximately a third of UMACY Regina funding over the two years included in the audit, seeking justification of percentage-based administration costs. The recipient was able to identify the categories of office and overhead costs allocated to UMACY, but acknowledged that specific costs had never been analysed.

The audit team was told that APD program staff at headquarters have sought an opinion from PCH Financial Management Branch regarding expenses that are eligible administration costs. However, the audit team was unable to ascertain the status of this request.

The failure to provide a clear definition of eligible administration expenses in the approved Ts & Cs and the absence of PCH policies or guidelines has led to widespread inconsistency, not only with regard to the eligibility of particular categories of expenses, but also with regard to delivery agents’ understanding of the purpose of these costs, since some organisations appear to treat them as a “fee” for hosting the program. In the absence of clear eligibility criteria applicable to all CAs, the audit team was not able to assess if these costs were appropriately allocated. It would also appear that, in some areas, administrative expenses may have been in excess of 15% of total delivery stream funding, although no conclusion can be drawn in this regard in the absence of a recipient audit.

#### **6.1.4 Recommendation to the Director, Aboriginal Programs Directorate:**

**When the Ts & Cs of the UMACY initiative are renewed in accordance with the Treasury Board *Policy on Transfer Payments*, ensure that the Ts & Cs include a clear definition of eligible administration costs and a clear limitation on the amount of UMACY funding that may be expended on administration costs.**

#### **6.1.4 Management Response**



**In the context of the current Program Renewal process, PCH will develop guidelines on the limitations of eligible administration costs and limitation on the amount of UMACYC funding that may be expended on administration costs. Program Renewal process underway. To be completed March 2005.**

**6.1.5 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish policies addressing the eligibility and limitation of administration costs, pending the renewal of the UMACYC initiative Ts & Cs.**

**6.1.5 Management Response**

**Pending the renewal of the UMACYC initiative Ts & Cs, PCH is developing guidelines to provide clarification on the eligibility and limitation of administration costs within the current Terms and Conditions. March 2004.**

- ***Acquisition of Capital (Non-Construction) Assets.*** The Treasury Board *Policy on Transfer Payments* requires that CAs set out the process for disposing of any assets acquired through contribution funding. Based on a review of quarterly activity and financial reports, it is clear that some projects acquired relatively high-value capital assets.

The General Ts & Cs included with the CAs established by PCH contained a provision for the disposition of capital assets valued at \$250 or more upon completion or termination of the project. If directed by the Minister, such assets are to be sold at fair market value and the proceeds applied to offset eligible project costs, turned over to another organisation or person designated by the Minister, or disposed of in such other manner determined by the Minister. The agreements between the NAFC and its provincial/territorial associations (PTAs) and between the PTAs and recipients also included provisions for the preservation and disposition of capital assets valued at \$250 or more. The agreements required such assets to be preserved unless wear and tear or obsolescence necessitated their replacement or both parties agreed to their disposal. Assets remaining at the completion or termination of a project are to be used for future Aboriginal youth activities approved by the PTA; sold at fair market value and the proceeds applied to offset eligible project costs; turned over



to another organisation or person designated by the PTA; or disposed of in such other manner determined by the PTA. Approval of disposition by the PTA would appear to contradict the disposition provision in the head agreement between PCH and NAFC, which requires ministerial approval, unless it was contemplated that PTA approval would be subject to NAFC and ministerial approval. There was no evidence in the files that such a chain-of-approval process had been established. Further, APD advised the audit team that no procedures have been developed to address the disposal of assets.

- **Eligibility and Treatment of Capital Construction or Renewal Costs.** Neither the approved Ts & Cs for the Aboriginal Organizations Administering UMACY Funds or for the Six Western Cities made reference to the eligibility of capital costs. They simply state that “project and activity funding may be used to cover, but not be limited to, such items as ... materials and supplies; ... space and/or equipment rental ...”

The audit team found that a range of practices exist with respect to construction costs. In five of the agreements administered nationally by PCH, covering more than 50% of the contribution funds available annually, the CAs indicated that capital costs including but not limited to construction and vehicle purchases are not eligible for funding. However, CAs between PCH and the NAFC in each of the audit years include a budget line item for “renovations”. In nine of 30 NAFC files examined, renovation costs totalling \$62,181.

#### 6.1.6 Recommendation to the Director, Aboriginal Programs Directorate:

**When conducting a recipient audit of the NAFC, ensure the audit scope addresses the issue of eligibility of expenditures. In instances where ineligible expenditures were paid to recipients, ensure that recovery action is undertaken.**

#### 6.1.6 Management Response

**PCH will consider the NAFC in its plan of recipient audits, in light of the availability of funding. When conducting this recipient audit, PCH will address the issue of eligibility of expenditures. Ongoing.**

**PCH will work with the NAFC if recovery action is required. It is the responsibility of the NAFC to undertake recovery action with 3<sup>rd</sup> party**



when required and the responsibility of 3<sup>rd</sup> parties to undertake recovery action with 4<sup>th</sup> party when required. Ongoing.

**6.1.7 Recommendation to the Director, Aboriginal Programs Directorate:**

That, when the Ts & Cs of the UMAC initiative are renewed in accordance with the Treasury Board *Policy on Transfer Payments*, ensure that the Ts & Cs include a clear definition of eligible capital expenditures.

**6.1.7 Management Response**

In the context of the current Program Renewal process, PCH will ensure that Ts & Cs include a definition of eligible capital expenditures. Program Renewal process underway. To be completed March 2005.

**6.1.8 Recommendation to the Director, Aboriginal Programs Directorate:**

Establish policies addressing the eligibility of capital expenditures, pending the renewal of UMAC initiative Ts & Cs.

**6.1.8 Management Response**

Pending the renewal of the UMAC Initiative Ts & Cs, PCH is developing guidelines to provide clarification of the ineligibility of capital expenditures. Ongoing.

- **Respect of the Status Blind Guiding Principle.** The Guiding Principles in the approved Ts & Cs provide that UMAC will address the needs of Aboriginal youth "... regardless of status, culture or gender...". Twelve percent of total funding is allocated to Métis representative organisations and 7% is allocated to Inuit organisations.

The audit team was informed by the PCH Regina office that local Aboriginal leadership insisted on targeted funding as a condition for participating in UMAC. The file review and interviews with the program officer and members of the Regina AYAC indicate that targets for splitting UMAC funds were established



on the basis of the 1996 census. 60% of funding is targeted for First Nations recipients and 40% for Métis recipients. AYAC members in Regina are appointed by First Nation and Métis representative organisations. Submitted proposals are divided into 4 proponent categories: First Nations, Métis, other Aboriginal, and non-Aboriginal. The AYAC breaks into First Nations and Métis sub-committees to assess the proposals, with the First Nations sub-committee considering First Nations proposals and the Métis sub-committee assessing Métis proposals. Proposals from other Aboriginal groups (status-blind) and non-Aboriginal groups are not considered in the first round. Status-blind proposals are only considered if available funding is not exhausted by First Nation and Métis proposals.

The Saskatoon AYAC members are appointed by First Nations and Métis representative organisations and the Saskatoon Friendship Centre. In Prince Albert, First Nations and Friendship Centre AYAC members are appointed, with Métis members elected by the Prince Albert Métis youth organisation.

Winnipeg PCH program staff informed the audit team that when UMAC first began, many proposals were submitted by Aboriginal representative organisations, but that the AYAC resisted from the outset recommending these for funding and insisted that approved projects be community-based rather than organisation-based. Winnipeg AYAC members were first selected by program staff through a widely-distributed call for nominations from schools and organisations with a significant Aboriginal component, and renewal has been managed by the AYAC itself without reference to representative organisations. The file review indicated that the Winnipeg AYAC has rejected proposals on the basis that they were not open to all youth, regardless of status.

With the exception of Winnipeg, there was insufficient information in the files reviewed to determine if UMAC projects administered by representative organisations were open to all youth and the audit team was unable to assess if this element of the approved Ts & Cs is being consistently met.

#### **6.1.9 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish policies that will ensure effective compliance with the Guiding Principle in the approved Ts & Cs that UMAC will address the needs of Aboriginal youth “...regardless of status, culture or gender...”**



### 6.1.9 Management Response

**Current Ts & Cs identify funding allocations to the NAFC, MNC and ITK, who are responsible to administer the initiative. PCH will ensure that funding allocated in the six western cities (W6) will address the needs of Aboriginal youth “...regardless of status, culture or gender...” Capacity building strategy, April 2004.**

### 6.2 Management Control Framework and Due Diligence

Clear, unambiguous operational policies, procedures and practices help facilitate the management of programs in a consistent manner across the country that respects the approved program Ts & Cs. The development of operational policies and procedures was left to each of the national, provincial and regional aboriginal organizations and PCH offices in Western Canada. The lack of nationally developed policies and procedures has resulted in inefficiencies and weak control frameworks in several areas including:

- **Adequacy of Proposals.** The audit team found that in instances where detailed operational policies and procedures were developed, proposals submitted tended to contain sufficiently detailed information to allow their eligibility, need and potential effectiveness to be assessed.

Proposal calls distributed by PCH’s Winnipeg office include plain language instructions for preparing an application. Program staff have developed checklists and proposal templates for use by applicants and have continued to refine these based on lessons learned.

The NAFC has developed a proposal template. In reviewing project files at MAC, the audit team found evidence that requiring applicants to use a proposal template that presents comprehensive project information in a consistent manner facilitates effective and efficient proposal assessment.

PCH has not developed standardised proposal formats and comprehensive guidelines to supplement the General Application for Funding (GAF) for use by organisations submitting applications to PCH headquarters or Saskatchewan regional offices. As a result, considerable program officer time is spent advising and assisting applicants to develop acceptable proposals. Requesting additional information from applicants resulting in delays in distribution of funds.





### 6.2.1 Recommendation to the Director, Aboriginal Programs Directorate:

**Establish and implement a consistent and transparent proposal submission process that includes the use of proposal templates that present detailed information in a consistent, readily-comparable manner.**

### 6.2.1 Management Response

**PCH is working with delivery partners to develop a template that presents detailed information in a consistent, readily-comparable manner. March 2004.**

**PCH will ensure the use of proposal templates with 2<sup>nd</sup> parties. It is the responsibility of 2<sup>nd</sup> parties to ensure the proper use of proposal templates with 3<sup>rd</sup> party and the responsibility of 3<sup>rd</sup> parties to ensure the proper use of proposal templates with 4<sup>th</sup> party. Ongoing. Capacity building strategy to be completed April 2004.**

- **Project Selection Process.** There is an expectation that public funds will be spent in a fair and transparent manner and that the program criteria as set out in the approved Ts & Cs will be consistently applied. The file review indicated that there is no consistency across the UMAC initiative in the review and recommendation of projects. Differences were found in assessment processes, including the use of assessment grids and the role of AYACs in the W-6 cities. The files also indicated variation in the application of eligibility criteria, an absence of rigour and transparency in some areas, and evidence of inappropriate factors having an effect on the proposal review and recommendation process. Current practices include:
  - **Funding Formulae.** This practice was observed both with the MNC and ITK and in one regional office in the W6.

The MNC and ITK have developed formulae for the allocation of UMAC funding to themselves and their affiliates. Program officers advise and assist applicants to develop proposals in order to ensure that funding available under the formulae is taken up. PCH has not established a deadline for submission of proposals in these funding streams. Since





proposals are evaluated as they are submitted, their comparative viability and effectiveness is not assessed. No evidence was found in the files that a baseline for acceptability of these proposals had been established, nor was there any evidence of the use of a tool or grid to assess proposals (other than the Recommendation for Approval Form (RAF), which is intended to record the outcome of the assessment and recommendation process). This has led to the approval of proposals such as that from a provincial representative organisation that allocated approximately the same amount to each of its seven regional affiliates despite the absence of specific eligible projects. PCH entered into a CA with the provincial organisation in question which provided that the agreement represented an “initial proposal” of which “excerpts” were included as Appendix A (approved project activities). In the ensuing year, a proposal from the same organisation for retroactive funding of activities continued from the previous year, including the completion of reporting requirements under the 2000-01 CA, was approved. In other words, not only was the organization funded while it was still in default of its previous year’s requirements, it was also given funding to remedy its default.

Applications for Regina W-6 funding are assessed within a formula in which 60% of funding is targeted for First Nation recipients and 40% for Métis recipients. First Nations proposals are assessed by an AYAC sub-committee composed of First Nations members, and Métis proposals by a Métis sub-committee. In 2001-2002, available funding was exhausted by First Nation and Métis proposals, and no status-blind projects were considered. Although there was evidence on the files of use of a proposal assessment grid, it did not appear to have been applied consistently, and criteria relating to key UMAC objectives did not, in some cases, appear to have been applied.

### **6.2.2 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish and implement a consistent and transparent proposal submission, assessment and recommendation process that precludes funding formulae other than those set out in the approved Ts & Cs.**

### **6.2.2 Management Response**



**In the context of the current Program Renewal process, PCH will review the use of funding formulae within UMAC. Program Renewal process underway. To be completed in March 2005.**

- **Standard Assessment Tool.** Project files and the AYAC file for Prince Albert did not contain evidence of use of an assessment tool. The audit team was informed by AYAC members and the responsible program officer that there were significant differences of opinion between the AYAC and PCH concerning the eligibility of some applications and the ultimate authority to recommend proposals for funding. The file review indicated the appearance of conflicts of interest, as the organisations appointing or electing AYAC members had an interest in the majority of proposals. No formal conflict of interest policy had been established. Examples of apparent conflicts of interest included an AYAC member participating in approval of a proposal from an organisation of which she was president, and an AYAC member participating in approval of three proposals from an organisation for which she was Treasurer.

### **6.2.3 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish and implement a consistent and transparent proposal submission, assessment and recommendation process that includes clear policies and guidelines regarding conflict of interest, and the roles of program officers and AYACs.**

### **6.2.3 Management Response**

**Guidelines have been developed and are being used regarding conflict of interest and the roles of program officers and AYACs. PCH will continue to work with its delivery partners to promote a more informed approach in the use of these guidelines. Ongoing.**

The NAFC and PCH's offices in Winnipeg have developed operational procedures that result in greater consistency in evaluating projects. Specifically:

- PCH's Winnipeg office has implemented a clearly documented proposal assessment process which, in the audit team's opinion, could serve as a model of rigour and transparency. Program officers remain at arms-length from applicants throughout the process. A submission deadline has been established. A clearly documented conflict of interest policy is in place



and the proposal review minutes reflect its consistent application. The AYAC has developed guidelines regarding activities that will not be funded. Submitted proposals are assessed by AYAC members over a two-day period using a comprehensive grid. The program officers provide administrative support and coach AYAC members through the assessment process. Final scoring of proposals is by consensus of AYAC members. Program officers keep detailed minutes of decisions. Recommendations for both approval and rejection are fully documented with rationale, scrutinised by the Regional Office Grants and Contributions Review Committee, and recorded in the Grants and Contributions Information Management System (GCIMS).

- In 2000-01, applications for UMACY funds administered by NAFC were assessed on a national basis by a committee composed of 8 youth, 8 others and 2 coach/facilitators who assisted in ensuring that the assessment process was rigorous, transparent and fair. A submission deadline was established and implemented. Proposals were ranked on a national basis, using a formal assessment tool, for final approval by the NAFC Board of Directors. The file review indicated that the process was generally rigorous and fair.

In 2001-02, assessment was delegated to NAFC's PTAs in accordance with a funding formula approved at an NAFC Annual General Meeting in July, 2000. Proposals were evaluated by regional Program Committees, except for the Atlantic and Northern regions, which were evaluated by NAFC staff. Some regions developed their own assessment tool. The process is overseen by a National Project Review Committee, which approves final funding recommendations to the NAFC board. The file review indicated there were deviations from the approved Ts & Cs, including a project that excluded male youth, a project that provided funding for participation by reserve residents, and projects targeted at participants outside the approved age groups. NAFC has commissioned an evaluation of its UMACY program, including the application of eligibility criteria and the effectiveness of its proposal assessment process.

A number of projects identified through the file review process did not appear consistent with approved Ts & Cs. These included the following:

- A project for the creation of a newspaper for a Métis community funded with UMACY funds and contribution program funds from another federal



department. The proposal consisted of a one-page letter addressed to the recipient organisation, a cash flow, and a letter of support from the recipient and two associated representative organisations. Although the RAF indicated that the newspaper would have a strong focus on youth issues, the published issues examined by the audit team revealed a strong focus on supporting a particular Métis political faction and little attention to youth issues.

- A project to fund six youth to provide day-to-day assistance to elders. The program officer's monitoring review noted that youth gained general life skills and cultural knowledge, but "the project is more focussed on providing a service to elders and less on the benefits to youth".
- A project to train four university students in a specific advanced scientific research method and the use of specialised scientific equipment. The proposal did not demonstrate any urban community connection (there was no requirement that students be from an urban community), or age requirement. The connection to UMAC objectives appeared tenuous. There was no GAF on file. The proposal included significant budget items for university staff remuneration, equipment, and laboratory and office expenses. Although the AYAC declined to recommend the proposal for funding, the program officer approved it. The approval justification refers extensively to the objectives of a different transfer payment program.
- A 2001-02 CA with a provincial delivery organisation included \$421,873 in funding for unspecified projects, provided proposals were submitted to the organisation by its regional affiliates by August 31, 2001. Projects totalling \$245,315 were submitted to PCH headquarters on January 11, 2002, and a further \$84,366.55 on January 14, 2002. Some project budgets were amended on January 28, 2002 to include "administration fees" for recipients. The CA was amended on March 26, 2002 to include the submitted projects and advance the full funding allocated to the provincial organisation under the funding formula established by the national organisation with which it was affiliated.

#### **6.2.4 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish and implement a consistent and transparent proposal assessment and recommendation process that uses a comprehensive assessment grid based on criteria that accurately**



reflect program objectives and requirements, and ensures that recommendations and decisions are fully documented.

#### 6.2.4 Management Response

PCH and Aboriginal youth have developed and are using proposal assessment tools. PCH will review these tools and distribute them to its Aboriginal partners, and encourage a more uniform use. Capacity building strategy by April 2004.

As discussed in Recommendation 6.2.3, PCH is also developing a proposal template that presents detailed information in a consistent, readily-comparable manner. Ongoing.

PCH and delivery partners will continue to document recommendations and decisions. Ongoing.

- **Use of Templates.** PCH program officials in APD advised the audit team that the use of a reporting template had not been considered. As a result, the information and detail contained in interim and final activity reports submitted by recipients varied widely. It also created extra work when financial reports were submitted that did not align with the budgets set out in the CAs.

Both the NAFC and PCH in Winnipeg developed financial reporting templates. Winnipeg requires all recipients to use standard interim reporting and cash flow templates (the latter provided by Financial Management Branch). The program officers told the audit team that the use of standard templates has allowed analyses to be conducted more easily and efficiently.

The review of files at the MAC and the NAFC indicated that the NAFC has established comprehensive reporting and monitoring templates, standards and policies that appropriately address the program Ts & Cs and the requirements Treasury Board *Policy on Transfer Payments*.

#### 6.2.5 Recommendation to the Director, Aboriginal Programs Directorate:

**Establish and implement a consistent reporting process that includes the use of activity and financial reporting templates that**



present detailed information in a consistent, readily-comparable manner.

### 6.2.5 Management Response

**In the context of the capacity building strategy, PCH will establish and encourage a consistent reporting process that includes the development of activity and financial reporting templates and will encourage the use of approved templates at all funding delivery levels. Capacity building strategy, April 2004.**

The attributes of a well managed contribution program, as set out in the Auditor General of Canada's 1998 report, Chapter 27, Grants and Contributions, include assurance that funding is used for the purposes agreed and that problems with project and program performance are resolved quickly. With the exception of PCH's Winnipeg office, where a clear control framework has been implemented and the files contain comprehensive analyses of recipient reports, the audit team found little evidence that program staff fully recognize the importance of these attributes and the role of financial and activity report analysis in ensuring that they are attained.

A key element of any management control framework is ongoing monitoring, with follow-up and adjustment as required. Although some control and monitoring activities are being conducted, the audit team did not find evidence of a comprehensive, defined management control framework within the program management group at PCH. Monitoring was limited and did not always fully analyse the information available. For example:

- **Financial and Activity Reports.** Within PCH headquarters, activity reports are reviewed by APD program officers, while financial reports are reviewed by Financial Branch analysts. Separate review of activity and financial reports does not allow for an opportunity to determine the reasonableness of expenditures in view of activities carried out.

PCH Winnipeg files indicate that interim activity and financial reports, where necessary, are analysed together to ensure that activities support reported expenditures. When necessary, advice is sought from the regional finance officer. Activities and expenditures are analysed against those set out in the CA. All payments must be approved by the regional finance officer. Recipients are required to use a standard final report template. Final activity and financial





reports are analysed against each other, and all projects receiving funding of \$100,000 or more are analysed by the regional finance officer. The file review indicated that report analyses are comprehensive and fully documented in project files. Files examined by the audit team included a completed payment approval checklist.

The files for W-6 projects in Regina, Saskatoon and Prince Albert indicate that interim financial and activity reporting requirements in CAs are established on the basis of the timing, length and cash flow requirements of projects. The program officer responsible for Regina informed the audit team that the recipient's capacity and associated risks are also taken into account when establishing reporting requirements. Financial and activity reports are analysed by program officers, using the GCIMS analysis template. The final financial analysis for CAs of \$100,000 or more is reviewed by the regional Finance Officer in Winnipeg prior to the release of the final payment. The audit team was informed that no financial analysis training had been provided to the Saskatchewan based program officers since joining PCH. Advice can be sought from the regional Finance Officer in Winnipeg.

- Audit notes in financial statements submitted to PCH headquarters in both 2000-01 and 2001-02 indicating that a deficit-reduction loan to a delivery organisation was secured by "a redirection of funding from various CAs" were not commented upon by the financial analyst, despite the provision in section 7 of the CA's General Ts & Cs that "the Recipient shall not assign this Agreement or any part thereof or any payments to be made thereunder without the written permission of the Minister" and extensive provisions in the *Financial Administration Act* and Regulations dealing with the validity and process for assigning payments due from the Crown.
- **On-site Project Monitoring** by PCH headquarters and the Winnipeg and Regina regional offices was limited. The audit team was told by program officers that time and resources did not permit any more than occasional, ad-hoc monitoring and the audit team found little file evidence of monitoring activity. Program officers responsible for Winnipeg and Regina expressed considerable frustration regarding their inability to conduct monitoring and noted that given the high-risk nature of the UMAC initiative and the issues surrounding the capacity of many recipients, timely monitoring of projects and the provision of guidance and implementation of corrective measures where necessary could be a more effective risk management strategy than after-the-fact analysis of activity and financial reports.



#### 6.2.6 Recommendation to the Director, Aboriginal Programs Directorate:

**Establish and implement, in consultation with the Executive Director, Grants and Contributions Centre of Expertise, a control framework that includes comprehensive reporting analysis and monitoring standards and procedures for the UMAC initiative.**

#### 6.2.6 Management Response

**AAB will continue to work with the Grants and Contributions Centre of Expertise and Regional Executive Directors to develop a strategy for comprehensive reporting and monitoring standards and procedures for the UMAC initiative. Ongoing.**

Program officers did not appear to fully understand the rationale behind some of the controls and did not consistently apply them. It appeared to the audit team that, with the exception of Winnipeg program staff, the emphasis was on taking whatever steps were necessary to “clear” reports in order to expedite the release of subsequent payments rather than ensuring that program requirements and integrity had been respected. Many PCH program staff and staff in the PTAs of delivery agent organizations had not received training in the skills required to carry out effective report analysis, recognize actual and potential performance problems, and identify and implement effective measures to address deficient performance. For example:

- When reports were submitted that indicated that recipients had not carried out required activities or that funds had not been spent for the intended purpose, it was treated simply as a reporting problem and recipients were encouraged and assisted by program officers to revise their reports so that the information presented complied with the CA.
- The program officer’s analysis of the 1999-2000 audited financial statements of one provincial delivery organisation raised some significant issues. The first payment was released despite a significant number of unresolved discrepancies and non-compliance with the CA Ts & Cs and program requirements. Second and final payments were released on the basis of unaudited information regarding expenses not recorded in the audited financial statements, despite PCH's inability to trace expenditures into appropriate audited line items and despite significant unapproved reallocation between budget items in contravention of the CA.





### 6.2.7 Recommendation to the Director, Aboriginal Programs Directorate:

**Make provision for resources and training that will support effective reporting analysis and monitoring by UMAC program officers.**

### 6.2.7 Management Response

**In the context of the Capacity building strategy, PCH will, within existing resources, provide training on effective reporting analysis and monitoring to UMAC program officers. Capacity building strategy, April 2004.**

- Although the files at MAC and AFCS indicated that almost all required reports were submitted to the regional desks, many were not forwarded to NAFC as required by NAFC's CAs with its PTAs, which in turn precluded the NAFC from meeting its accountability obligations under its CA with PCH. In 2001-02, 51 quarterly activity reports and 10 audited financial statements were missing from the 23 projects examined. The review of MAC and AFCS files indicated that the effectiveness of monitoring activities varied. In many cases, the financial test component of monitoring reports in AFCS files had not been completed. The staff member responsible for monitoring informed the audit team that no formal training in financial analysis has been provided. This individual has since received some mentoring and assistance from another individual with similar responsibilities. The file review indicated that approval for the reallocation of funds between budget items, required by NAFC's CAs with its PTAs, is often a formality accomplished at or near the end of the contribution period, without supporting documentation or justification.

### 6.2.8 Recommendation to the Director, Aboriginal Programs Directorate:

**Include in third and fourth party contribution agreements, reporting analysis and monitoring provisions that reflect the standards and procedures established for the UMAC initiative.**

### 6.2.8 Management Response

**PCH will provide direction in its contribution agreements with 2<sup>nd</sup> parties regarding reporting and monitoring. It is the responsibility of**



**2<sup>nd</sup> parties to provide direction regarding reporting and monitoring in its agreements with 3<sup>rd</sup> party and the responsibility of 3<sup>rd</sup> parties to provide direction regarding reporting and monitoring in its agreements with 4<sup>th</sup> party. Capacity building strategy, April 2004.**

### 6.3 Program Processes and Risk Management

Program managers must manage the risks inherent to their program. PCH staff are aware that there are significant risks associated with the UMAC initiative, but with the exception of the Winnipeg regional office, the audit team found little evidence that there was an effective strategy in place within PCH to assess and manage these risks.

Observed practices included:

- Program staff at headquarters identified a number of key risks associated with UMAC: inexperience on the part of youth involved in planning and delivery and recipient organisations; the capacity of recipient and delivery organisations; high staff turnover in delivery organisations; and PCH under-staffing.

According to the review of PCH headquarters files, the only risk element systematically addressed is that of financial stability, which is assessed through a Financial Management Branch review of the applicant's previous year audited financial statements. In some cases, this analysis appeared to the audit team to have missed key factors. Examples included:

- There was evidence on file that contribution payments to a delivery agent were being forwarded to a trust company as early as July 5, 2000. In December, 2000, the organisation asked PCH headquarters to confirm the arrangement in writing as a condition of a trust company loan to the organisation in the context of a 3 year deficit recovery program. The PCH Acting Director, Aboriginal Peoples' and Human Rights Programs approved the arrangement for 2000-01 only. The delivery organisation's audited financial statements for 2000-01 included an audit note that the trust company loan was secured by "a redirection of funding from various CAs". This was not commented upon by the PCH financial analyst. The risk assessment in the RAF for \$358,800 for the 2001-02 contribution concluded, without substantive supporting reasons, that the risk was "minimal" and that "the risk that would be created by not providing funding to this organisation is greater than that of providing funding".



The RAF did not indicate risks that might be incurred by not funding the organisation. No enhanced reporting requirements were included in the CA. There was no evidence on the file that the nature of the arrangement between the delivery organisation and the trust company had been reviewed to determine the risk of contribution payments being applied against the organisation's deficit or being dealt with by the trust company in a way that might affect the flow of funds to projects.

Cheques were still being sent by PCH to the trust company in 2001-02, with no evidence of further approval by PCH management, despite a requirement in the CA that the assignment of any payments have the written permission of the Minister. The delivery organisation's audited financial statements for 2001-02 again included an audit note that the trust company loan was secured by "a redirection of funding from various CAs", indicating that the financial institution most familiar with the recipient organisation considered that there was an ongoing financial risk.

- The RAF for a 2001-02 contribution of \$597,419 to another delivery agent concluded that the organisation's financial situation was poor but improving and that refusal of funding posed a greater risk than approval because "the [organisation] is aware that it is mandated to receive funding". This organisation was also provided by APD program staff with a CA template for use with its regional affiliates which provided that projects receiving funding of \$50,000 or less would not be subject to audit.

Despite acknowledging the significant risks inherent in the UMAC initiative, APD has not developed and implemented a Risk-Based Audit Framework (RBAF). The 2000 Treasury Board *Policy on Transfer Payments* requires that a risk-based framework for audit of recipients of contributions be developed for programs approved after June 1, 2000. While such a document is not required at this time because UMAC was approved prior to the effective date of this policy, such a framework is a very useful tool as it highlights potential risk areas that program management should address. The audit team was informed that APD had not yet developed a RBAF due to a lack of staff resources.

- **Winnipeg** program staff explicitly recognized that there are specific risks associated with community-based, non-institutionally backed projects (particularly risks related to capacity, programming integrity and continuity), if the recipient does not have adequate core funding from a non-UMAC source. The Winnipeg AYAC has therefore established and documented a clear policy that it



will not fund start-up organisations. It requires applicants to have other sources of organisational funding before it will consider UMAC project funding. In addition, the files substantiate that every proposal is analysed by program officers using an analysis grid initially developed for other contribution programs administered by the Winnipeg office. The analysis focuses explicitly on recipient capacity and project complexity. The files indicate that the analysis became more comprehensive in 2001-02. The analyses are presented to the AYAC for consideration during the proposal assessment process. AYAC minutes document the proposal review and risk analysis. Files indicate that proposals judged to have an unacceptable level of risk have been rejected.

- **NAFC** has implemented practices that inherently reduce the risk of loss of funds and inappropriate use of funds, including: limiting the amount of funds one organization can receive to \$250,000; making payments conditional on the receipt of quarterly, comprehensive, template-based activity and financial reports; use of monitoring templates; requiring audited financial statements that correspond with the term of the CA. MAC uses a mandatory proposal template that captures information that supports effective risk assessment. Evidence indicating that a consistent risk assessment methodology is in place at the NAFC at the Regional Desk level or at the Project level is lacking. Management interviews with the NAFC indicated that risk is assessed informally on an ongoing basis through the network of exchanges and meetings generated by Friendship Centres across Canada.

### **6.3.1 Recommendation to the Director, Aboriginal Programs Directorate:**

**Establish a comprehensive typology of risks associated with implementation of the UMAC initiative.**

### **6.3.1 Management Response**

**In the context of the current Program Renewal process, PCH will develop a Risk-Based Audit Framework (RBAF) for programming of the Aboriginal Affairs Branch. Program renewal process under way. Completed by March 2005.**

### **6.3.2 Recommendation to the Director, Aboriginal Programs Directorate:**

**Implement a comprehensive, consistent strategy for assessing and managing risks throughout the initiative.**



### 6.3.2 Management Response

**As discussed in Recommendation 6.3.1, in the context of the current Program Renewal process, PCH will develop a RBAF for programming of the Aboriginal Affairs Branch. Program Renewal process underway. Completed by March 2005.**

### 6.3.3 Recommendation to the Director, Aboriginal Programs Directorate:

**Ensure the development and implementation of the tools required to implement the strategy, including risk assessment and monitoring tools and a risk-based audit framework.**

### 6.3.3 Management Response

**As discussed in Recommendation 6.3.1 and 6.3.2, in the context of the current Program Renewal process, PCH will develop a RBAF for programming of the Aboriginal Affairs Branch. Program Renewal process underway. Completed by March 2005.**

In addition to the opportunities for improving program processes that have already been identified, the audit team was informed of frustration of PCH staff at the time required to obtain funding approval for projects. Many potential recipients do not have the financial capacity to begin projects before receiving funding. The review of files for W-6 funding in Winnipeg, Saskatoon and Prince Albert, and AFCS-administered funding, indicated that late approval of funding has compromised the effectiveness of projects by requiring time-lines to be condensed and planned project activities to be shortened or abandoned. The audit team found that a number of projects scheduled for summer months, when UMACY initiatives can be particularly effective in attracting youth, have been cancelled due to delays in funding approval. Winnipeg and NAFC program officers informed the audit team that the delays have led to numerous instances of loss of trained, experienced co-ordinators and workers, resulting in additional ramp-up time and training costs. AYAC members informed the audit team that there is a high level of frustration of PCH among recipients and potential recipients as a result of the delays in obtaining UMACY funding.



A review of the PCH Grants and Contribution Information Management System (GCIMS) records for Winnipeg W-6 funding indicated that project approval may take as long as six months following the forwarding of recommendations to PCH headquarters. The review of files for Regina, Saskatoon and Prince Albert indicated that delays have occurred throughout the recommendation and approval process.

**6.3.4 Recommendation to the Director, Aboriginal Programs Directorate:**

**Review PCH’s project approval and funding processes in consultation with Executive Director, Grants and Contributions Centre of Expertise and establish deadlines, processes and work flows for receiving and processing UMAC funding applications that will expedite approval or rejection of projects and first payment to approved projects.**

**6.3.4 Management Response**

**AAB continues to, in collaboration with the Grants and Contributions Centre of Expertise, explore possibilities to expedite approval of funding applications and first payments to approved projects. Ongoing.**

PCH staff in headquarters and in the Regions suggested that activities related to implementation of an effective management control framework, including establishment of an RBAF, on-site monitoring, and recipient audits were not undertaken because of a lack of resources. Canadian Heritage had budgeted \$2 million in each of 2000-2001 and 2001-2002, to cover its administrative costs. Financial information provided to the audit team by APD (summarized in Table 2 below) indicates that at least 22% of these funds available for UMAC (\$890,000) were either not spent and lapsed, were spent on other programs, or were returned by this program to meet Branch-wide budget reduction targets.

**Table 2: Use of UMAC Administrative Funding**

Use of Funds	2000-2001	2001-2002
Transfer to HQ Salary	\$249,000	\$191,826



Use of Funds	2000-2001	2001-2002
O&M-HQ (less identified items below)	\$267,688	\$94,839
Transfer to W-6	\$703,070	\$791,253
<b>Sub-Total</b>	<b>\$1,219,758 (61%)</b>	<b>\$1,077,918 (53.9%)</b>
Internal PCH cuts	\$124,000	\$105,600
Lapsed/spent on other programs	\$339,099	\$323,950
<b>Sub-Total</b>	<b>\$463,099 (23.2%)</b>	<b>\$429,550 (21.8%)</b>
Web site development (via contribution)	\$232,013	\$252,532
UN Secretariat on Racism - International Youth Forum on Racism	\$40,000	
Web site (Identified by APD as a cost from a previous fiscal year)	\$30,000	
National Crime Prevention Conference in PEI	\$2,500	
3 Laptop Computers	\$12,630	
Dreamcatcher (Message of empowerment for urban Aboriginal youth)		\$200,000
Transfer to Ontario Region		\$40,000
<b>Subtotal</b>	<b>\$317,143 (15.9%)</b>	<b>\$492,532 (24.6%)</b>
<b>TOTAL A-Base Allocation to UMACY</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>

There were other expenditures incurred that, in the audit team's opinion, either had an insufficient linkage to the objectives of the UMACY initiative, were not very cost-effective. The salary transfer at Headquarters was based on the planned positions for the year. In each year, some of these funded positions were vacant for a period and this was not reflected in the cost figures provided to the audit team.

APD indicated to the audit team that there was no detailed budget or business plan developed for UMACY in either 2000-2001 or 2001-2002. Such a document would have facilitated the identification of resources necessary to develop and maintain



appropriate program processes, procedures and work tools that have been identified in this report as absent, have contributed to weaknesses in program design and implementation, and the management control framework.

**6.3.5 Recommendation to the Director, Aboriginal Programs Directorate:**

**Implement appropriate budget and monitoring processes to ensure that available administrative funds are utilized for the intended purposes.**

**6.3.5 Management Response**

**PCH headquarters and regional staff will promote appropriate budget and monitoring processes to ensure that available administrative funds are utilized for the intended purposes. In process and ongoing.**