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Heritage

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*AUDIT OF PCH SINGLE RECIPIENT CONTRIBUTION
PROGRAMS*

SUMMARY OF FINDINGS

Fathers of Confederation Buildings Trust
CONFEDERATION CENTRE OF THE ARTS

FINAL REPORT

MAY 28, 2003

Department of Canadian Heritage
Corporate Review Branch
Assurance Services

Canada



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1.0 BACKGROUND

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

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

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

This report represents the summary findings of the audit with respect to Confederation Centre of the Arts. The audit was conducted in August and September 2002.

2.0 OBJECTIVE

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



- information on the criteria used for selection and determination of single recipient programs and their compliance with the intent of the transfer payment programs;
- information that can be used to improve the management of the programs and enhance the department's success in meeting its objectives;
- assurance that information for decision-making is reliable;
- assurance that management controls and risk management frameworks of the programs and the recipients are effective;
- assurance that outcomes and results for the programs and for the recipients have been identified and are measurable and that these outcomes and results are in support of government objectives; and
- advice on where joint audits with other government departments might be advisable.

Areas that were addressed included:

- the extent to which the **program design and implementation** reflected the intent of the TB *Policy on Transfer Payments* and the objectives of PCH.
- the strengths of the **program processes** and provide advice for improvement; and
- the **recipient's control and governance framework** and provide advice for improvement.

3.0 SCOPE

Over the years and for a variety of reasons, Canadian Heritage (PCH) has established a number of contribution programs, each of which has only one recipient. One of them is with the Fathers of Confederation Buildings Trust otherwise known as the Confederation Centre of the Arts (the Centre). The Confederation Centre for the Arts was constructed in 1964 as a joint initiative of the federal and all provincial governments to mark the centennial of the 1864 Charlottetown Conference. The provincially created Trust was designed to use, administer, manage and maintain the buildings in furtherance of the purpose for which it was erected as a national memorial to the Fathers of Confederation. At a Premiers Conference in 1976, it was decided that all provinces should contribute to the operation of the Centre with an annual grant of \$.02 per citizen. Some provinces started opting out of this arrangement in the 1980s. Currently, provinces other than Prince Edward Island contribute very little to the Centre; the provinces of Alberta, Manitoba and Newfoundland currently contribute a total of \$160,000 annually to the Centre

This report specifically addresses the audit findings related to the contribution agreement between the Fathers of Confederation Buildings Trust (the Trust) and Canadian Heritage. The audit considered how the contribution agreements that were in place for 2000-2001 and 2001-2002 fiscal years were managed during the period April 1, 2000 to March 31, 2002. The agreement is administered by the Arts Financing and Legislation Directorate of

the Cultural Affairs Sector of Canadian Heritage and the Public Affairs and Communications Sector (Atlantic Region).

4.0 APPROACH AND METHODOLOGY

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

- the requirements of the October 1996 and June 2000 Treasury Board Secretariat *Policy on Transfer Payments*¹.
- the approved terms and conditions for the contribution;
- the contribution agreement between Canadian Heritage and the recipient; and
- attributes of a well managed contribution program as defined in the Auditor General of Canada's 1998 Report, Chapter 27, *Grants and Contributions*. The attributes are:
 - selection of the appropriate funding mechanism;
 - program management at all levels can explain how recipients are expected to benefit from funding;
 - program officers understand who is eligible for funding, under what conditions, for what purposes, and in what amounts;
 - potential applicants are aware of the program;
 - projects makes sense for the applicant to carry out and for the program to fund;
 - more deserving projects are funded at an appropriate level;
 - funding is used for the purposes agreed;
 - problems with project and program performance are resolved quickly;
 - management reporting demonstrates a good knowledge of program performance; and
 - money owed to the government is collected.

The audit fieldwork was carried out between July and August 2002. Specific audit activities included:

- review of the documentation that authorized the establishment of the contribution agreement between PCH and the Fathers of Confederation Building Trust;

¹The revised policy was effective June 1, 2000. It 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 point Departments must obtain Treasury Board approval to replace or renew such terms and conditions. An Information Notice issued by TBS June 1, 2000 indicated that only transfer payment agreements signed after August 31, 2000 had to reflect the changes in the policy.



- review of the contribution agreements between PCH and the Trust for the periods April 1, 1998 to March 31, 2001 (amended in July 1998) and April 1, 2001 to March 31, 2006 as they applied during the period April 1, 2000 to March 31, 2002;
- review of internal approval documents and briefing notes associated with the contribution agreement;
- review of financial reports and activity reports submitted to PCH by the Centre for the 2000-2001 and 2001-2002 fiscal years and PCH's analysis of the information;
- review of *Grants and Contributions Approval and Payment Form* and supporting documentation for payments made to the Trust during the 2000-2001 and 2001-2002 fiscal years;
- a review of the Centre's books and records supporting the costs submitted to PCH for reimbursement. This included Centre staff rosters, summer staff payrolls, Charlottetown Festival programming, the Centre's Strategic Business Plan, and a sample of monthly financial documents;
- a review of the Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the contribution agreement prepared by PCH;
- discussions with current and former program management responsible for administering the contribution agreement in both PCH offices in Gatineau, Québec and the Atlantic Regional staff in Moncton, New Brunswick; and
- discussions with the Executive Director and Director of Finance of the Confederation Centre for the Arts and a tour of the facilities to determine if operational commitments as set out in the contribution agreement were being met.

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

5.0 CONCLUSIONS

We offer the opinion that:

- the contribution agreements between the Fathers of Confederation Buildings Trust and PCH are generally in compliance with the requirements of the *Policy on Transfer Payments* that was in effect at the time the agreements were signed;
- several opportunities exist for improving the management of the program;
- the information used for decision making is reliable;
- the existing management controls and risk management framework within PCH and the Confederation Centre for the Arts with respect to this contribution agreement, are adequate;
- opportunities exist to more fully utilize information on program outcomes and results to manage the program on an ongoing basis; and
- opportunities exist for joint audits with the Government of Prince Edward Island.



6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Use of a Single Recipient Contribution Program

Terms and conditions for a three year period were approved. PCH program officials recognized that with a contribution agreement, PCH would be in a better position to monitor the use of the funds through mandatory activity and financial reports which were not required under the terms of a grant program. It was also consistent with a general shift across the government towards having more and more transfer payments as contributions so that there would be greater accountability for how the funds were spent. A single recipient program was established because PCH program officials believed that the Centre's circumstances were unique and did not expect that the program Terms and Conditions would be applicable to other organizations.

The contribution agreement outlines the purpose of the contribution in fairly general terms. It indicates that the objective is "to cover the costs related to the operating budget of the Confederation Centre of the Arts and to pursue the commitment made by the Confederation Centre of the Arts in 1991 under the *Canada/Prince Edward Island Cooperation Agreement on Cultural Development* with respect to provision of services in French". This is not mentioned in the contribution agreement. PCH program officials could only venture that this was probably an omission but noted that the Centre did have initiatives aimed at First Nations.

While the required approvals were obtained to provide the Confederation Centre for the Arts with operating funds under a contribution arrangement, the agreement itself is not being administered in a manner that is fully consistent with the requirements of a contribution program. The 2000 *Policy* requires that recipients "account for the use of the funds to meet eligible expenditures and report on the results actually achieved". The financial and activity reports received by PCH address all of the Centre's activities and have not been specifically tailored to report on how the federal funding has been utilized. The contribution funds have simply become part of the overall operating budget of the Centre without a specific accounting for the use. The June 2000 *Policy on Transfer Payments*, which was in effect when the most recent Terms and Conditions for this contribution agreement were approved, does not explicitly require that funds be used for initiatives other than ongoing operations.

The Department may wish to review the practice of having the contribution funds become part of the ongoing operating budget, without placing undue reporting burdens on the recipient. It might be possible to redefine eligible costs as the costs of specific activities which require the amount comprised in the contribution so that the funds would be targeted and could be easily accounted for separately.

Recommendations



It is recommended that the Regional Executive Director, Atlantic and the Director General, Arts Policy

- 6.1.1 establish procedures to ensure that the contribution agreement between Canadian Heritage and the Fathers of Confederation Building Trust will reflect fully all the requirements of the approved terms and conditions for the program; and**
- 6.1.2 ensure that the financial and activity reports received from the Confederation Centre for the Arts to fulfill the reporting requirements of the contribution agreement more explicitly account for how the federal funding has been utilized.**

Management Responses

- 6.1.1 The Regional Executive Director, Atlantic and the Director General, Arts Policy will review the approved terms and conditions of the program and the existing contribution agreement, and will amend the contribution agreement to reflect the current Treasury Board guidelines by adding the two missing clauses to the agreement, and by addressing the discrepancies related to provision of services for Aboriginals, by March 31, 2004.**
- 6.1.2 Over the course of 2003-04 the Regional Executive Director, Atlantic and the Director General, Arts Policy will work with the Confederation Centre to ensure that activity reports account more explicitly for how federal funding has been utilized. Similar efforts will be made with regard to financial reports although making major changes to the financial reporting is expected to require more significant adjustments on the part of the Centre and, therefore, is likely to take longer for full implementation.**

6.2 Opportunities for Improving the Management of the Program

During the period considered by this audit, two separate contribution agreements which were subject to the requirements of different versions of the TBS *Policy on Transfer Payments*, were in place. For the most part the requirements of the policy that was applicable when each contribution agreement was signed are reflected in the respective agreements. Several differences were noted between the 2000 Policy and the agreement signed for the period April 1, 2001 to March 31, 2006. These included:

- procedures to be followed to recover payments. The contribution agreement, however, includes the requirement that surpluses shall forthwith be payable to the



Minister, should the recipient be in default of the provisions of the contribution agreement;

- an indemnification clause for the benefit of the Crown; and
- a clause that requires the recipient not to represent itself, including in any agreement with a third party, as a partner or agent of the Crown.

The audit team does not consider that any of these differences presents a potentially significant risk at this time to Canadian Heritage. Both contribution agreements described the type of reporting that must be provided on a regular basis. Payment does not occur until these reports are provided.

Each agreement also sets out other obligations relating to the services provided to the public. With the contribution agreement for 2001-2002, the Centre made commitments to:

- develop and implement a multi-year business plan (strategic, operational, financial) and marketing strategy;
- organize and present the Charlottetown Festival, continuing to reflect the Centre's national and regional mandate while meeting the expectations of its audience;
- provide services and programming in both official languages, notably in the areas of programming, staffing, communications, box office and signage;
- forge partnerships with the public and private sectors, i.e., provincial governments, other national institutions, City of Charlottetown and the Capital Commission;
- continue to intensify all aspects of its cooperative promotional work with Tourism PEI in developing a more focussed and aggressive marketing strategy to entice visitors to the Centre; and
- develop outreach activities.

In all areas, the Centre has taken steps to address its obligations. The audit team found that:

- a detailed multi-year plan was submitted to the Centre in February 2002 by external consultants. It was accepted by PCH's Atlantic Regional Executive Director in March 2002.
- the Charlottetown Festival was presented in both 2000 and 2001 and offered programming with both a regional and national appeal;
- approximately 15% of the programming offered was in French. The projected operating budgets in the Strategic Plan included a tripling of the expenditures on French-language programming between the 2001-2002 and 2005-2006 fiscal years. A review of the staffing list for 2000-2001 found that approximately 95% of box office staff and Heritage guides are bilingual as well as about 20% of the front of house ushers. Few food and beverage servers, however, were bilingual. An anonymous transaction was easily conducted in French at the box office but there was some



difficulty in obtaining information in French at the reception desk. This may have been due to absence of staff for holidays. A review of communications vehicles and of signage also showed an acceptable level of French-language communication.

- the Centre's Marketing Division has detailed plans for involving PEI Tourism, Island tourism operators, major tourist attractions and tour operators. Recent partnering initiatives include the Confederation Birthplace Experience in which the Centre partnered with Founders Hall and Province House, and a joint initiative with Veterans Affairs, "Live from Vimy".
- the Centre's marketing plans for 2000 and 2001 have measurable attendance goals (e.g., increase Festival box office revenues by 14%, increase gallery visits by 25% during the Festival) and identify specific target markets. Statistics are obtained from PEI Tourism exit interviews, telephone surveys and other databases, on the awareness of the Centre and of its programming, by geographic origin.
- Through the development of its Strategic Business Plan, the Centre obtained input from Canadians as to how it could become more relevant in their lives. The future planned activities will seek to address the identified needs. Other efforts include special efforts to reach the Acadian and Francophone communities with a specific goal of involvement in the upcoming *Acadie 400* events; information vehicles prepared by the Marketing Division; possible participation in the CA*4Net broadband network (the Centre is already wired for broadband); and putting the Gallery on line.

The management of the contribution agreement with the Trust was also compared with the attributes of a well-managed contribution program as defined by the Office of the Auditor General. Several of the attributes were difficult to apply or not applicable because this is a single recipient program that has been specifically tailored to meet the needs of the Centre. In most areas, the observed practices were consistent with the OAG's criteria.

6.3 Reliability of the Information Used for Decision Making

Canadian Heritage is provided with information on an ongoing basis on the Centre's activities and plans. Both contribution agreements require:

- detailed statements of all sources of revenues and items of expenditures incurred for each activity funded through the agreement.
- consolidated audited statements within five months following the end of the period covered by the agreement. The Centre must disclose all sources of revenues and items of expenditure for all programs and operations, making clearly visible the revenues and activities funded by the agreement and by any other departmental funding which may have been received over and above the agreement.



- activity reports providing a brief written description of the activities for each period. By September 1st each year, an activity report for the 12 months ending March 31st must be provided.

The Centre provided all of the required statements and reports. The financial statements clearly detail all sources of revenues. They also provide details on all activities funded by the agreement. As previously noted, the agreement covers all of the possible activities of the Centre and it is not possible to identify precisely where the PCH funds were used.

Terms and conditions attached to the contribution agreement outline which activities and types of expenses are eligible for reimbursement. The list of eligible activities is extensive, covering new play development, production and presentation, exhibits, partnerships, collaboration and outreach with Native and Francophone communities, and communication with general public. Expenses include salaries, artist fees, communications, consultants, data collection and analysis, travel, administration, logistics, planning and producing arts and heritage programming.

A sample of nine (9) regular detailed activity reports from the Centre on the financial position of each activity item, were reviewed. The examination of these reports by program officials was also reviewed and showed a detailed scrutiny, with follow-up with the Centre for any questions. These reports cover the total financial position of the Centre and do not account separately for the contribution funds.

No discrepancies were found in comparing the Centre's activity and financial reports to PCH with internal Centre documents. The reports were provided within the prescribed timeframes.

A review of the periodic financial reports found that expenditures appearing therein fell into the categories identified as being eligible in the contribution agreement.

6.4 Effectiveness of Management Controls and the Risk Management Framework

Existing controls and risk management strategies appear to be effective.

As part of the approval process of the current contribution agreement and associated terms and conditions, a Risk-Based Audit Framework (RBAF) was prepared. From the audit team's perspective, the RBAF's definition of "risk" was quite limited as it was simply a repetition of the Activities and Outputs described for the program, i.e.:

Provision of contributions to the Centre as direct recipient to cover part of the costs related to programming, outreach activities and partnerships, business plan.

It recommended an audit before program renewal and spot audits in collaboration with the PEI government. The present audit fulfills in part a response to this recommendation.

There are other potential risks which are not mentioned in this RBAF. These include misuse of funds through unnecessary spending, use of the funds for capital expenditures, or provision of programming contrary to the mandate of PCH. Through periodic audits of the recipient, PCH would be able to determine if funds were not spent for the intended purpose.

The Regional Office's detailed process for the review of payment claims was reviewed. A financial analyst writes a one-page report and payment is withheld if there are problems or uncertainties. For example, the auditor reviewed correspondence related to an additional \$80,000 approved by the Minister of Canadian Heritage for the Centre's Young Company. Payment was not released until an amendment to the agreement had been signed. Following the financial analyst's report, the Regional Executive Director signs a payment authorization form.

To test the recipient's control and risk management strategies, a sample of accounts payable, journal vouchers, invoices, payroll, daily box office receipts and other documents supporting eligible costs was reviewed through the complete monthly "working papers" for 2000-2001 and 2001-2002. Audited statements confirmed that all were operating costs.

6.5 Program Outcomes and Results

A review of the Terms and Conditions and of the Centre's Strategic Plan found that results and outcomes were clearly identified.

In a review of a comprehensive sample of activity reports and of reports of attendance at events and venues, there was a clear identification of results achieved (e.g. number of tickets for each performance, visits to gallery, etc.). These reports are reviewed regularly by Regional Office before releasing payments.

The departmental objective pursued through the Terms and Conditions of this program is to value and strengthen the Canadian experience, by reflecting Canadian connections, diversity and choices, through the presentation of the best of Canadian art and artists, including First Nations and Francophones. A review of programming and of visual arts displays showed the presence of Canadian art and artists as well as First Nations and Francophones.

As part of the approval process for the terms and conditions associated with the current contribution agreement, PCH developed a Results-based Management and Accountability Framework. The periodic reports from the Centre include a narrative description of the status, achievements and problems for each category of activities. Program officials indicated that they found this very useful and they served as a basis for discussion. However, this appears to be an informal process and no documents were found indicating that a formal assessment of performance by Program management has occurred.

Recommendation

6.5.1 It is recommended that the Regional Executive Director and the Director General, Arts Policy should assess performance data on an ongoing basis as identified in the RMAF.

Management Response

6.5.1 The Regional Executive Director and the Director General, Arts Policy will ensure that an analysis of the performance data in relation to the six activity areas is undertaken annually.

6.6 Advisability of Joint Audits with Other Government Departments

Audited statements indicate that the Province of Prince Edward Island is a significant contributor. The RBAF recommends that annual spot audits of a 10% sample of expenditures be carried out in collaboration with the government of PEI, under the direction of the Corporate Review Branch.

Some other provinces contribute, but to a small extent (in 2001-2002, from \$0. for Ontario to \$50,000. for Alberta). These amounts do not warrant joint audits.

There are small targeted grants from HRDC (for Young Company), ACOA (for Birthplace Experience) and from Veterans' Affairs (for Live from Vimy). Since these are for very specific activities, presumably these departments monitor the use of the funds. The amounts are not significant enough to warrant joint auditing.

Recommendation

6.6.1 It is recommended that the Regional Executive Director, Atlantic pursue joint audits of the Centre with the Government of Prince Edward Island as recommended in the RBAF.

Management Response

6.6.1 The current RBAF requirement to undertake an annual joint spot audit with the Province of Prince Edward Island of a 10 per cent sample of expenditures under the Direction of Corporate Review Branch is better suited to a multi-recipient program. Given that this is a single recipient program and since the renewal process will begin in about 18 months, an exercise of this magnitude is not practical in light of the cost relative to the amount to be assessed. This will be discussed with Treasury Board.



Both the RMAF and RBAF will be updated as part of the program renewal, the proposed schedule for which would be:

- spring 2003 begin implementation of audit recommendations
- summer 2003 Management Response to Formative Evaluation
- fall 2003 begin implementation of evaluation recommendations
review current RMAF/RBAF
- March 2004 revised contribution agreement
- fall 2004 begin work on Summative Evaluation
- January 2005 begin work on new RMAF/RBAF