Canadian Heritage Patrimoine canadien

REPORT ON THE

SINGLE RECIPIENT AUDIT OF TELEFILM CANADA

CORPORATE REVIEW BRANCH

CANADIAN HERITAGE

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Canada

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EXECUTIVE SUMMARY

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage (PCH) conducted an audit of Telefilm Canada's administration of five programs: the Canada Feature Film Fund (CFFF); the Music Entrepreneurship Program component of the Canada Music Fund; the Canada New Media Fund (CNMF); the Equity Investment Program (EIP) component of the Canadian Television Fund; and the National Training Program in the Film and Video Sector (NTP). The Canada Music Fund, the Canada New Media Fund and the Canadian Television Fund also underwent separate, program audits during the 2003-04 fiscal year. The program components discussed in this report are discussed in their capacity as being managed by Telefilm.

The objectives of the audit were to provide PCH program management with assurance that information for decision-making is reliable; that management controls and risk management frameworks of the programs and Telefilm are effective; that expenditures claimed under core and project contribution agreements are consistent with the approved terms and conditions and that the funds disbursed have been utilized for the purposes intended; and that outcomes and results for the programs and for the recipient have been identified, are measurable and in support of Government objectives. Further the audit evaluated Telefilm's internal controls to ensure that adequate controls exist. This included a review of Telefilm's accounting process regarding the PCH contribution for revenue and expenditures related to the programs under audit, the budgeting process, and the monitoring process for the budget.

The audit examined the contribution agreements and the memoranda of understanding that were in place between PCH and Telefilm Canada for fiscal years 2001/02 and 2002/03. The impact of changes made to the management control framework for 2003/04 were also considered.

The audit team is of the opinion that significant improvement has been made to Telefilm's management control framework (MCF) applicable to its contribution programs with PCH over the past several years. Several opportunities to strengthen the MCF have been identified. The most significant weaknesses found relate to the NTP, which comprises less than 2% of Telefilm's annual expenditures. Telefilm has targeted its efforts over the past two years to the CFFF and the EIP, which collectively make up approximately 90% of its annual expenditures.

Telefilm Canada has only a clear legislative authority for the CFFF. PCH and Telefilm are aware of this and measures are underway to review Telefilm's legislative mandate and authorities.

For the most part, Telefilm Canada has sufficient information for decision-making and reporting although it should document more thoroughly the rationale for decisions. It has developed very detailed frameworks for recipient reporting for all programs except for the NTP. Improvements in the detail requested from recipients are also warranted for the CNMF.

All of Telefilm's claimed revenues and costs could be traced to their accounting records. Their cashflow projections were all reasonable estimations given the information available at the time they were prepared. Improvements in managing the CNMF contribution may be possible by factoring into the decision making process, the likelihood that recipients will not use all the money allocated to them.

As of March 31, 2003, Telefilm had an accumulated surplus of $21.1 M relating to its operation of the EIP. The contribution agreement with PCH has defined recoverable annual surplus in such as way that it is unlikely that any amount will ever need to be repaid to the Department. The MOU is silent on how any surplus might be utilized.

All of the amounts paid by Telefilm to ultimate recipients, except for the NTP, appear to have been for eligible expenditures. The agreements Telefilm had with recipients under the NTP were structured in such a way that funds could have been utilized in a manner that was inconsistent with the approved terms and conditions for the program.

Telefilm's contribution agreements and Memoranda of Understanding (MOUs) with PCH do not provide sufficient specificity as to what constitute eligible administrative expenses. A significant portion of the identified administrative expenses (65% of claimed costs in 2001-02 and 43% in 2002-03) are indirect costs that are allocated using an Activity Based Costing system.

Telefilm has not been allocating administrative costs first to its appropriation for EIP as required by its agreement with PCH. This has negatively impacted the Canadian Television Fund (CTFC) because it reduced the amount the CTFC would otherwise have had for administrative expenses by $1.3 M in each of 2001-02 and 2002-03.

Program outcomes, measurement, and reporting of these have been established to varying degrees for each of the programs included in the scope of this audit.

1.0 INTRODUCTION AND BACKGROUND

Telefilm Canada (Telefilm) is a federal cultural agency dedicated to fostering and promoting the development of feature film and television industries in Canada. Its corporate plan for 2003-2004 to 2005-2006 is focused on building larger audiences for Canadian films, television programs and other media. In French-language markets it has had considerable success. The most popular television French-language shows are all Canadian; and French-Canadian films are very successful at the box office. While an impressive volume of English language production of films, television programs and other media have been produced, viewership of these programs in the English market has not grown significantly.[1]

The key programs delivered by Telefilm include:

- the ***Canada Feature Film Fund*** (CFFF). The CFFF was established as part of the new Canadian Feature Film Policy, *From Script to Screen: New Policy Directions for Canadian Feature Film* announced October 5, 2000 by the Minister of Canadian Heritage (PCH). The goal of this fund is to increase Canadian audiences for Canadian feature films, aiming to capture 5% of the domestic box office by 2006. Funding is provided for the development, production and marketing of Canadian feature films that have high box office potential. Telefilm Canada administers this fund from its parliamentary appropriation. A Memorandum of Understanding (MOU) with Canadian Heritage aligns Telefilm's administration of the Fund with the objectives set out in the Feature Film Policy.

- The ***Equity Investment Program*** (EIP), is a component of the ***Canadian Television Fund*** (CTFP). The CTFP has as its objective the creation and broadcast of high-quality, culturally significant, Canadian television programs. Support is provided for four genres: drama, children's programs, documentaries, and variety and performing arts, in English, French and Aboriginal languages. Under the EIP program, applicants receive a direct cash equity investment in the production of up to 49% of the eligible production costs. Funding is provided for EIP by Telefilm through its Parliamentary appropriation and other revenues and by Canadian Heritage through a contribution agreement with Telefilm. There is also an MOU between PCH and Telefilm regarding Telefilm's appropriation monies used to fund EIP.

  CTFP also includes a second component, the ***License Fee Program*** (LFP), administered by the Canadian Television Fund (CTFC), an independent, non-

[1] Telefilm Canada: Building Audiences for Canadian Cultural Products, Corporate Plan, 2003-2004 to 2005-2006

profit corporation. Under this program, a “license fee top-up” is provided to producers to supplement their Canadian broadcaster cash licence fees.

The CTFC is responsible for developing an integrated budget, preparing integrated financial statements and approving the guidelines for both the EIP and LFP components of the CTFP.

- the ***Canada New Media Fund*** (CNMF) which was established to further the development, production, and marketing/distribution of high-quality, original, interactive or on-line Canadian cultural new media works, in both official languages. Telefilm is responsible for administering the program and utilizes funding provided by Canadian Heritage through a contribution agreement.

- the ***Music Entrepreneurship Program*** (MEP) which is part of the ***Canada Music Fund***. The Canada Music Fund was established to strengthen the Canadian sound recording industry “from creator to audience” and replaced the Sound Recording Development Program (SRDP). It is comprised of eight complementary programs, one of which is the MEP. The MEP, administered by Telefilm Canada has four objectives: promoting long-term artist development; establishing a dynamic Canadian presence in the online environment; promoting the innovative use of new technologies; and ensuring that a range of compelling Canadian choices are available to Canadians in the digital economy. Funding is provided to Telefilm by PCH through a contribution agreement.

- the ***National Training Program in the Film and Video Sector*** (NTP) was established in 1997 to provide Canadians seeking professional careers in the film and video sector with opportunities to develop their creativity, innovation and talent to the highest possible standard. Canadian Heritage provides funding to Telefilm Canada for the program, through an MOU (which is, in form and practice, a contribution agreement) not to exceed $2.8 M a year.

Telefilm Canada receives funding for these programs directly from its Parliamentary appropriation, through contribution agreements, MOUs with Canadian Heritage and from other sources as shown in Table 1 on page 3. It should be noted that although entitled an “MOU”, the agreements with Telefilm constitute, in form and content, contribution agreements. The agreement signed with Telefilm in 2003 is titled “Contribution Agreement”.

It should be noted that in addition to the audit of Telefilm and the PCH program components it manages, as a delivery agent, on behalf of Canadian Heritage, separate program audits of the Canada New Media Fund, the Canadian Television Fund and the Canada Music Fund were conducted in the 2003-04 fiscal year.

Table 1: Funding Available to Telefilm for the Delivery of its Programs

(000$)	2001-2002	2002-2003	2003-2004
Summary of Funding Through Appropriation[2]			
Administration	$13,956	$14,028	$14,028
Canadian Television Fund	$47,638	$47,638	$47,638
Canada Feature Film Fund	$79,150	$90,650	$83,650
Support of Professional Development & Complementary Activities	$10,488	$10,488	$10,488
Sub-total	$151,232	$162,804	$155,804
Less: Expected Revenues	$25,700	$25,700	$25,700
Total Budgetary Requirements	$125,532	$137,104	$130,104

Other Funding				
CTF (EIP)[3]	PCH Contribution	$56,175	$47,275	$49,775
	Transfer from the License Fee Program	$8,448	$26,761	$25,300
Canada New Media Fund	PCH Contribution	$9,000	$11,000	$9,000
Music Entrepreneurship Program	PCH Contribution	-	$5,740	$9,560
National Training Program in the Film & Video Sector	PCH MOU	$2,800	$2,800	$2,550

[2] From Estimates Part I and II, The Government Expenditure Plan and Main Estimates, 2002-2003 and 2003-2004

[3] From Telefilm's Statement of Operations and Equity, Year ended March 31, 2003 for EIP

As shown in Table 2 on page 4, each of the programs administered by Telefilm has a corresponding group within the Cultural Affairs Sector of PCH responsible for it.

Table 2: PCH Responsibilities for Telefilm Canada Administered Programs

Telefilm Canada Administered Program	Responsibility within PCH
Canada Feature Film Fund	Film & Video Policy & Programs, Film, Video & Sound Recording Branch
Canada Music Fund (MEP component)	Sound Recording Policy & Programs Film, Video & Sound Recording Branch
Canada New Media Fund	Content, Policy and Programs Directorate Canadian Culture Online Branch
Canada Television Fund	Broadcasting Programming Services, Broadcasting Policy & Innovation Branch
National Training Program in the Film and Video Sector	Film & Video Policy & Programs, Film, Video & Sound Recording Branch

2.0 OBJECTIVES

The overall objective of this audit is to provide Departmental senior management with:

- assurance that information for decision-making is reliable;
- assurance that management controls and risk management frameworks of the programs and the recipient are effective;
- evaluate internal controls to ensure that adequate controls exist. This includes the review of the accounting process for revenue and expenditures, review the budgeting process and review of the monitoring process for the budget;
- ensure that expenditures claimed under core and project contribution agreements are consistent with the approved terms and conditions and that the funds disbursed have been utilized for the purposes intended; and
- assurance that outcomes and results for the programs and for the recipient have been identified, are measurable and in support of Government objectives.

3.0 SCOPE

The audit examined the contribution agreements and the MOUs in place between PCH and Telefilm Canada for fiscal years 2001/02 and 2002/03. The impact of changes made to the management control framework for 2003-2004 were also considered. The audit fieldwork was conducted between June and September, 2003.

4.0 METHODOLOGY

4.1 Audit Criteria

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

- the requirements of the June, 2000 Treasury Board Secretariat *Policy on Transfer Payments*;
- Office of the Auditor General Attributes of a Well-Managed Grant and Contribution Program[4]
- the approved Terms and Conditions for the Canadian Television Fund program, the Canada New Media Fund, the Music Entrepreneurship Fund, and the National Training Program in the Film and Video Sector;
- the provisions of the contribution agreements between PCH and Telefilm for the EIP component of the Canadian Television Fund program, the Canada New Media Fund, and the Music Entrepreneurship Fund; and
- the provisions of the Memorandums of Understanding between PCH and Telefilm for the EIP component of the Canadian Television Fund, the Canadian Feature Film Fund, and the National Training Program in the Film and Video Sector.

Specific criteria for the five audit objectives are included in Annex A of this report.

4.2 Fieldwork

Specific audit activities included:

- Review of the relevant provisions of the *Financial Administration Act* and the *Telefilm Canada Act*.
- Review of the approval documents associated with each program.
- Review of PCH policies and procedures for administration of the programs.
- Review of the contribution agreements and Memoranda of Understanding between PCH and Telefilm applicable to the 2001-02, 2002-03 and 2003-04 fiscal years for each program.
- Review of the Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the each program if one existed.
- Review of the Telefilm program business plans.

[4] *A Framework for Identifying Risk in Grant and Contribution Programs*, November 1, 2000

- Review of annual and interim reports, cash flow projections, and financial reports prepared by Telefilm for each of the programs.
- Review of a stratified random sample of applicant and recipient files for each program (see Table 3, 4 and 5 for the EIP, CFFF and CNMF fund respectively). For the MEP, nine files were selected at random from the 26 original applicants. The sample included 6 successful applicants and 3 unsuccessful applicants. For the NTP, five files were selected which comprised more than 80% of the annual funding provided.
- Review of reports prepared by Telefilm's internal auditor for 2001 and 2002.
- Review of Telefilm financial data/records.
- Interviews with management and staff responsible for each program within Canadian Heritage and Telefilm.

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

Table 3: EIP File Sample

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

Table 4: CFFF File Sample[5]

Envelope		Language		Office			Application Result		Application Value ($)	Commitment Value ($)
Selective	Performance	English	French	Vancouver	Toronto	Montreal	Accepted	Refused		
12	5	10	4	5	4	5	10	4	30,491,507	22,059,230

Table 5: CNMF File Sample

	Language		Office			Application Result		Application Value ($)	Commitment Value ($)
Sub-programs	English	French	Vancouver	Toronto	Montreal	Accepted	Refused		
Sectoral Awareness	1	0	1	0	0	0	1	125,000	0
Distribution	1	0	1	0	0	1	0	100,000	100,000
Predevelopment/ Development	10	2	5	5	2	6	6	1,081,728	278,728
Production/ Marketing	9	5	3	5	6	12	2	2,504,173	2,025,086
Total	21	7	10	10	8	19	9	3,810,901	2,403,814

[5] Three of the 14 files examined were for organizations that received funding under both the Selective and Performance envelopes.

5.0 CONCLUSIONS

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

- Significant improvement has been made to Telefilm's management control framework applicable to its contribution programs over the past several years. Several opportunities for further strengthening have been identified. The most significant weaknesses found relate to the NTP, which comprises less than 2% of Telefilm's annual expenditures. Telefilm has targeted its efforts over the past two years to the CFFF and the EIP, which collectively make up approximately 90% of its annual expenditures.

- For the most part, Telefilm Canada has sufficient information for decision-making and reporting, although it should document more thoroughly the rationale for its decisions. Telefilm has developed very detailed frameworks for recipient reporting for all programs except for the NTP. Improvements in the detail requested from recipients are also warranted for the CNMF.

- Telefilm Canada only has clear legislative authority for the CFFF. PCH and Telefilm are aware of this and measures are underway to review Telefilm's legislative mandate and authorities.

- Telefilm's claimed revenues and costs could all be traced to their accounting records. Their cashflow projections were all reasonable estimations given the information available at the time they were prepared. Telefilm may be able to reduce the amount of CNMF funds that lapse, however, by factoring into the decision making process the likelihood that recipients will not use all the money allocated to them.

- Telefilm should explicitly include the amount of its accumulated surplus for EIP in its planning process each year when determining the amount it has available to commit towards ultimate recipients' projects. The contribution agreement with PCH has defined recoverable annual surplus in such as way that it is unlikely that any amount will ever need to be repaid to the Department, and the MOU is silent on how any surplus might be utilized.

- All of the amounts paid by Telefilm to ultimate recipients, except for the NTP, appear to have been for eligible expenditures. The agreements Telefilm had with recipients under the NTP were structured in such a way that funds could have been utilized in a manner that was inconsistent with the approved terms and conditions for the program.

- Telefilm's agreements with PCH do not provide sufficient specificity as to what constitutes eligible administrative expenses. A significant portion of the identified administrative expenses (65% of claimed costs in 2001-02 and 43% in 2002-03) are indirect costs that are allocated using an Activity Based Costing system.

- Telefilm has not been allocating administrative costs first to its appropriation for EIP as required by its agreement with PCH. This has negatively impacted the CTFC because it reduced the amount the CTFC would otherwise have had for administrative expenses by $1.3 M in each of 2001-02 and 2002-03.

- Program outcomes and measurement have been established to varying degrees for each of the programs included in the scope of this audit. For each program, the definition of program outcomes and measurement processes should be enhanced and the information reported to Canadian Heritage.

6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Reliability of Information for Decision Making

Reporting to Canadian Heritage by Telefilm Canada

Each contribution agreement or MOU sets out Telefilm's reporting requirements to Canadian Heritage. Reporting requirements vary. Where a contribution agreement is in place (EIP, New Media and MEP), the requirements generally consist of an annual business plan, projected cash flows, interim and final activity reports, financial reports, and an annual audited financial statement. The information provided addresses in part the stated objectives for the EIP, CNMF and MEP. There is a further discussion in Section 6.5 of this report on the extent to which outcomes and results have been identified, are measurable, and are in support of Government objectives.

There are no specific reporting requirements to Canadian Heritage for the CFFF, which is funded entirely through Telefilm's appropriation. Information is however provided to Parliament through Telefilm's annual report which is tabled by the Minister of Canadian Heritage.

The agreement between PCH and Telefilm for the National Training Schools Program requires the submission of a financial report. Telefilm is required to provide PCH with an annual report that includes audited financial statements and a report on activities. Telefilm provides PCH with the names of the school, the special project undertaken and the amount of funding provided for the National Training Schools Program. Information that Telefilm receives from the schools on enrollment in educational programs, alumni success, new program initiatives, etc. is not provided to PCH. It was also noted that no central point exists in Telefilm for this program, whereby this information could be collected. The audit team believes that it is imperative that PCH receives this type of information on a regular basis so that it can make appropriate management decisions about the program.

6.1.1 Recommendation

That the Director General, Film, Video & Sound Recording Branch, ensure that the next agreement covering the National Training Program in the Film and Video Sector clearly sets out the reporting requirements and the responsible Telefilm Canada officer.

6.1.1 Management Response

This recommendation is accepted and partially implemented. The most recent contribution agreement covering the NTP came into effect in December, 2003. Terms and Conditions for this program were entered into effect on April 1, 2002. As required by both documents, Telefilm must provide PCH with cash flow statements and combined activity and expenditure reports. The Annual Reports of each ultimate recipient are also required by PCH. Moreover, the contribution agreement includes Results-based Management and Accountability Framework at Annex C that lays out key results, activities and outputs that are expected of the NTP. The program guidelines, attached to the agreement as Annex A, stipulate that Telefilm Canada will work with each of the ultimate recipients to assist them in updating their performance measurement capacity and to standardize the reporting of these measures, such that detailed performance reports may be completed, collated by Telefilm Canada and then submitted to DGFVSP as per the terms of the contribution agreement. Until such time as these reports are standardized (January, 2005), DGFVSP and Telefilm Canada will collate existing data to the best of its abilities, going back to April 2002. Telefilm Canada recently amended its program guidelines for the NTP. These will come into effect in 2004-2005.

The recommendation concerning the identification of a responsible Telefilm Canada officer has been implemented in practice. PCH will revise the existing agreement to this effect and will require that

Telefilm notify DGFVSP formally of any change that would affect this delegation of authority.

According to the information available in PCH files, projected and actual cash flow statements were not always provided in accordance with the timelines provided in the contribution agreements. In the case of the EIP, the audit team was unable to find integrated interim activity reports that had been forwarded to PCH by the CTFC. It is the audit team's understanding that PCH program management has taken steps to ensure that files are complete. No inaccuracies were found by the audit team in the information provided to PCH by Telefilm.

Reporting to Telefilm Canada by the Recipients

Telefilm has prepared application guides for all of its programs included in this audit which are available on its website. Each guide sets out:

- program objectives;
- eligibility criteria for applicants, the initiatives that will be funded, and costs;
- selection criteria (an evaluation grid is also provided);
- terms of participation; and
- terms of repayment (if applicable).

Excel spreadsheets are also available on Telefilm's website that are utilized by EIP, CFFF and CNMF applicants to prepare budgets, and are used by recipients to report eligible costs.

For most of the programs included within the scope of this audit, the required information appeared to be comprehensive and sufficient to address the program's stated objectives. The audit team noted that applicants for the National Training Schools Program have to provide limited information to Telefilm. They are not required to identify which educational programs qualify for support, the time period within which the funds will be used, or to report on the cost of providing specific programs. Without this information, Telefilm has no way to assess if the requested funds are likely to be utilized to meet program objectives.

6.1.2 Recommendation

That the Director General, Film, Video & Sound Recording Branch, ensure that the next agreement covering the National Training Program in the Film and Video Sector set out the processes to be used by Telefilm to ensure that ultimate recipients utilize the funds for the intended purposes.

6.1.2 Management Response

This recommendation is accepted and will be implemented effective 2004-2005. DGFVSP will revise the existing contribution agreement to ensure that Telefilm Canada requires ultimate recipients to submit budgets and associated cost reports related to their eligible activities on an annual basis.

Telefilm Canada, with the CTFC and the Canadian Audio-Visual Certification Office (CAVCO), developed a comprehensive Accounting and Reporting Requirements (ARR) policy effective March 2003, which replaced its 1993/95 Audit Manual. The initiative to develop the policy was in response to findings by Telefilm's internal auditor in 2001 and 2002. The ARR applies to recipients receiving production or distribution funding under the CTFP (EIP and LFP), CFFF, and CNMF. Under this policy, recipients are required to provide:

- production supporting documents including financing, title, key personnel and creative agreements;
- interim cost report;
- confirmation of completion of key steps;
- final cost report prepared in the prescribed manner; and
- post-release revenues using standard reporting templates.

The review of fiscal year 2003-2004 files for these programs found that the required reporting requirements were incorporated in the contribution agreements with recipients for the EIP and CFFF. Further, the provision of funding was linked to the submission of the required information reports to Telefilm.

For the CNMF, recipients are required to provide cost information but there is no requirement to provide information on performance indicators such as audience/users, satisfaction with trade shows, or availability and accessibility of on-line learning material. The contribution agreement between PCH and Telefilm sets out a requirement that this information be provided by recipients. The contribution agreement also calls for Telefilm to provide PCH with interim reports that include details of all applications, whether funded or not. PCH program managers advised the audit team that this information is needed to enable them to monitor the industry (growth, trends, emerging companies, etc.) as well as to monitor the management of the CNMF. Telefilm has provided financial information and limited narratives on activities. The financial claims for expenditures have not been timely which resulted in significant lapsed funds at the end of the 2002-2003 fiscal year which otherwise could have been used by other components of the Canadian Internet Cultural Content Strategy.

6.1.3 Recommendation

That the Director General, Canadian Culture Online Branch, ensure that in the next agreement with Telefilm Canada for the Canada New Media Fund, the provision of funding be more tightly linked to the timely provision of required performance information.

6.1.3 Management Response

Recommendation accepted. In the course of the negotiation of the contribution agreement for 2004-05, Telefilm and CCO agreed on reporting requirements and a reporting schedule taking into account both Telefilm's and CCO's realities and needs. A key element in CCO's process of assessing money owed to Telefilm during 2004-05 will be to ensure that Telefilm is in compliance with all agreed-upon financial and performance-related reporting requirements. CCO will also work with Telefilm to ensure that all relevant results information is required from CNMF recipients to ensure useful and complete performance reporting consistent with the RMAF for CCO. This recommendation is partially implemented. Additional work is to take place in 2004-05, in time for inclusion in the next contribution agreement.

For Phase 1 of the MEP program, reporting from ultimate recipients appeared to be complete and was received by Telefilm in a timely manner. In most cases there was evidence that the information received was analyzed by Telefilm. In the audit team's opinion, documentation of the analysis could be facilitated through the use of a template or checklist. At the time the audit fieldwork was conducted, Phase II of the program was in its early stages and quarterly reporting had yet to be received for any of the files included in the audit sample.

Recipients of funding under the National Training Schools Program are required to provide an annual report including audited financial statements and a report of their activities. In the files examined, the audit team found that this information is not consistently provided prior to the release of the final payment. Since Telefilm program officers do not follow up to get reporting on the actual activities related to the funding provided, this information is not reported to PCH. This issue is addressed by Recommendation 6.1.1 of this report.

Information Used Internally by Telefilm

Telefilm maintains its information on applicants and recipients in hard-copy and electronically (SineWeb). The files for all programs reviewed were found to be generally complete and include all of the information required by the program application guidelines and the Telefilm business policies, except those for the NTP.

Paper files in Toronto and Vancouver were found to follow a consistent structure while those in Montreal demonstrated considerable variance depending on which analyst was responsible for them. SineWeb was also not consistently utilized. With the exception of tombstone data which was recorded in the identification fields, key documents were not consistently recorded or retained in SineWeb. For example, SineWeb has a number of available worksheets, including:

- “Workplan” which enables users to establish an agenda for dealing with an application and create Bring Forwards (BFs);
- “Evaluation grid”–application evaluations were created instead as associated documents;
- “Notes”–little evidence was found that this field was ever used; and
- “Financial structure”–no data was found for the sample of files reviewed.

Although most required recipient data was found on file, the way in which it is recorded and retained makes accountability and decision-making more labour-intensive at the regional office level (particularly Montreal) and in the audit team’s opinion, does not support efficient decision-making and accountability of Sector Heads[6].

National Training Program

An Evaluation Report, which includes a scoring grid, is used to assess the completeness of applications for core funding and to evaluate schools against the criteria for the National Training Schools Program. No rationale was found in the Telefilm files on the allocation of funding to the different training schools. Without this

[6] Telefilm has a geographically dispersed structure. Two programs each have two Sector Heads. For EIP, the Sector Head Operations who is also the Toronto Regional Director coordinates English EIP and the Sector Head Policy who is also the Montreal Regional Director, coordinates French EIP.

For the CFFF, the Sector Head Policy is based in Toronto and the Sector Head Operations is based in Halifax. Each has a national coordinating role and participates in national comparative funding decisions.

New Media–the Sector Head, New Media is also the Vancouver Regional Director.

Files are processed in Halifax, Montreal, Toronto and Vancouver for all programs included in the audit except MEP.

Regional Directors in each regional office have decision-making and signing authority up to a specified dollar value for all Telefilm programs and also participate in national comparative funding decisions.

information on file, Telefilm is unable to demonstrate that priority for funding has been given to applicants in a manner consistent with the framework set out in the application guide.

The audit team noted that the funding amounts did not vary from year to year in the period examined by the audit. The Montreal office completed its contracting associated with the Program within one week of the application deadline and three months before the national comparative occurred. If priority was really given to applicants based on a ranking of their applications, one would expect to see funding amounts varying from year to year and no agreement should be finalized prior to the completion of the national comparative analysis.

6.1.4 Recommendation

That the Director General, Film, Video and Sound Recoding Branch, ensure that the next agreement with Telefilm for the NTP include a requirement that Telefilm develop a protocol for allocating funding to recipients based on a ranking process.

6.1.4 Management Response

DGFSVP accepts this recommendation. The terms and conditions approved in 2002 already note that Telefilm will assess all applications against pre-established criteria. Program guidelines established subsequent to the period considered by this audit are appended to the latest contribution agreement as Annex A. These set out the criteria upon which applicants to the NTP are assessed. Each of these criteria is weighted according to a point system that was approved by DGFSP. In other words, the mechanisms for a ranking process are already in place. However, DGFSP will undertake discussions with Telefilm Canada to ensure that a more direct link between the ranking criteria and the allocation of funds is made possible.

6.2 Management Control Frameworks

Legislative Authority

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

- invest in individual Canadian feature film productions in return for a share in the proceeds from any such production;
- make loans to producers of individual Canadian feature film productions and charge interest thereon;
- make awards for outstanding accomplishments in the production of Canadian feature films;
- make grants to film-makers and film technicians resident in Canada to assist them in improving their craft; and
- advise and assist the producers of Canadian feature films in the distribution of those films and in the administrative functions fo feature film production.

While some of the productions funded under the EIP qualify as feature films as defined in Telefilm's legislative mandate, most do not[7]. The initiatives funded under the Canada New Media Fund and the Music Entrepreneurship Program are also inconsistent with Telefilm's legislated mandate. While the NTP helps prepare graduates for professional careers in the film and video sector, the assistance is provided to non-profit institutions that offer professional training opportunities rather than as grants to film-makers and film technicians as provided for in the legislation. Canadian Heritage and Telefilm are well aware of these issues and measures are underway to review Telefilm's legislative mandate and authorities.

Canadian Heritage

For several of the programs administered by Telefilm Canada, PCH has developed RMAFs and RBAFs and incorporated these in the contribution agreement with Telefilm. As discussed more fully in Section 6.5, information provided to PCH on an annual basis addresses performance measures set out in some of the RMAFs.

An RMAF did not exist for the NTP at the time of the audit.

Telefilm Canada

Changes that Telefilm has made to its internal control framework as a result of findings included in its internal auditor's 2001 and 2002 reports were evident in all programs examined in the course of this audit, except the NTP. Improvements that have been made include:

- Delegated authority under Section 34 of the *Financial Administration Act*[8] has been given to the Executive Director, Regional Directors and Unit Directors with

[7] In 2001-2002, $14.5 M of the total $241 M funded by the CTFP supported eligible feature films.

[8] Telefilm is subject to Part VIII of the FAA as it read immediately before September 1, 1984

specific dollar limits for each position. Prior to approval of the changes in June 2003 by Telefilm's Board of Directors, authority was widely dispersed across the organization with in many cases, no maximum on the dollar value that could be approved. The audit team is of the opinion that the new limits are appropriate to program requirements and are consistent with decision-making and commitment authorities.
- Additional resources have been assigned to recoupment management and compliance. Approaches to identifying potential revenue understatement by producers are being pursued. Telefilm has 3 full-time auditors who audit 10 to 30 production companies a year.
- Standard funding contracts with recipients. Prior to 2003, each Regional Office had its own contract template.

The audit team found that Telefilm staff are knowledgeable of the industry they are dealing with. This was demonstrated in the way the programs have been designed, and the types of evaluations that are undertaken (eligibility, creative, financial and recoupment) at each stage of the process.

Ongoing outreach programs, comprehensive web-site documentation, and the number of well-documented applications are strong indicators that potential applicants are well aware of the funding programs managed by Telefilm.

The review of a sample of applications and funded projects for each of the programs under review showed that for the most part, except in the case of NTP:

- there was an appropriate business case for the projects that were funded;
- the anticipated outcomes of the projects funded were consistent with the requirements of the respective program terms and conditions;
- the processes followed to select applicants should ensure that the more deserving projects are funded;
- claimed costs that were deemed eligible by Telefilm were consistent with the funding criteria and the agreements with the ultimate recipients; and
- recipients provided the necessary information to Telefilm before payments were made. The institution of an aggressive and balanced default policy in 2003 has resulted in significantly improved reporting compliance by recipients.

There are several areas where further strengthening of Telefilm's management control framework is possible, in particular for the EIP and CFFF. These include:

- ***More consistent documentation of analyses***. Electronic and hard copy files reviewed demonstrated careful and detailed analysis conducted in accordance with program criteria. However, there was no documentation of the actual decision-making process at either the regional or national level, other than the final decision, which consists of a final grid ranking signed by the Executive Director (national decision) or Regional Director (regional decisions).

- ***Reduction of the number of contract analysts utilized.*** One Telefilm office uses analysts hired on a contract basis to deal with the heavy workload associated with EIP. Since these analysts come from and return to the industry, there is potential for conflict of interest. Other regional offices have analysts work on processing applications for several different programs, thereby preventing the need for hiring analysts on a contract basis.

6.2.1 Recommendation

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

6.2.1 Management Response

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

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

6.2.2 Recommendation

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

6.2.2 Management Response

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

The audit was of the view that since the contract analysts came from and returned to the production industry, there is a potential for conflict of interest. The CTF's new operational procedures were announced in November 2003 and put in place by both the CTF Corporation and Telefilm as of April 1, 2004. They have led to a streamlined approach in the administration of the funding streams of the Fund and a reduction in administrative procedures. Telefilm is expected to rely almost exclusively on its internal expertise to assess the applications it receives. In cases where Telefilm would use short-term contract analysts, we require Telefilm to apply the conflict of interest guidelines approved by Telefilm Canada's Board of Directors. Telefilm does not expect to hire contract analysts as in the past. These temporary practices were due to heavy workload periods and very tight schedules to respond to clients requests for funding.

6.3 Telefilm's Financial Controls

As a Crown Corporation, Telefilm accounting processes for revenues and expenditures are audited on an annual basis by the Auditor General of Canada. No significant control issues were identified in Telefilm's annual report for 2002-2003, the most recent report available at the time of this audit. The audit team noted that there was a good segregation of duties, with claims approved by program staff and then approved by a financial analyst prior to cheques being issued by Finance. Revenues and costs are identified for each program and can be readily reported to Canadian Heritage. With one relatively small exception relating to administrative costs, no differences were found as a result of audit testing between what was claimed from PCH and what was recorded in Telefilm Canada's accounting records.

Each of the agreements between Canadian Heritage and Telefilm, with the exception of that for the CFFF which is totally funded from Telefilm's appropriation, sets out a requirement for Telefilm to provide an annual cash flow budget. The cashflow budgets provided are based on:

- funding available, less commitments from prior years, that will need to be paid out during the 12 month budget period;
- program application dates that result in cash demands occurring at specific times of the year; and
- information provided to Telefilm from applicants on the timing of their cash requirements.

All of the cashflow budgets examined by the audit team were reasonable estimations given the information available at the time they were prepared.

There were some significant timing differences between the projected cashflows and Telefilm's request for reimbursement to PCH under the terms of its agreements, as follows:

- For the CNMF, Telefilm's practice has been to not submit monthly claims as assumed in its cashflow statement. Rather it has waited until almost the end of the year to request reimbursement. In each year of the program, funds have lapsed despite there being an over subscription by eligible applicants. While it may not be possible to have no funds lapse due to delays experienced by ultimate recipients, it may be possible to reduce the amount by permitting a level of "over" awarding of contribution monies that takes into account the historical rate of actual expenditures to commitments by recipients.

- Telefilm does not make timely requests to Canadian Heritage for payment for the NTP but instead utilizes its other resources to fund payments to recipients on an interim basis.

With the MEP and NTP, the audit identified payment practices to recipients that were implemented so as to ensure that funds were not lapsed. The practices, however, were inconsistent with the requirements of the agreements in place. Specifically:

- As the end of the 2002-2003 fiscal year approached, Telefilm had not signed many of its agreements with successful applicants under the MEP. To avoid having the MEP funds lapse, Telefilm advanced $3,625,000 to applicants using convertible promissary notes. When the agreements were signed, the promissary notes were cancelled.

  The contribution agreement with PCH requires that Telefilm "ensure that no amount of the Contribution will be:

  - carried forward to and used in a Fiscal Year subsequent to the Fiscal Year for which the Contribution was provided; and
  - used for establishing or contributing to any reserve whatsoever."[9]

- For the NTP, Telefilm pays out the final 10% holdback to recipients before all the reporting requirements have been met at the end of the fiscal year to ensure that no funds are lapsed. It would have been more appropriate to set up a year-end accrual and then to pay the money out when the reporting requirements were met.

6.3.1 Recommendation

That the Director General, Canadian Culture On Line, identify, in consultation with Telefilm Canada's Section Head, New Media program, practical mechanisms for reducing the likelihood that funds will lapse.

6.3.1 Management Response

Recommendation accepted. During fiscal year 2003-04, Telefilm and CCO improved collaboration and achieved better results in this area than in previous years. Telefilm submitted more timely reports on actual expenditures and, in the last months of the years, provided CCO with multiple spending forecasts that confirmed the ability to

[9] Paragraph 9.2.12 of the contribution agreement dated 19 June 2002.

flow the funding to CNMF recipients. CCO ended up amending the contribution agreement to bring the total funding available through the CNMF in fiscal year 2004-05 to approximately $10M, and the year-end lapsed amount was significantly less than what it had been in recent years.

CCO will raise this issue in the course of its regular meetings with Telefilm regarding the CNMF. We will work together to explore ways to further improve spending forecasts and reduce year-end lapses, within the framework of Treasury Board's Transfer Payment Policy, for fiscal year 2004-05 and beyond. This response has been partially implemented. Additional work will take place in 2004-05 in time for inclusion in the next contribution agreement.

It was also noted that Telefilm's audited financial statements for the EIP for 2001-2002 and 2002-2003 show that there was an annual surplus of $5.6 M and $2.7 M respectively. Funding for EIP comes from Telefilm's appropriation, its contribution from PCH, funding from the License Fee Program administered by the Canadian Television Fund, and from recoupments on projects that were funded under the program. Telefilm's legislation requires that recoupments be credited to a special account in the accounts of the government of Canada, known as the Telefilm Canada Advance Account. All of its "surplus" is attributed to this account so that it can be used in a future fiscal year. As of March 31, 2003, the accumulated surplus was $21.1M.

PCH's contribution agreement with Telefilm for EIP states that:

> "Any annual surplus arising from the Department's Contribution to Telefilm Canada shall be reimbursed by Telefilm Canada; the recoverable annual surplus shall be calculated as the difference between the Department's funding for the Equity Investment Program received by Telefilm Canada and the total annual expenditures for the Eligible Costs."[10]

Because the contribution provided by PCH is less than half of the total annual amount available to Telefilm for the EIP, it is unlikely that any recoverable annual surplus will ever arise under the provisions of the contribution agreement. The MOU between PCH and Telefilm is silent on how any surplus might be utilized.

Telefilm must provide its annual business plan to the CTFC for EIP so that an integrated business plan for the CTFP can be prepared for submission to PCH. It would be reasonable to include in that document, an indication of how much of the accumulated surplus will be allocated for usage each year. By allocating some or all of the

[10] Paragraph 5.1.

accumulated surplus for usage each year, Telefilm would then have the ability to effectively “over commit” for the EIP recognizing that some of the committed funds will not be required in that fiscal year and will be able to stay in the accumulated surplus to be put back into the process the subsequent year.

6.3.2 Recommendation

That the Director General, Broadcasting Policy & Innovation Branch, ensure that the next agreement with Telefilm for the EIP include a requirement that Telefilm explicitly include the amount of its accumulated surplus from the previous year into the planning process when determining the amount of funding it has available each year for contributions to ultimate recipients of the program.

6.3.2 Management Response

This recommendation is being addressed. The accumulated surpluses represent amounts of money already committed to television producers but not yet disbursed. To comply with generally accepted accounting principles, Telefilm cannot account for these committed funds before they are disbursed. In fact, the total value of the commitments exceeds that of the accumulated surpluses, which will ultimately mean that Telefilm will have to invest the difference between the two. Moreover, an amendment to the contribution agreement between Telefilm and the Department will specify that Telefilm Canada shall explicitly include the amount of any accumulated surplus coming from the 2003-2004 fiscal year’s activities of the Equity Investment Program into the CTF annual business planning process when determining the amount of funding that it will have available for CTF clients in 2004-2005. The amendment to the contribution agreement will be signed in the fall, 2004.

6.4 Eligibility of Claimed Expenditures

Most of Telefilm’s agreements with Canadian Heritage set out the amount of funding that Telefilm is expected to spend on funding recipients and the maximum amount available to cover Telefilm’s administrative expenses. The MOU for the CFFF indicates only that Telefilm may allocate reasonable incremental administrative costs to the CFFF.

Other than with the NTP, nothing in the file review suggested that Telefilm might be funding ineligible costs of ultimate recipients. The agreements with training schools are structured in a manner that funding could be used for activities that are inconsistent with the approved terms and conditions for the program. The information in Telefilm's files was insufficient to determine if costs inconsistent with the approved terms and conditions for the program were being funded.

Each agreement with Telefilm sets out somewhat different requirements with respect to administrative costs. These provisions are summarized in Appendix A.

To capture all direct and indirect administrative costs, Telefilm utilizes an Activity Based Costing (ABC) system. Direct costs are those that could be directly linked to an activity and program. Major cost categories are allocated as follows:

- ***Salaries and benefits*** are allocated based on reported time. Employees allocate their time on a percentage basis by activity and by program. Up until 2002-03, employees were required to annually submit an allocation of their time for the previous year. In 2002-03, employees submitted information on their time at the end of the second quarter of the fiscal year for the first six months and then again after the third and fourth quarters. The time allocation submitted by staff and payroll information from Human Resources are then used to allocate the cost of staff to activities.

- ***Indirect costs*** are allocated based on:
  - the number of FTEs allocated through the time reporting process to various activities (amortization, advertising, telecommunications, hospitality, relocation, loss on asset disposal);
  - proportional share of space occupied (office accommodation and office supplies); and
  - direct costs for program in relation to the total Telefilm costs (legal, office supplies, informatics, costs of other sectors not allocated to a program).

- Some corporate costs such as Financial Planning and Management, are allocated based on the deemed complexity of the program–simpler programs such as NTP bear a smaller proportional burden based on FTEs, than complex programs such as EIP.

- ***Corporate level costs,*** which include costs associated with being a Crown Corporation, corporate financial accounting, and corporate identity costs (website, general advertising, promotion and publicity), are not allocated to specific programs and are funded through Telefilm's appropriation.

The audit team has several concerns about Telefilm's use of its ABC system to allocate administrative costs to the programs included in the scope of this audit. These include:

- ***Amount of indirect costs allocated.*** The amount allocated was frequently equivalent to or significantly greater than the amount of the direct costs. For example:
    - the cost of common space was 704% of the cost of dedicated space used by program staff;
    - office supplies were 233% of the direct costs of office supplies; and
    - legal costs were 110% of the direct professional fees they were allocated against.

  While the audit team can accept that there will be an incremental impact on indirect costs with the programs funded by Canadian Heritage, the amount charged in at least some instances is perceived to be excessive.

- ***Frequency of time reporting***. While quarterly reporting is more accurate than annual reporting, it is likely that there are significant variances between how staff actually spent their time and how it was reported. Weekly or biweekly reporting would provide more accurate information.

- ***Validity of the cost drivers utilized***. As shown in Appendix A, the relationship between direct and indirect costs changed significantly from 2001-2002 to 2002-2003. The ratio between direct and indirect costs was 1.97 in 2001-2002 and 0.75 in 2002-2003. The degree of inconsistency between direct and indirect costs calls into question the appropriateness of the cost drivers utilized.

Because administrative costs were not defined or were defined very vaguely in the agreements between Telefilm and PCH, it is not possible to deem costs that appear to be excessive as ineligible since the total amount charged was within the ceiling set out in the agreement. In the case of the CNMF and the MEP, the amount charged is less than what was identified through the ABC system. Administrative costs for the NTP as determined by the ABC appear to be significantly less than those charged.

None of the agreements between Telefilm and PCH addressed the issue of indirect costs. In the audit team's opinion, more specific language in future agreements with Telefilm should be utilized so that it is clear to both parties exactly what types of expenditures are eligible and the extent to which allocations from the ABC system will be considered acceptable.

6.4.1 Recommendation

That the Director General, Film, Video & Sound Recording Branch, ensure that administrative costs are clearly defined in future agreements with Telefilm for the MEP and NTP.

6.4.1 Management Response

This recommendation is being addressed. The definition of administrative costs will be clarified in future agreements with Telefilm Canada. The Film, Video & Sound Recording Branch, Canadian Culture Online Branch and the Broadcasting Policy and Innovation Branch are further undertaking discussions to ensure that administrative costs are defined consistently across all programs concerned, while taking into consideration their specific requirements. The improved definition will ensure that administrative costs are clearly attributable to the delivery of each program. Beginning in 2004-05, an improved definition will be available for inclusion in each of the contribution agreements as appropriate.

6.4.2 Recommendation

That the Director General, Canadian Culture Online Program, ensure that administrative costs are clearly defined in future agreements with Telefilm for the CNMF.

6.4.2 Management Response

This recommendation is being addressed. The definition of administrative costs will be clarified in future agreements with Telefilm Canada. The Film, Video & Sound Recording Branch, Canadian Culture Online Branch and the Broadcasting Policy and Innovation Branch are further undertaking discussions to ensure that administrative costs are defined consistently across all programs concerned, while taking into consideration their specific requirements. The improved definition will ensure that administrative costs are clearly attributable to the delivery of each program. Beginning in 2004-05, an improved definition will be available for inclusion in each of the contribution agreements as appropriate.

6.4.3 Recommendation

That the Director General, Broadcasting Policy and Innovation Branch, ensure that administrative costs are clearly defined in future agreements with Telefilm for the EIP.

6.4.3 Management Response

This recommendation is being addressed. The definition of administrative costs will be clarified in future agreements with Telefilm Canada. The Film, Video & Sound Recording Branch, Canadian Culture Online Branch and the Broadcasting Policy and Innovation Branch are further undertaking discussions to ensure that administrative costs are defined consistently across all programs concerned, while taking into consideration their specific requirements. The improved definition will ensure that administrative costs are clearly attributable to the delivery of each program. Beginning in 2004-05, an improved definition will be available for inclusion in each of the contribution agreements as appropriate.

$6,767 in relocation costs for MEP were claimed by Telefilm. This amount was claimed as both a startup cost and as an administrative cost and was considered ineligible. The data extraction process used by Telefilm from its accounting records caused the amount to appear twice.

Because the total amount claimed was more than $100,000 less than the costs identified through the ABC system, no overpayment occurred.

An analysis was also undertaken of Telefilm's total claimed administrative costs, its sources of funding including that portion of its appropriation that was identified for use in covering its administrative costs. As shown in Tables 6 and 7 and 8 of this report, it appears that Telefilm did not charge its administrative costs for EIP first to its appropriation as required by its contribution agreement with PCH.

Table 6: Analysis of Administrative Costs for 2001-02

	Other Funding Sources	Appropriation	Total Administrative Expenditures
CFFF		$7,103,000	$7,103,000
EIP	$7,064,000		$7,064,000
CNMF	$546,182		$546,182
NTP	$140,000		$140,000

	Other Funding Sources	Appropriation	Total Administrative Expenditures
Total Claimed	$7,750,182	$7,103,000	$14,853,182
Total Administrative Expense[11]			$20,381,000

Table 7: Analysis of Administrative Costs for 2002-03

	Other Funding Sources	Appropriation	Total Administrative Expenditures
CFFF		$7,759,000	$7,759,000
EIP	$7,923,000		$7,923,000
CNMF	$623,985		$623,985
MEP	$835,515		$835,515
NTP	$224,000		$224,000
Total Claimed	$9,606,500	$7,759,000	$17,365,500
Total Administrative Expense[12]			$22,317,000

Table 8: Determination of Excess Claim for EIP Expenses

Fiscal Year	Total Admin Expense	Less Appropriation	Admin Costs to Reimbursed	Costs Claimed	Excess Claim
2001-02	$20,381,000	$13,956,000	$6,425,000	$7,750,182	$1,325,182
2002-03	$22,317,000	$14,028,000	$8,289,000	$9,606,500	$1,317,500

The manner in which Telefilm allocated expenses to EIP has no impact on its Financial Statements as the same amount would still have been identified as EIP expenses. The impact is felt by the CTFC since the approved program terms and conditions for the CTFP indicate that administration costs “will not exceed 7% of the total resources available to the CTF and shall include allocations for the Secretariat, the LFP and the EIP, as approved by the CTFC Board”. Funding for administrative costs that comes

[11] Detailed in Note 8 to Telefilm’s Financial Statements for the year ending March 31, 2003.

[12] Detailed in Note 8 to Telefilm’s Financial Statements for the year ending March 31, 2003.

from Telefilm's appropriation can not be approved by the CTFC Board and thus, in the audit team's opinion, should not be considered as part of the 7% calculation. Because Telefilm has not allocated administrative expenses to its appropriation, less funding is available to the CTFC for its administrative expenses.

The reports that Telefilm provides to the CTFC and PCH on costs associated with EIP are insufficient to determine if Telefilm had first charged its administrative costs to its appropriation. The audit team had to utilize information from several different sources to arrive at this conclusion. PCH had access to all the necessary information, but it was dispersed across three different Branches.

6.4.4 Recommendation

That the Director General, Broadcasting Policy & Innovation Branch, ensure that the next agreement with Telefilm for the EIP include an annual reporting requirement that Telefilm must demonstrate it has first charged EIP administrative costs to its appropriation.

6.4.4 Management Response

This recommendation has been addressed. The 2003-2004 and 2004-2005 Business Plans for the Canadian Television Fund identified and detailed the administrative expenses that the EIP, and now the selective components, would cost Telefilm to administer. The plans also include the portion of these costs that are funded by Telefilm's appropriation and by the Department's contribution. Telefilm is funding cost overrun above the total amount indicated in the business plans. In any case, the amendment to the contribution agreement between the Department and Telefilm Canada reiterates that "Telefilm must demonstrate it has first charged EIP administrative costs to its appropriation." The amendment to the contribution agreement will be ratified in the fall, 2004.

6.5 Program Outcomes and Measurements

One of the ten elements of the recently released Treasury Board Secretariat *Management Accountability Framework* is results and performance–relevant information on results is gathered and is used to make departmental decisions and reporting is balanced, transparent and easy to understand. Indicators include: integrated financial and non-financial performance information used in corporate decision making; and departmental reporting based on measurable outcomes.

It is important therefore that PCH's agreements with Telefilm and Telefilm's agreements with ultimate recipients clearly define what is expected and that relevant information on performance be collected and reported so that appropriate decisions can be made about the program.

As outlined below, program outcomes and measurement have been established to varying degrees for each of the programs included in the scope of this audit. With each program, the audit team is of the opinion that the definition of program outcomes and measurement should be enhanced. Specifically:

- The RMAF for the CTFP including ***EIP*** was developed before the TBS *Guide for the Development of Results-based Management and Accountability Frameworks* was finalized. As a result, the RMAF does not clearly set out specific performance indicators, the data source/collection method, responsibility for collection and the timing/frequency of collection. The inclusion of this detail would, in the audit team's opinion, make the RMAF a more effective management tool. The integrated 2001-02 annual activity report coordinated by the CTFC and the CTFP provided detailed information on: total projects supported; total budgets of projects supported and the total CTFC and Telefilm contribution; total new hours by genre; total number of participating broadcasters; project numbers and budgets by genre and language; total number of hours, projects, funding provided and production budget by size of firm and by province; and, total number of hours, projects, funding provided and total production budget for minority official language prductions. This information is required by PCH so that it can make adjustments to the program on a timely basis to enhance its effectiveness and efficiency.

- The expected results for the ***CFFF*** were described in considerable detail in agreements with ultimate recipients and accurately reflected the MOU requirements. Telefilm's annual report provides information on the total value of commitments, the total budgets, the number of projects funded by program sub-component.

- For the ***CNMF***, broad program objectives have been established. One of the objectives of the CNMF is to provide Canadian consumers with greater access to Canadian cultural new media products. The project evaluation criteria allocates up to 20% of the total points available for utilizing a Canadian creative team; subjects, themes and concerns that are identifiably Canadian; and for the cultural diversity of the subject matter and content. Information on the number of funded projects that score highly on the Canadian Cultural Content criteria is not currently provided to Canadian Heritage. The audit team is of the opinion that the provision of this information to PCH on a regular basis would be beneficial so that progress towards the objective of providing Canadian consumers with greater access to Canadian cultural new media products could be more readily accessed.

- Very broad objectives have been established for the ***MEP*** which are reflected in the approved terms and conditions, the contribution agreement between PCH and Telefilm, and the application guide. Telefilm and PCH are currently working on developing a performance measurement strategy. The audit team strongly supports this initiative.

- No specific results are set out in the MOU between PCH and Telefilm, the application guidelines or the agreements with ultimate recipients for the ***NTP***. As already noted, very limited performance reporting is provided to PCH by Telefilm. Implementation of the recommendation (6.1.1 of this report) to include reporting requirements in the next agreement should address this.

6.5.1 Recommendation

That the Director General, Broadcasting Policy and Innovation Branch, prepare a RMAF in the format set out by the Treasury Board Secretariat's *Guide for the Development of Results-based Management and Accountability Frameworks* and use it as a key tool to monitor, on an on-going basis, the performance of the Canadian Television Fund program.

6.5.1 Management Response

This recommendation is being addressed. At the time the CTF RMAF was developed, TBS had not yet completed and published its *Guide for the Development of Results-based Management and Accountability Frameworks*. The CTF RMAF was put together based on general directions and requirements provided by TBS. The program, in partnership with the CTFC and Telefilm, focussed on what appeared to be the most useful indicators on the list that appeared in the CTF RMAF at that time. Consequently, information is collected for certain indicators but not for others. In addition, the Program is currently beginning a program evaluation that is expected to shed light on how the RMAF could be improved.

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

Fund and the Program to better assess the performance of the program.

6.5.2 Recommendation

That the Director General, Film, Video and Sound Recording Branch, ensure that the next agreement with Telefilm for the MEP include specific requirements for performance reporting.

6.5.2 Management Response

This recommendation is accepted. The Film, Video and Sound Recording Branch notes that its current joint efforts in developing a performance measurement strategy for the MEP is supported by the audit team. The Film, Video and Sound Recording Branch reviewed the RMAF for all of the Canada Music Fund programs, including the MEP. MEP-specific performance reporting requirements will be in place in time to be incorporated into the next contribution agreement with the administrator of the MEP.

6.5.3 Recommendation

That the Director General, Canadian Culture On Line, ensure that the next agreement with Telefilm Canada for the Canada New Media Fund include specific reporting requirements that would facilitate the assessment of the program objective of providing Canadian consumers with greater access to Canadian cultural new media products.

6.5.3 Management Response

CCO welcomes this recommendation, including the suggestion that Telefilm's reporting on projects scoring high on the CNMF Canadian cultural content criteria would be useful information to help demonstrate increased access to Canadian cultural content online in both official languages. CCO is currently undergoing a review of the performance indicators for each of its programs with a view to simplifying, harmonizing and improving performance measurement. The suggestion included in this audit report will be considered in the context of this review. Work to take place in 2004-05 in time for inclusion into next contribution agreement.

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APPENDIX A Eligible Administrative Costs by Program

Program	Definition of Eligible Administrative Costs	Fiscal Year	Total Amount Charged	Costs Determined by ABC System		
				Direct Costs	Indirect Costs	Total Costs
CFFF	•Reasonable incremental administrative costs	2001-2002	$7,103,000	$2,394,443	$4,709,489	$7,103,932
		2002-2003	$7,759,000	$4,442,447	$3,316,955	$7,759,402
EIP	•overall cap of 7% on CTFP administrative expenses •are first to be charged to Telefilm's appropriation funds	2001-2002	$7,064,000	$2,380,846	$4,682,746	$7,063,592
		2002-2003	$7,923,000	$4,536,476	$3,387,162	$7,923,638
CNMF	•The approved T&Cs define eligible costs as salaries and benefits, travel, communications, research, cost of materials, cost of promotion •no specific provision is made for indirect costs such as office space, management time, etc. •a maximum of 7% of the total amount provided by PCH can be used for administration •the amount claimed was based on monthly salary of fully dedicated staff plus travel that could be directly linked. This amount was then marked up 80%.	2001-2002	$546,182	$486,000	$956,000	$1,442,000
		2002-2003	$623,985	$760,022	$574,000	$1,334,022

Program	Definition of Eligible Administrative Costs	Fiscal Year	Total Amount Charged	Costs Determined by ABC System		
				Direct Costs	Indirect Costs	Total Costs
MEP	•CA permits 10% of ultimate recipient funding and $400,000 for startup funding •eligible administrative costs are described in the approved T&C's and not in the contribution agreement. Described as including salaries, office accommodation, hardware and software, travel, printing and translation. •T&C's capped admin expenses at 15% of the total contribution under the Program	2002-03	$835,515	$575,477	$414,360	$989,837
NTP	•permitted up to 10% of approved funds as of 2002 for Telefilm's administrative costs as per program terms & conditions. PCH MOU with Telefilm capped admin costs at 5% for both fiscal years.	2001-2002	$140,000	N/A	N/A	N/A
		2002-2003	$224,000	$39,657	$29,610	$69,267

APPENDIX B: AUDIT CRITERIA

The following are specific audit criteria for each audit objective:

A. Information for Decision-Making and Reporting

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

B. Management Control Frameworks and Risk Management Practices

- the recipient complies with appropriate acts, regulations, terms and conditions, policies and appropriate agreements; and
- the decisions concerning the approval of projects respect the concepts of due diligence, namely a sound justification, a reasonable analysis and accountability;

C. Adequacy of Internal Controls

- This includes the review of the accounting process for revenue and expenditures, review the budgeting process and review of the monitoring process for the budget;

D. Eligibility of Claimed Expenditures

- ensure that expenditures claimed under core and project contribution agreements are consistent with the approved terms and conditions and that the funds disbursed have been utilized for the purposes intended; and

E. Outcomes and Results

- assurance that outcomes and results for the programs and for the recipient have been identified, are measurable and in support of Government objectives.