

**REPORT ON  
DUE DILIGENCE IN PROCESSING  
OF  
GRANTS AND CONTRIBUTIONS  
IN THE  
ABORIGINAL WOMEN'S PROGRAM**

**The Corporate Review Branch  
Canadian Heritage**

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## INTRODUCTION

During the past year there has been a heightened interest in the activities undertaken through Grant and Contribution (G&C) Programs in the Federal Government, the focus of the interest being in the diligence of management of funding arrangements. In this respect, on June 1, 2000 Treasury Board of Canada Secretariat (TB) issued a Policy on Transfer Payments outlining policy and procedures relating to management practices for the funding Programs.

In March 2000, Canadian Heritage (the Department) endorsed the then existing TB draft policy leading up to the June 2000 policy. In this respect the Corporate Review and Financial Management Branches prepared a “due diligence” workshop that was delivered at Headquarters and in the Regions during the Spring of 2000. The presentation outlined the TB principles along with additional principles that were deemed appropriate for the Department. The presentation was effectively the Department’s policy for the management of Grant and Contribution activities.

In light of the general increase in interest for G&C Program activity, most particularly from TB, and in accordance with the Corporate Review Branch’s Annual Audit Plan, a review has been completed to assess the diligence in processing of funding activities by the Aboriginal Women’s Program (the Program).

## BACKGROUND

The following definitions were included in TB’s June 1, 2000 Policy on Transfer Payments:

**Contribution:** is a conditional transfer payment to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to being accounted for and audited.

**Grant:** is a transfer payment made to an individual or organization which is not subject to being accounted for or audited but for which eligibility and entitlement may be verified or for which the recipient may need to meet pre-conditions.

The basic framework for G&C Programs is established through TB’s approval of Terms and Conditions (Ts&Cs). Following are some general types of clauses that have been prevalent in Ts&Cs (the list is not meant to be exhaustive):

1. Description of the class(es) of recipients that may be eligible for funding.
2. Description of the types of expenditures that will be eligible for funding.
3. The maximum amount of any individual funding arrangement. Amounts in excess require separate TB approval.
4. The method of payment ... advances, reimbursements or other.

5. Termination clauses.
6. The right of the “Minister” to conduct audits on the recipient’s accounts (contribution arrangements only).

During the course of a fiscal year, Programs enter into funding arrangements, generally through the following process:

1. Application/Proposal receipt and assessment resulting in approval of particular initiatives.
2. For Contributions, formalization of the arrangement through an Agreement signed by the Recipient and the Department. The Agreement is to address pertinent data as contained in the Ts&Cs. In the case of Grants, the arrangement may be formalized in a letter outlining the responsibilities, if any, of the Recipient.
3. Monitoring of the initiative/project by program personnel, including receipt and review of interim reporting data from the recipient and the issuance of payments.
4. Completion/closure of the arrangement, including receipt and review of final reporting and issuance of final payments.

TB, in its Policy on Transfer Payments, has issued detailed directions that Programs are to follow with respect to Ts&Cs and funding activities.

The Program, in accordance with its Ts&Cs, provides the following categories of funding:

- a) Operational/core funding to national aboriginal women’s organizations; and
- b) Project funding to provincial/territorial and community based aboriginal women’s organizations.

## **SCOPE OF THE REVIEW**

During the fiscal years 1999-2000 and 2000-2001 funding was provided or arrangements entered into as follows:

	<b>Grants</b>		<b>Contributions</b>		<b>Total</b>
	# Arrangements	Amount	# Arrangements	Amount	
1999-2000	78	<u>\$1,332,762</u>	3	<u>\$888,521</u>	<u>\$2,221,283</u>
2000-2001	38	<u>\$685,080</u>	3	<u>\$831,566</u>	<u>\$1,516,646</u>

We were provided reports from the Department’s financial reporting system and selected a sample of nineteen funding arrangements as follows:

- a) For 1999-2000, thirteen arrangements including three (all) Contributions and ten Grants; and
- b) For 2000-2001, six Grant arrangements.

Following is a summary of the dollar amounts we assessed, expressed in percentages:

	<b>Grants</b>	<b>Contributions</b>	<b>Total</b>
1999-2000	<u>31%</u>	<u>100%</u>	<u>58%</u>
2000-2001	<u>36%</u>	<u>0%</u>	<u>16%</u>

During the 1999-2000 and 2000-2001 fiscal years all project funding arrangements were managed by Regional personnel through Grants while operational/core funding activities were managed by Headquarters personnel through Contributions.

## **AUDIT METHODOLOGY**

The assignment was completed through:

1. Conduct of initial interviews. Interviews were conducted with Program personnel at Headquarters, the purposes being to:
  - a) gain an understanding of the Program; and
  - b) obtain copies of the current Ts&Cs.
2. Development of an Assessment Tool. An assessment tool/audit program was developed based on:
  - a) The current Ts&Cs;
  - b) TB’s current Policy on Transfer Payments;
  - c) The content of the “Due Diligence” workshops that have been delivered by the Corporate Review and Finance Branches since Spring 2000. These workshops essentially establish Departmental policy; and
3. Application of the Assessment Tool for the selected funding arrangements.
4. Review of results of the assessments. In a number of instances the results of the assessments indicated that opportunities for improvement existed. To ensure accuracy and correctness of the observations they were reviewed at two levels:
  - a) with the Program Officer or Manager (in person with Headquarters personnel and by telephone with Regional personnel); and

- b) with the Program Managers (by teleconference);

The following observations and recommendations reflect the outcomes of our assessments.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1.0 Terms and Conditions**

#### **1.1 Compliance with Existing Ts&Cs**

As stated in the Background section of the report the Ts&Cs authorize core or operational funding to national organizations and project funding to provincial/territorial and community based organizations.

The following extracts from definitions in the Oxford Dictionary are pertinent:

- a) Core: the central or most important part.
- b) Operational: relating to the operation of an organization.
- c) Project: a proposed or planned undertaking.

**We noted many instances where provincial/territorial and community based organizations received funding for activities that were either partially or completely of a core or operational nature.**

#### **Recommendation**

The Program ensure that operational/core funding is provided only to national organizations and provincial/territorial and community based organizations receive funding only for projects.

#### **Response from Program**

While the Ts&Cs indicate operational/core funding is available only to national organizations, the definition of operational/core funding is interpreted differently across the program. For example, some provincial aboriginal women's organizations have been receiving AWP funding for annual general meetings and board meetings which are considered core funding.

We need to establish a common definition of core funding. We will work with regional and Corporate Services colleagues to develop a common definition by January 2002. We will also work closely with groups to ensure clear communication of the definition and its implications to ensure compliance with the Ts&Cs for 2002-03. A revised Program Guide will be developed before March 2002.

The issue of core funding for provincial/territorial aboriginal women's organizations will be raised in the upcoming AWP evaluation and review of Ts&Cs.

## 1.2 Compliance of Ts&Cs with Treasury Board Requirements

Section 8 of the TB's Policy on Transfer Payments outlines twenty conditions that should be present in the Ts&Cs of a Grant/Contribution Program. We have completed a "gap" analysis for the AWP current Ts&Cs and the TB requirements.

**We have noted that the AWP current Ts&Cs do not meet many of the requirements contained in TB's Policy on Transfer Payments.** Following are four requirements that are not present in the Program's current Ts&Cs (this is not an exhaustive list):

- a) a clear statement of how the transfer payments further approved program objectives, including identification of expected results and outcomes;
- b) the proposed stacking limits, i.e., specific limits to the Total Government Assistance, (e.g. 50% of eligible project costs) and the method for determining repayments by the recipient for cases where such assistance exceeds the anticipated funding level;
- c) a description of the supporting material required in an application from a prospective recipient, which should include a requirement to disclose the involvement of former public servants who are under the Conflict of Interest and Post-employment Guidelines; and
- d) a results-based accountability framework including: performance indicators, expected results and outcomes, methods for the reporting on performance, and evaluation criteria to be used in the assessment of the effectiveness of the transfer payments.

### **Recommendation**

The Program amend or re-write the current Ts&Cs to meet the requirements outlined in TB's Policy on Transfer Payments.

### **Response from Program**

The new TB Policy contains new requirements. A results-based framework including performance indicators, expected results and outcomes is scheduled for completion in 2001-02. The evaluation of the program is scheduled for completion in 2002-03 and based on the results of the evaluation, a review of the terms and conditions will take place.

Notwithstanding the need to update the Ts & Cs, the spirit of the TPP requirements has already been addressed. At the national level a call letter was sent to national groups which identified an enhanced level of information for funding proposals. This included information on the goals and objectives of the organization, planned activities, beneficiaries of these activities and the anticipated results and outcomes. Funding proposals are being assessed against the guidelines set out in the call letter.

Call letters have not been used at the regional level. It is felt, in some cases, that a formal process would not be effective. Quebec only works with one group. Newfoundland must ensure equitable funding to different aboriginal organizations and communities (Innu, Inuit, Metis and Mi'Kmaq). The main concern is that groups would not respond to a call for proposals. The capacity to respond is an issue among many of the Aboriginal women's groups. Many feel intimidated by the level of information that is required. Many groups rely on volunteers with limited experience in developing funding proposals. Literacy is also an issue and in some cases, English/French is not their first language.

The Program must define the requirements in clear, plain language and in many cases work with the groups at all levels to formulate project objectives to meet criteria and achieve results.

The Program must also identify training for program staff on performance measurement within the context of program delivery. Some training of program officers took place in 2001-02, however, an enhanced level of training is required. The Program is currently examining options to provide this level of training. The Branch has a team dedicated to supporting this effort in the Branch and across regions. Resources (human and financial) must be identified.

## **2.0 Application, Assessment and Award of Funding**

### **2.1 Applicant Guidelines**

Four files (each from different Regions) contained applicant guidelines. Program personnel confirmed that the guidelines were prepared by their respective Regions and provided to potential applicants for assistance in preparation of applications/proposals.

**With respect to Program guidelines we noted the following:**

- a) certain Regions have not prepared guidelines; and**
- b) the guidelines reviewed:**
  - i. were not consistent, i.e., the stated Program objectives differed and to a minor extent were not in accordance with the Program's Ts&Cs;**
  - ii. did not contain information that one would expect to be present, such as:**
    - **the requirement for the applicant to state planned activities (for core funding arrangements) or objectives (for project funding arrangements) and planned outcomes; and**
    - **materials to be provided with applications for funding.**

### **Recommendation**

The Program develop one applicant guide that should be used in all Regions and Headquarters. The framework for the guide should be based on the Program's Terms and Conditions.



## Response from Program

The Program has developed a working committee to develop an interim Program Guide to be used by all regions and headquarters. This guide will be completed prior to the beginning of 2002-03. It will provide consistent information across the country and will be prepared in clear, plain language based on the current Ts&Cs. It will require revision when the new Ts&Cs are approved.

### 2.2 Objectives and Measurable Outcomes

TB and Department policy call for Applicants to provide clearly stated objectives for the requested funding and that the objectives be linked to Program objectives and to a Performance Management Framework. Also, the Applicant is required to link the objectives of the initiative with clearly measurable criteria for determining success of the funding.

**We noted a number of instances where objectives for the requested funding were not succinct, not linked to Program objectives and outcomes were either not clear or not present.**

### Recommendation

The Program ensure that:

- a) Proposals from Recipients contain clearly stated objectives that are linked to the Program objectives and to a Performance Management Framework; and
- b) The Recipients' objectives are linked to clearly measurable criteria for the Recipients use in demonstrating success of the funding.

**Response from Program** (please see response to recommendation #1.2: "The Program amend or re-write the current Ts&Cs to meet the requirements outlined in TB's Policy on Transfer Payments.")

### 2.3 Applicant Cash Requirements

TB and Departmental policy call for Applicants to submit cash flow documentation indicating:

- a) planned/anticipated revenues from all sources; and
- b) planned expenditures demonstrating the timing of requirements.

**We noted in many instances the files did not contain information on planned revenue from all sources. With respect to the timing of cash requirements, we noted**

**instances where expenditure data was allocated equally throughout the year (the total being divided by twelve) and did not truly reflect the timing of requirements.**

### **Recommendation**

The Program ensure that cash flow documents submitted by Applicants reflect planned/anticipated revenues from all sources and planned expenditures demonstrate a realistic timing of requirements.

### **Response from Program**

Cash flow documents are assessed by program officers to ensure planned expenditures demonstrate a realistic timing of requirements. Groups are asked to provide a revised cash flow if there is a change in the timing or nature of their expenditures. Training for groups will be required as many do not have the expertise to prepare cash flow statements.

To date, most regional funding has been provided as a grant and cash flow requirements are less stringent.

There is a need to revisit the current limit for grants vs contributions for AWP. The limit of \$10K was set late in the 2000-01 fiscal year for Multiculturalism and Aboriginal Peoples' Programs with the intent to review it. The review should consider the type of project and whether a grant or a contribution is the more appropriate funding arrangement. This will be done before the beginning of the new fiscal year.

At the national level, the call letter which was sent out requesting proposals for 2001-02 requested information on all revenue sources and clearly defined and measurable objectives. Proposals were assessed against this requirement.

At the regional level, groups are asked to provide all relevant information, including potential revenue sources and objectives. This information will be included in the program guide that is being developed.

### 2.4 Assessment of Applications

A guiding principle in processing applications for funding is that approval be granted only to those initiatives that are most meritorious, with respect to furthering Program objectives. Experience indicates that this principle is best achieved through applications being processed through assessment panels.

**We noted that some Regions have implemented panel assessment processes while in other Regions applications are not subject to such a process.**

### **Recommendation**

The Program ensure that funding approval be granted to the most meritorious applications and consider implementation of panel assessment processes in all Regions.

### **Response from Program**

All regions have an internal grants and contribution review committee. All applications are reviewed by these committees before they are submitted for the Minister's approval. Evidence of the review process will be included on all files. In some cases, merit must be balanced against equitable distribution of funds. In these cases, funding is distributed to the most meritorious projects within a community.

### 2.5 Award of Funding

In assessing a request for funding it is essential that the total funding from all sources will be sufficient in amount in order that the initiative will be successfully completed.

**We noted instances where the amount of funding awarded was far less than the requested amount and the files did not contain evidence that the Applicant would be able to successfully complete the initiative.**

From the perspective of fiscal responsibility it is important that the amount of funding awarded be equal to or less than the amount requested.

**We noted one instance where the amount of funding awarded was greater than the amount requested by the Applicant.**

### **Recommendations**

The Program ensure that:

- a) files contain evidence indicating how initiatives will be successfully completed in instances where the awarded amount is far less than the amount requested; and
- b) the amount awarded is not greater than the amount requested.

### **Response from Program**

Files will provide complete information on how the group will successfully complete the project when funding is less than the requested amount, i.e. other sources of funding, reduced scope. Amounts awarded will not exceed the amount requested.

### **3.0 Reporting Requirements**

Contribution Agreements examined called for the Recipient to provide the following:

- a) Audited financial statements for the previous fiscal year;
- b) An activity report for the previous year;
- c) Interim activity reports; and
- d) Interim financial statements.

The Contribution Agreements contained schedules of allowable expenditures, by category. Recipients are permitted to transfer amounts from any one category up to 10% of that category. Transfers in excess of 10% are subject to prior written authorization of the Program.

With respect to Grant funding arrangements, the Minister's letters of award called for the Recipient to provide a final report on the project within two months of project completion.

**We noted the following:**

- a) for both Contributions and Grants, requirements were not met within the necessary timeframes or were not met at all. The reader is advised that we did note many instances where the Program personnel had requested the reports, however, based on a lack of evidence on the files, the Recipients did not comply with the requests;**
- b) final reports indicating that actual costs were identical to the amounts (by category) in the approved funding budget. We have concluded that this occurrence is highly unlikely and that the reports were lacking in accuracy;**
- c) final reports indicating expenditures for categories that were not authorized in the approved funding budget; and**
- d) final reports for Contributions indicating that the total amounts for some categories exceeding limitations. There was no evidence on the files of the Program personnel authorizing the overspending.**

#### **Recommendation**

The Program ensure that:

- a) Recipients file reports (financial and non-financial) within required timeframes; and
- b) the reports are accurate and that costs have been incurred in accordance with the approved funding budget.

#### **Response from Program**

At the national level, changes were made for 2001-2002 which facilitate timely reporting by the organizations. In the past, reporting requirements did not always take the operational requirements of the organizations into account. For example, audited

financial statements must be approved at the Recipient's Annual General Meeting which generally occur in late summer/early fall. These are now requested as part of the December payment. A checklist, indicating the requirements for each payment including due dates, is now sent out with the contribution agreement (see attachment).

At the regional level, most of the files have been grants and financial reporting requirements are not as stringent. Time frames for submitting a final activity report will be included in funding agreements and discrepancies will be documented.

#### **4.0 Repayment of Surpluses**

The Program's practice is to include a clause in Contribution Agreements referring to "General Conditions – Contributions" that are attached as an appendix to the agreement. Clause 20 of the general conditions states: "In the event that payments made to the Recipient under this Agreement exceed the amount thereof required or expended by the recipient in accordance with this Agreement, any such surplus is payable forthwith to the Minister."

**In two of the three Contributions we assessed we noted that surpluses were realized by Recipients and there was no evidence that the Program sought re-payment.**

#### **Recommendation**

The Program ensure that, when called for, Recipients make re-payments of surplus funding.

#### **Response from Program**

Ts&Cs allow for deferral of surpluses to future periods for operational funding. The Program will work with Financial Management in the renewal of Ts&Cs to clarify any ambiguous wording regarding repayment of surplus funding and the new TB Policy on Transfer Payments. In the interim, program officers will monitor the annual cash flow submitted by each organization to ensure it is realistic. Any variations must be fully justified by the organization.

Recovery of surplus funding not required for grants.

#### **5.0 Inappropriate Payments to Recipients**

Previously in this report we noted that opportunities for improvement exist in the area of Recipients meeting their reporting requirements. Based on evidence contained in files and discussion with Program personnel, it appears to be the Program's practice to withhold future funding in instances where a Recipient has not met past reporting requirements.

**We noted two instances (one Contribution and one Grant) where payments were released when the Recipient had not complied with the reporting requirements of the previous fiscal year.**

**In one instance, based on our review of a Funding History obtained from the Department's Grants and Contributions Information Management System (GCIMS), we noted that the Program withheld future year funding due to a Recipient's non-compliance with prior reporting obligations, however, the Recipient did receive \$165,300 from another Departmental Program.**

**We noted one instance where an interim payment had been released prior to analysis of an Applicant's request for funding.**

### **Recommendation**

The **Sector** ensure that payments are withheld in instances where a Recipient has not met previous years' reporting requirements.

### **Response from Program**

At the national level, a checklist is attached to each file outlining the requirements for each payment. Reporting obligations for APP and other departmental programs will be verified prior to processing payments. This information is easily available through GCIMS.

At the regional level, regional checklists will include a verification that all reporting requirements for funding through PCH have been met.

## **6.0 Other Observations**

### **6.1 Evidence of Review of Proposals/Reports**

The Department's policy calls for G&C Programs to demonstrate that funding arrangement files contain evidence that Program personnel have conducted diligent reviews of materials submitted by Recipients. Evidence of review could take the form of notations on the report, memos to file and/or correspondence with the Recipient.

**In many instances evidence was lacking regarding a thorough review having been conducted on documentation submitted by Recipients.**

### **Recommendation**

The Program ensure that reports and other materials supplied by Recipients are thoroughly reviewed and evidence of review is contained in the files.

### **Response from Program**

Last year a stamp was developed by Finance which indicated that the material supplied by the Recipient had been reviewed and assessed. This year, notes by program officers, tabs, highlighting etc. will also be provided to reflect the review of the file.

## 6.2 Documentation for Recipient Eligibility

Departmental policy calls for Program files to contain information relating to the Recipients' organization, such as (as applicable):

- Articles of Incorporation, Letters Patent, or Provincial/community registration;
- Organization charts;
- Governance/by-law documents; and
- Annual financial statements from the previous fiscal year.

**Most of the files assessed did not contain documentation relating to the Recipient's organizational background and some files did not contain annual financial statements.**

### **Recommendation**

The Program:

- a) create "permanent" files for each Recipient including all necessary organizational data. Recipients should be required to provide amended documentation as changes occur; and
- b) ensure that Applicants provide annual financial statements from the previous fiscal year. Consideration should be given to the following:
  - Core funding Recipients provide audited financial statements including a separate schedule of revenue and expenditures relating to the core funding; and
  - Project funding Recipients either audited or non-audited financial statements. The requirement for audited financial statements should be based on a "threshold" amount. Audited financial statements should include a separate schedule of revenue and expenditures relating to the project funding.

### **Response from Program**

Permanent files which contain necessary organizational data are being created. The call letter specified what organizational data is required. While each organization is not required to submit all the data each year, they are requested to confirm that there have been no changes over the past year.

1. Core funded recipients are requested in the contribution agreement to provide audited financial statements including a separate schedule of revenue and expenditures related to core funded. Further funding is contingent upon them meeting the reporting requirements
2. Appropriate project funding information will be included in each file. There is a need to establish threshold amounts for grants & contribution. This will be done before the beginning of the 2002-03.

### 6.3 Audit of Recipient Accounts

Contribution Agreements contained a clause providing the Minister the right to “audit or cause to have audited the accounts and records of the Recipient to ensure compliance with the terms and obligations of the Agreement ... and if conducted may be carried out by employees of the Department or its agent(s).”

**We are informed that it is the Program’s practice to rely on schedules documenting the use of the Program’s core funding that are included in Recipients’ audited financial statements for ensuring compliance with terms and obligations and as a result, specific audits are not undertaken on behalf of the Minister.**

We believe it would be appropriate for the Program to either undertake audits on behalf of the Minister or require the Recipients’ public accountants to provide a form of attestation or report referring to compliance with the Recipient’s financial obligations pursuant to the Contribution Agreement.

### **Recommendation**

The Program undertake audits on behalf of the Minister to ensure Recipients’ compliance with the financial obligations of the Contribution Agreement.

### **Response from Program**

The Audit and Evaluation Plan for 2001-2002 includes 6 recipient audits for the Aboriginal Peoples’ Program. At least one will be an AWP Recipient. All of the files are administered by HQ. Next year, regional recipients will be included.

### 6.4 Excellent Activities Noted in Files

The Program is highly de-centralized, whereby project funding is managed by Regional personnel and core/operational funding by Headquarters personnel. It is clear from discussions with Program personnel that the Regions and Headquarters operate very independently of each other. We are of the opinion that there is a wealth of knowledge within the Program and that gains may be realized through a “sharing” process.



**In a number of files we noted excellent initiatives that had been undertaken, such as:**

- a) an information package provided to Applicants on development of clear objectives and anticipated outcomes;**
- b) due diligence checklists; and**
- c) a project self-assessment package to be completed by the Recipient and provided with the final report.**

### **Recommendation**

The Program ensure that a process exists whereby initiatives undertaken by one Region or Headquarters are “shared” with all Program personnel.

### **Response from Program**

The Program will ensure that a process for regular communication is established. This may take the form of regular teleconferences, an annual meeting before March 2002, a working group on the AWP evaluation, etc.