



**Canadian  
Heritage**

**Patrimoine  
canadien**

**REPORT ON THE  
FOLLOW-UP AUDIT  
OF THE  
ABORIGINAL REPRESENTATIVE ORGANIZATIONS  
PROGRAM (AROP)**

**CORPORATE REVIEW BRANCH**

**CANADIAN HERITAGE**

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## EXECUTIVE SUMMARY

In the fall and winter 2002-03, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage, conducted a follow-up audit of the Aboriginal Representative Organizations Program (AROP). The primary objective of the audit was to assess the extent to which recommendations included in the 2001 internal audit report, conducted in the fall and winter, 2000-2001, were implemented. The audit reviewed 15% of program files from the 2001-02 and 2002-03 fiscal years, representing 20% of program funding.

AROP was originally approved in 1971 to sustain representative Aboriginal organizations at the national, provincial and territorial levels. Core contribution funding of \$6,287,560 is provided annually to 27 not-for-profit organizations through two program streams: the *Original Program* (\$4,287,560) and *Gathering Strength* (\$2,000,000). AROP is managed and delivered by the Aboriginal Programs Directorate through the headquarters office.

The audit was conducted in accordance with the professional practice standards set out in the Treasury Board of Canada Secretariat's *Policy on Internal Audit* and by the Institute of Internal Auditors. Based on the audit methodology employed, the audit team can determine with assurance that improvements have been made since the 2001 internal audit report and that AROP is virtually compliant with the Treasury Board *Policy on Transfer Payments*, with the exception of payments being automatically structured as advances, not reimbursement, which occurred in four of eight files reviewed.

The audit team confirmed that of 13 recommendations from the 2001 audit, six were fully implemented, six were partially implemented, and one was not implemented. The audit team found that overall program management, monitoring and due diligence practices have improved since the 2001 internal audit. This follow-up audit, however, found areas for improvement. For example, there remain instances of applicant proposals not being in accordance with program guidelines; insufficient level of detail to support project budgets; and approved budgets contained ineligible items. The following sections summarize the extent of implementation, new practices, observations and recommendations for improvement. To fully implement program monitoring and due diligence practices, overall program management needs to improve.



## 1.0 INTRODUCTION AND BACKGROUND

In accordance with the Department of Canadian Heritage's (PCH) Corporate Review Branch approved 2002-2003 Audit and Evaluation Plan, the Assurance Services Directorate undertook a follow-up audit of the Aboriginal Representative Organizations Program (AROP). The primary objective of the follow up audit was to assess the extent to which recommendations included in the 2001 internal audit report (conducted in the fall and winter 2000-2001), have been implemented.

AROP was originally approved in 1971 to sustain representative Aboriginal organizations at the national, provincial and territorial levels. The overall program objective is to maintain a consultative framework of Inuit, Métis and Non-Status Indian representative organizations through which governments can address the social, economic, political and cultural issues affecting the lives of Canada's Aboriginal peoples.

AROP is managed by the Aboriginal Programs Directorate (APD) of PCH and delivered by headquarters personnel. Core contribution funding of \$6,287,560 is provided on an annual basis to 27 not-for-profit organizations providing political representation, advocacy and negotiation on behalf of Inuit, Métis and Non-Status Indian peoples, including the three national representative organizations (Inuit Taipiriit Kanatami, Métis National Council and Congress of Aboriginal Peoples) and their recognized provincial, territorial and regional affiliates. There are two components of the Program:

- *Original Program.* The organizations receiving funding were deemed to be the primary mechanisms through which federal and provincial organizations were able to undertake consultation with the federal government in order to address Aboriginal issues. The Program was also intended to contribute to the development of government policies regarding Non-Status Indians by maintaining a basic organizational capacity to consult with their constituency and liaise with government. For fiscal year 2002-2003, \$4,287,560 was disbursed through this component.
- *Gathering Strength.* This component was created in 1997-1998 to enable Inuit, Métis and Non-Status Indian organizations to broaden and strengthen their representation at the community level and include direct community input in their policy and decision-making processes. For fiscal year 2002-2003, \$2,000,000 was disbursed through this component.



## 2.0 OBJECTIVES

The objectives of the follow-up audit were to:

- examine, assess and provide assurance as to the status of the implementation of the recommendations and the Programs' management response included in the 2001 internal audit report;
- examine, assess and provide assurance as to the implementation and use of existing due diligence procedures in program processes and their compliance with Treasury Board *Policy on Transfer Payments* requirements; and
- provide recommendations regarding appropriate program management practices and procedures.

## 3.0 SCOPE AND METHODOLOGY

### 3.1 Scope

Audit work was conducted in the fall and winter 2002-2003. For fiscal years 2001-2002 and 2002-2003, Program funding was awarded to twenty-seven organizations for a total amount of \$6,287,560 each year. A sample of eight funding arrangements was selected:

- four arrangements for the 2001-2002 fiscal year, for a total value of \$935,572; and
- four arrangements for the 2002-2003 fiscal year, for a total amount of \$1,518,888.

The total value of the sample selected represented 15% of program files and 20% of total project funding for the 2001-2002 and 2002-2003 fiscal years. Funding arrangements were assessed against the requirements set out in the Treasury Board *Policy on Transfer Payments* and guidance provided in the Treasury Board *Guide on Grants, Contributions and Other Transfer Payments*.

### 3.2 Methodology

The follow-up audit was conducted in two phases:

*Planning Phase*, that included:

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Assurance Services  
Corporate Review Branch  
Department of Canadian Heritage

June 25 2003

Follow-up Audit of the  
Aboriginal  
Representative  
Organizations Program



- a review of Program documentation, including Terms and Conditions, guidelines and call letters;
- a review of TBS and PCH policies, guides, guidelines and procedures;
- conduct of interviews with relevant Program personnel and stakeholders;
- development of an audit program addressing management's response to the 2001 internal audit report; and
- development of an audit program to assess a sample of Program files from the 2001-2002 and 2002-2003 fiscal years.

*Fieldwork Phase*, that included:

- an assessment of the implementation of management's response to recommendations included in the 2001 internal audit report; and
- the assessment of a sample of funding arrangements entered into after the 2001 internal audit results were communicated, against Treasury Board and PCH policy requirements.

#### 4.0 CONCLUSIONS

The audit was conducted in accordance with the professional practice standards set out in the Treasury Board of Canada Secretariat's *Policy on Internal Audit* and by the Institute of Internal Auditors. Based on the audit methodology employed, the audit team can determine with assurance that improvements have been made since the 2001 internal audit report and that AROP is virtually compliant with the Treasury Board *Policy on Transfer Payments*, with the exception of payments being automatically structured as advances, not reimbursement, which occurred in four of eight files reviewed.

The audit team confirmed that of 13 recommendations from the 2001 audit, six were fully implemented, six were partially implemented, and one was not implemented. The audit team found that overall program management, monitoring and due diligence practices have improved since the 2001 internal audit. This follow-up audit, however, found areas for improvement. For example, there remain instances of applicant proposals not being in accordance with program guidelines; insufficient level of detail to support project budgets; and approved budgets contained ineligible items. The following sections summarize the extent of implementation, new practices, observations and recommendations for improvement. To fully implement program monitoring and due diligence practices, overall program management needs to improve. Annex A



provides a detailed summary of each recommendation and the status of implementation.

## 5.0 OBSERVATIONS AND RECOMMENDATIONS

### 5.1 Assessment of Proposals

#### *Authorization to Sign an Application*

AROP Terms and Conditions (Ts & Cs) call for an applicant to “declare that necessary authority has been bestowed upon the applicant to seek financial assistance on behalf of the organization’s membership”. No form of evidence was present in the eight files reviewed to determine authorization for the individual to sign the application. As a result, the audit team was not able to determine if the Boards of Directors had approved the application, were aware of the planned initiatives and whether the applications for funding had in fact been submitted on behalf of the organization.

#### 5.1.1 Recommendation

**The Director, APD, ensure that files contain evidence that an individual has the authorization to sign the Application Form and the Contribution Agreement.**

#### 5.1.1 Management Response

**The Program is currently using the Department’s application form which contains an affirmation that the person signing the form is authorized to act and sign on behalf of the organization. The degree of risk is minimal as evidence of authority to sign is presented before the contribution agreement is signed. Signing authorities are presented as part of the application process. In addition, the Program has a long funding history with all of the AROP groups.**

#### *Guideline Requirements*

For the audit scope period, AROP issued program guidelines outlining specific proposal requirements and supporting documentation to be provided. In four of eight files



reviewed, proposals did not meet requirements outlined in the guidelines. The information was either not on file, or information submitted was insufficiently detailed. In addition, the Contribution Agreements (CAs) did not include details concerning planned outcomes and how project success would be measured. As such, the audit team could not determine success of the funding initiative, whether the budget represented a reasonable amount and whether the applicant had administrative practices in place to guide operations.

### **5.1.2 Recommendation**

**The Director, APD, ensure that proposals meet Program requirements as outlined in program guidelines and in instances where the requirements are not met, Program personnel obtain the necessary information or reject the application.**

### **5.1.2 Management Response**

**APD will revise file review processes to ensure that they consistently reflect program requirements. File review processes will be revised by September 2003.**

### **5.1.3 Recommendation**

**The Director, APD, ensure that Contribution Agreements contain details concerning desired outcomes and how success will be measured.**

### **5.1.3 Management Response**

**Template contribution agreements for AROP will be revised to include information on desired outcomes and success measures. Template contribution agreements will be revised by September 2003.**

### *Budget Documentation*

The 2001-2002 and 2002-2003 AROP application guidelines require the Applicant to provide a budget for funding requested, and to provide documentation to support the project budget. In most files reviewed, the audit team noted that documentation was





either not included in project files, or it was not sufficiently detailed. Consequently, Program personnel were not aware of either the details related to planned activities or the reasonableness of requested amounts. The audit team believes, therefore, that there are opportunities for improvement in the budget documentation assessment practices.

#### 5.1.4 Recommendation

**The Director, APD, ensure that proposals contain sufficient detail supporting the project budget and in instances where information requirements are not met, the Program personnel obtain the necessary information or reject the application.**

#### 5.1.4 Management Response

**APD will revise the guidelines to include information on the level of detail required for the project budget and ensure that file review processes consistently reflect program requirements. Revised guidelines will be completed by March 2004 and a program manual will be developed by March 2004.**

#### *Past Performance of the Applicant*

One element of due diligence in the funding approval process is to ensure that past funding arrangements with the applicant have been successfully completed. The TB Guide supports the requirement to document the Applicant's past performance. None of the sample files reviewed contained documentation concerning the past performance of the Applicant. Programs must undertake efforts to provide a level of assurance that the Applicant will be able to successfully complete the initiative.

For a longstanding recipient, documentation of an Applicant's past performance could be in the form of a note to the file from Program personnel. For recipients that have received funding from other PCH programs, documentation could be in the form of a note to file summarizing communication with a representative from the other program. Instances where risks have been identified should be noted and addressed as justification for recommending approval for funding.

#### 5.1.5 Recommendation

**The Director, APD, ensure that files recommended for funding contain**



documentation relating to the Applicant's past performance with AROP and, where applicable, with other departmental programs. In instances where risks have been identified, justification for proceeding with recommendation for approval of funding should be documented in the file.

#### 5.1.5 Management Response

APD will ensure file review processes include documentation relating to an Applicant's past performance with AROP, other PCH programs and outside organizations as applicable and assessment of risk. An interim file review process will be developed by September 2003. A program manual will be developed by March 2004.

### 5.2 Eligible Expenditures

AROP Ts & Cs state that "eligible program expenditures include salaries [of the executive and support staff], travel, meetings, office costs, professional services [eg: auditors and training]". In two of eight files reviewed, approved budgets presented in the CAs contained ineligible expenses, specifically, amortization (\$9,000) deficit-recovery (\$21,000) and advertising and promotion (\$15,000). The audit team determined, therefore, that the Program approved and paid for these ineligible expenditures. No recovery action has been taken to date.

#### 5.2.1 Recommendation

The Director, APD, ensure that planned expenditures are eligible in accordance with AROP Terms and Conditions.

#### 5.2.1 Management Response

APD will revise the guidelines to include more information on eligible program expenditures and ensure that file review processes consistently reflect program requirements. Revised guidelines will be completed by March 2004.

#### 5.2.2 Recommendation

The Director, APD, ensure that recovery action is undertaken in cases



where ineligible expenditures were paid to recipients.

### 5.2.2 Management Response

**Deeming expenditures ineligible results in the ineligible amount of funding becoming surplus. In accordance with the AROP Terms and Conditions, sustaining funding surpluses may be retained by recipients for those recipients in financial difficulty because “to claim the surpluses in those circumstances would reduce the incentive for the recipient to generate savings in order to improve their financial situation.” The situations in question will be investigated and appropriate follow-up action will be taken. Situations in question will be investigated by September 2003.**

**The question of recovery of surplus funds for sustaining funding will be addressed in the renewal of the Terms and Conditions in March 2005. In the interim, emphasis must be placed on the provision of detailed budget information and cash flows, risk assessment and consistent monitoring of the agreements in an attempt to reduce potential surpluses.**

### 5.3 Payment Process

The TB *Policy on Transfer Payments* indicates that payments should be in the form of reimbursement for eligible expenditures or costs incurred by a Recipient. The Policy further states that where advances are necessary, they should be limited to cash requirements based on cash flows.

In all cases, the CA specified that initial payments were disbursed as advance payments, the amounts paid were consistent with the TB Policy for advances. In four of eight instances, a review of the recipient’s financial statements included in the file indicated that the recipient had cash reserves as at the financial statement date. The audit team concluded that due to these cash flow reserves, advances were not necessary and should not have been made. Payments should have been in the form of reimbursements of expenditures rather than advances.

#### 5.3.1 Recommendation

**The Director, APD, ensure that payments are based on the recipient’s actual cash requirements as demonstrated in cash flow documentation and**



cash position (from internal financial statements) at the time of signing the CA.

### 5.3.1 Management Response

APD will ensure file review processes include assessment of cashflow documentation. The assessment of the cash position of an organization must take into account the cash reserves related to core funding only as reserves from other project funding may not be applicable for core funding. An interim file review process will be developed by September 2003. A program manual will be developed by March 2004.

### 5.3.2 Recommendation

The Director, APD, ensure that advance payments occur only in instances where there is a demonstrated need.

### 5.3.2 Management Response

APD will ensure file review processes include assessment the requirement for advance payments. The assessment of the cash position of an organization must take into account the cash reserves related to core funding only as reserves from other project funding may not be applicable for core funding. An interim file review process will be developed by September 2003. A program manual will be developed by March 2004.

## 5.4 Reporting

### *Financial Reporting*

Contribution Agreements require recipients to account for Program funding through inclusion of a separate schedule in the annual audited financial statements. The CAs for the four files selected from 2002-2003 require recipients to submit their financial statements for the year ended March 31, 2002 by November 1, 2002 (two instances) and January 1, 2003 (two instances). Final financial reporting will therefore be received seven and nine months following completion of the funding period (March 31, 2002). Expenditures of prior year funding are therefore not accounted for before payments are issued for the following fiscal year. The audit team could not ascertain whether the



Program determined how funding was spent prior to the release of payments in the following year.

Since the 2001 audit, changes were made to facilitate reporting processes which resulted in improved due diligence practices surrounding financial reporting. This audit found that in order to further enhance AROP's financial reporting practices, it would be appropriate for recipients of core funding to provide an internally- prepared final financial report within sixty days following completion of the funding period. This practice is consistent with reporting requirements for funding arrangements for other departmental programs.

This internally-prepared financial report could be based on the recipient's internal accounting records. To encourage recipient compliance with this requirement, it would be appropriate to hold back a percentage of the total amount of approved funding, subject to receipt and acceptance of this internally-prepared financial report by the Program. The internally-prepared financial report would be reconciled with the schedule included in the audited financial statements subsequently provided to the Program.

#### **5.4.1 Recommendation**

**The Director, APD, ensure that CAs include a clause requiring recipients to provide an internal final financial report within sixty days following completion of the funding period.**

#### **5.4.1 Management Response**

**The management response to the 2001 internal audit indicated that audited financial statements would be required as part of the December reporting requirement for the following fiscal year. This takes the operational requirements (eg. Approval of the financial statements and activity reports by the board or the annual general meeting) of the organization into account. This was assessed in the follow-up audit as having met the recommendation regarding timeliness of reporting. An interim file review process will be developed by September 2003. A program manual will be developed by March 2004.**

**It is recognized that there is a time lapse between the end of the fiscal year**



and the submission of audited financial statements and activity reports however, the Program provides core funding and has had a long-standing relationship with all of the AROP organizations.

The value of the provision of internal financial statements within 60 days following completion of the fiscal year has limitations as these statements would have not been approved according to the governance of the organization and the statement would not be supported by activity reports. Financial statements must be linked to activity reports. To delay processing of payments for a new fiscal year until the reporting requirements of the previous year have been met would present a significant hardship on core funded groups. They would not be able to meet basic commitments such as salary and rent.

APD will work with the AROP to ensure that each contribution agreement reflect the earliest possible submission of the required reports for the previous fiscal year. APD will also ensure that the risk assessment includes examination of the monthly cashflow requirements of the organization.

#### **5.4.2 Recommendation**

The Director, APD, ensure that CAs include a clause indicating a payment holdback, to be released upon the Program's receipt and acceptance of an internally prepared final financial report.

#### **5.4.2 Management Response**

As AROP organizations depend almost completely on AROP funding for their day-to-day operations, institution of a holdback may impose a financial burden on the organizations. Emphasis will be placed on the provision of detailed budget information and cash flows, and consistent monitoring of the agreements. An interim file review process will be developed by September 2003. A program manual will be developed by March 2004.



The TB Guide states that eligible expenditures and funding amounts are to be clearly stated in the CA and any expenses not authorized in the CA are ineligible for reimbursement. In four of eight files reviewed, the audit team noted non-eligible expenses claimed in final financial reports, two for "Amortization", (\$5,000 and \$47,000, a non-cash in nature expense and therefore ineligible), one for "Honoraria" (\$12,000) and one for an allocation to a "Legal Defence Fund" (\$25,000). The audit team concluded that, in these four instances, final financial reports were not adequately scrutinized by the Program, resulting in a request for reimbursement of ineligible expenditures and subsequent payment of ineligible expenses. These payments were not recovered by the Program.

#### **5.4.3 Recommendation**

**The Director, APD, ensure that final financial reports are appropriately scrutinized, according to eligibility criteria, by Program personnel and that only eligible expenditures are eligible for funding.**

#### **5.4.3 Management Response**

**APD will revise the file monitoring processes to ensure consistent scrutiny of final financial reports. An interim file monitoring process will be developed by September 2003. A program manual will be developed by March 2004.**

#### **5.4.4 Recommendation**

**The Director, APD, ensure that in cases where ineligible expenditures were funded by the Program to recipients, recovery action is taken by AROP.**

#### **5.4.4 Management Response**

**Deeming expenditures ineligible results in the ineligible amount of funding becoming surplus. In accordance with the AROP Terms and Conditions, sustaining funding surpluses may be retained by recipients for those recipients in financial difficulty because "to claim the surpluses in those circumstances would reduce the incentive for the recipient to generate savings in order to improve their financial situation. The situations in question will be investigated and appropriate follow-up action will be taken. Situations in question will be investigated by September 2003.**



**The question of recovery of surplus funds for sustaining funding will be addressed in the renewal of the Terms and Conditions in March 2005. In the interim, emphasis must be placed on the provision of detailed budget information and cash flows, risk assessment and consistent monitoring of the agreements in an attempt to reduce potential surpluses.**

Eligible expenditures are required to be clearly stated in the CA to facilitate reconciliation between the final financial report and approved expenditures. Eligible program expenditures include salaries of executive and support staff; travel; meetings; office costs; and professional services (auditors and training). For two of four funding arrangements from 2001-2002, schedules included in the financial statements submitted to the Program, pursuant to the requirement of the following year's CAs, could not be reconciled with the listing of eligible expenditures documented in the 2001-2002 CAs. The audit team was not able to determine if claimed expenditures were eligible, however these expenditures were paid.

#### **5.4.5 Recommendation**

**The Director, APD, ensure that the format of final financial reports is consistent with documentation contained in the CA through the use of a template to be used by recipients.**

#### **5.4.5 Management Response**

**APD will provide templates for final financial reports consistent with documentation contained in the contribution agreements to be used by recipients. Templates will be provided by March 2004.**

The 2001 internal audit report included an observation regarding instances where payments were released to recipients when the recipient had not met Program reporting requirements. As a result of the follow-up audit, the audit team noted one instance where a payment was released in 2001-2002 when the Recipient had not met the reporting requirements from the previous year.

#### **5.4.6 Recommendation**





**The Director, APD ensure that payments are not released to recipients that have not met the reporting obligations stated in the Contribution Agreement.**

#### **5.4.6 Management Response**

**APD will ensure monitoring processes are consistently implemented to ensure payments are not released to recipients that have not met the reporting obligations stated in the Contribution Agreement. An interim file monitoring process will be developed by September 2003. A program manual will be developed by March 2004.**

### **5.5 Expenditure of Public Funds**

AROP provides funding to Recipients for specific, approved core program activities. Funds may be paid in advance of actual need and are spent as the initiative proceeds. In this respect, at any point in time, a recipient should have liquid assets (cash and short term investments) at least equal to the amount of unexpended funding, commonly called “deferred revenue”.

The audit team noted four instances, where financial statements were on the files, that the amount of cash in the bank and short-term investments were less than the amount of deferred revenue from many funding sources, not just from AROP. The deficiencies were \$60,000, \$71,000, \$75,000 and \$1,400,000 respectively. The audit team was not able to determine whether the amounts related to AROP funding or from other public sources and has concluded that recipients may have utilized resources from public funding organizations for uses other than intended. To ensure due diligence in ensuring that the recipient has used funding for intended purposes, the following activities should be undertaken: requiring the recipient to manage the funding arrangement from a separate bank account; and require frequent interim reporting to the Program.

#### **5.5.1 Recommendation**

**The Director, APD, ensure that during the assessment process, in all instances where there is uncertainty as to whether a recipient has used funding for purposes intended, the matter is investigated and possible risks to the program be managed accordingly.**

#### **5.5.1 Management Response**



**APD will ensure file review processes include assessment of the cashflow requirements and the need for advance payments and a risk assessment, including the investigation of situations where uncertainties exist. The management of the funding arrangement will reflect the results of the risk assessment. An interim file assessment process, including enhanced risk assessment, will be developed by September 2003. A program manual will be developed by March 2004.**

## **5.6 Training**

The follow-up audit identified that AROP would benefit from training in certain areas, such as the assessment of documentation supporting an applicant's budget; the determination of an organization's ability to successfully complete a project from the managerial and financial aspects; the requirement for documentation relating to past performance with the Program, other departmental Programs and other public funding organizations; the inclusion of outputs, outcomes and measurement criteria in the CA; and the preparation and analysis of cash flows. The audit team was provided with a draft training course outline for APD. Details concerning content for the various topics planned to be addressed were not available at the time of the audit.

### **5.6.1 Recommendation**

**The Director, APD, ensure that the content of the training program address observations in this follow-up audit report indicating opportunities for improvement in areas such as:**

- **the assessment of documentation supporting an applicant's budget;**
- **the determination of an organization's ability to successfully complete a project from the managerial and financial aspects;**
- **the requirement for documentation relating to past performance with the Program, other departmental Programs and other public funding organizations;**
- **the inclusion of outputs, outcomes and measurement criteria in the CA; and**
- **the preparation and analysis of cash flows.**

### **5.6.1 Management Response**

**A comprehensive training package was not developed and delivered due to**



**lack of financial and human resources within the APD. A training program on project development and proposal writing was developed and presented to Inuit organizations in conjunction with a meeting of Inuit youth and elders in Inukjuac in Northern Quebec in March 2003.**

**Capacity building both for PCH program officers and clients of Aboriginal programs will be addressed in the development of the new Aboriginal Affairs Branch (AAB) organization. A training package will be developed by March 2004.**

## **5.7 Recipient Audits**

TB Policy requires that CAs contain a clause concerning the Minister's right to conduct an audit of the contribution arrangement between the Department and a recipient. The 2001 audit report observed that Recipient Audits had not been conducted and a recommendation was made that the Program undertake Recipient Audits. During fiscal year 2001-2002, AROP undertook one audit for a funding arrangement from 2000-2001. A significant time lapse between issuance of the audit report and the date of closure was noted. The results of a recipient audit provide information to the Program regarding a recipient's performance.

For fiscal year 2002-2003, AROP planned to conduct one recipient audit for funding provided during fiscal year 2001-2002. The audit team was informed that the planned audit was not conducted during the 2002-2003 fiscal year. For 2002-2003, AROP program management has therefore not met TB Policy requirements with respect to the conduct of recipient audits. In addition, recipient audit plans have not been developed for fiscal year 2003-2004 for funding arrangements entered into in 2002-2003.

### **5.7.1 Recommendation**

**The Director, APD, ensure that recipient audits are undertaken by the Program each year based on the development of a risk-based audit plan.**

### **5.7.1 Management Response**

**A Recipient Audit Plan was developed for the Aboriginal Peoples' Program (APP) which included 6 recipient audits which were initiated in 2001-02, These audits were initiated by APP in advance of the development of the Recipient audit guidelines by Corporate Review. As these were the first**



recipient audits of Aboriginal programs undertaken is a long time and in the absence of approved guidelines, it took some time to conclude the audits. As there are 13 Aboriginal programs and initiatives, there are insufficient financial and human resources to conduct audits on all programs each year. One audit was undertaken on an AROP file in 2001-02. Three Recipient audits, including one AROP audit, were initiated in 2002-03. The AROP audit has not yet been finalized.

A recipient audit plan is being developed for Aboriginal Programs based on the requirements set out in the Department of Canadian Heritage Policy on the Audit of Transfer Payment Recipients which approved in April 2003. A recipient audit plan will be developed by September 2003.

#### 5.7.2 Recommendation

The Director, APD, ensure that audit reports are scheduled to ensure completion prior to approval of subsequent year funding.

#### 5.7.2 Management Response

APD will ensure audit issues are addressed prior to approval of subsequent year funding. The recipient audit plan will identify completion dates.

**ANNEX A - SUMMARY OF RECOMMENDATIONS AND LEVEL OF IMPLEMENTATION FROM THE 2001 INTERNAL AUDIT OF AROP**

RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program create "permanent" files for each Recipient including all necessary organizational data. Recipients should be required to provide amended documentation as changes occur.</p>	<p>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 date each year, they are requested to confirm that there have been no changes in the data over the past year.</p> <p>Permanent files will be kept separate from the G&amp;C file as they can be quite large, however, a reference will be made on the G&amp;C file to the information on the permanent file As some groups receive funding under more than one program this will avoid duplication of information.</p>	<p><b>Recommendation Met. No further recommendation required.</b> The requirement to submit the organizational data was included in the guidelines. Permanent files exist and were examined. The 2002-2003 guidelines (page 4) called for submission of "legal status" documentation. However, in 5 cases the documentation was incomplete (in 1 of the 5, the permanent file could not be located ). No confirmations were present in any of the 8 files.</p> <p><i>Management update:</i>  <i>APD will ensure consistent submission of organizational data.</i></p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program ensure that:</p> <p>a. Proposals from Recipients contain clearly stated objectives that are linked to the Program objectives and to a Performance Management Framework; and</p> <p>b. The Recipients' objectives are linked to clearly measurable criteria for the Recipients use in demonstrating success of the funding, in the final report.</p>	<p>The call letter identifies information to be included in the funding proposal. This includes information on the goals and objectives of the organization, planned activities, beneficiaries of these activities and the anticipated results and outcomes. Funding proposals will be assessed against the guidelines set out in the call letter.</p> <p>A Performance Management Framework (PMF) has not been developed for AROP. The Program will be evaluated in the next year and a PMF will be addressed as part of the evaluation.</p>	<p><b>Recommendation Partially Met. Refer to section 5.1.2 and 5.1.3 for further recommendation.</b> The requirement was contained in the guidelines, page 3. However, more explanatory information on how to develop outcomes is needed in the guidelines.</p> <p>One proposal contained outcomes while the rest containing planned activities.</p> <p><i>Management update:</i> The AROP evaluation has begun and the T's &amp; C's will be renewed as part of the comprehensive renewal of APD's programs APD will revise AROP Guidelines to provide more information on outcomes.</p>
<p>The Program ensure that Proposals from Recipients contain cash flow data for both the overall operation, including revenues from all sources and Program funding.</p>	<p>The call letter identifies the requirement for each organization to provide budget information including all anticipated revenues and expenditures. A cash flow, broken out on a monthly basis, was requested .</p>	<p><b>Recommendation Met. No further recommendation required.</b> The 2002/03 guidelines (page 4) indicates that applicants were required to provide cash flows for the Core funding only rather than overall operations, which in our opinion is acceptable. The requirement was met in all instances.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program ensure that planned expenditures by the Recipient are eligible in accordance with the Program Terms and Conditions.</p>	<p>Planned expenditures will be closely assessed as to their eligibility under the Terms and Conditions. The audit indicated that acquisition of computers is not an eligible expense. Computers have been interpreted as falling under the category of office costs which are eligible expenses. There should be some room for discretion with appropriate justification(10 computers purchased at year end may not be reasonable, where one computer would be reasonable to meet office requirements). The program officer carries out the initial assessment and a challenge function is performed by Finance.</p>	<p><b>Recommendation Partially Met. Refer to section 5.2.1 for further recommendation.</b>            In two instances, non-eligible expenditures were contained in the approved budgets. In one case the budget provided for prior years deficit recovery while the other provided for advertising and promotion.</p> <p>Management update:  <a href="#">Refer to response in 5.2.1</a></p>
<p>The Program implement a process that will ensure that payments are not issued to Recipients that have not met their reporting obligations stated in Contribution Agreements.</p>	<p>A checklist is attached to each file outlining the requirements for each payment. Reporting obligations will be verified prior to processing payments. Each request for payment is now routed to the Manager, Aboriginal Peoples' Program prior to approval by the Director, Aboriginal Peoples' and Human Rights Programs.</p>	<p><b>Recommendation Partially Met. Refer to section 5.4.6 for further recommendation.</b>            In all but one case, reporting requirements were met prior to release of payments.</p> <p>All requests for payment were signed by the Director, Aboriginal Peoples' and Human Rights Programs.</p> <p>Management update:  <a href="#">Refer to response 5.4.6</a></p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program ensure that reports and other materials supplied by Recipients are meaningfully reviewed and evidence of review is documented on file.</p>	<p>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 the Program officer, tabs, highlighting etc. will also be provided to reflect the review of the file.</p>	<p><b>Recommendation Met.</b> Evidence of review was present in seven of the eight files.</p>





<p>The Program address the issue surrounding repayment of surplus funding with the Department's Financial Management Branch and possibly Treasury Board and conduct future activities in accordance with the outcome.</p>	<p>Aboriginal Peoples' Program will work with Financial Management in the process of renewing the T's &amp; C's to clarify the ambiguous wording regarding repayment of surplus funding. In the interim, program officers will monitor the annual cash flow submitted by each organization to ensure it is realistic. Any variations, including surpluses, must be fully justified by the organization.</p>	<p><b>Recommendation Not Met. Evaluation to be completed August 2003. The evaluation of the Program is planned for completion by August, 2003. No further recommendation.</b> No meetings have been held with representatives from the Finance Branch, as, according to AROP program management, the issue will be addressed during the process of renewing the program terms and conditions.</p> <p><i>Management update:</i> A legal opinion was received concerning the repayment of surplus funding. In accordance with the AROP T's &amp; C's, sustaining funding surpluses may be retained by recipients for those recipients in financial difficulty because "to claim the surpluses in those circumstances would reduce the incentive for the recipient to generate savings in order to improve their financial situation. The issues will be addressed in the renewal of AROP T's &amp; C's.</p> <p>There was evidence that program officers monitored the annual cash flows.</p>
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RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program direct Recipients to provide measurable objectives and anticipated outcomes in their Proposals for funding.</p>	<p>The call letter issued for proposals for 2001-2002 requested that organizations provide a plan outlining how they propose to carry out activities and evaluate its success in achieving stated objectives. Each proposal will be assessed against the program requirements and the unique elements of the proposal will be reflected in the analysis. It must be recognized that the program objectives for AROP are very general. The program will be evaluated over the next year and the Terms and Conditions will be revised. It is anticipated that the objectives and outcomes will be revised to provide better defined and measurable objectives and outcomes.</p>	<p><b>Recommendation Partially Met. Refer to section 5.1.2 for further recommendation.</b>            The requirement was contained in the guidelines, page 3. However, more explanatory information on how to develop outcomes is needed in the guidelines.</p> <p>One proposal contained outcomes while the rest contained planned activities.</p> <p><a href="#">Management update:</a>  <a href="#">Refer to response 5.1.2</a></p>



<p>The Program ensure that only pertinent Recipient requirement clauses are included in Contribution Agreements.</p>	<p>Templates for contribution agreements for AROP have been developed for 2001-2002 to reflect the changes required by the revised Treasury Board Policy on Transfer Payments. The templates will be revised to reflect the specific circumstances of each group. Careful scrutiny of agreements will take place to ensure agreements contain appropriate requirements.</p>	<p><b>Recommendation Partially Met. Issue was discussed with Program management and was considered to be an oversight on the part of the Program. No further recommendation required.</b> The Contribution Agreements met Treasury Board requirements.</p> <p>In three instances there were inappropriate clauses. Two where there was an overlap in months to be covered in interim reports. One called for a deficit recovery plan where the Recipient was in a surplus situation.</p>
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RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program undertake audits on behalf of the Minister to ensure Recipients' compliance with the terms and obligations of the Agreement..</p>	<p>The Audit and Evaluation Plan for 2001-2002 includes 6 recipient audits for the Aboriginal Peoples' Program. At least one will be an AROP Recipient.</p>	<p><b>Recommendation Partially Met. Refer to section 5.7.1 for further recommendation.</b> One AROP recipient audit was completed.</p> <p>Management update: Refer to response 5.7.1</p>
<p>The Program complete reviews of Recipients' final financial reports to ensure that actual expenditures were in accordance with the Contribution Agreements.</p>	<p>The review of Recipients' final financial reports will include a comparison that actual expenditures reflect the planned expenditures as stated in the Contribution Agreement. This analysis will take into account transfers allowed between categories. Evidence of this review will be included on the file.</p>	<p><b>Recommendation Met. No further recommendation required.</b> Analyses are being performed by the Finance Branch.</p>
<p>The Program direct Recipients to provide cash flow documentation for Program funding based on actual timing for which funding is required.</p>	<p>The call letter contains instructions on the submission of budget information. Organizations are requested to provide a monthly cash flow. The cash flow will be assessed to ensure that it reflects a realistic timing of activities and the payments reflect the activities.</p>	<p><b>Recommendation Met.</b> There was one instance where the cash flow did not appear to be realistic, the annual amounts being allocated in equal amounts for each month (straightlined).</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program communicate with Recipients indicating that it is essential that Recipients meet their reporting requirements in accordance with the obligations in the Contribution Agreements and that failure to do so may result in termination or suspension of the Agreements.</p>	<p>Several changes have been made for 2001-2002 which should 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, will be sent out with the Contribution agreement (see attachment).</p>	<p><b>Recommendation Met. No further recommendation required.</b> Requirements were met.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program establish a deadline for receipt of Proposals for funding.</p>	<p>The establishment of a deadline for receipt of proposals would not be appropriate for AROP. What would be the consequence of not meeting the deadline? AROP provides core funding to organizations which permits them to maintain a basic organizational capacity on an ongoing basis. It would not be appropriate to cut this funding without significant notice.</p> <p>Establishing a deadline for AROP would imply that PCH would guarantee funding by a specified date. It is not possible to control the timing of approvals within the Department. It would be more appropriate to encourage early submission of proposals to facilitate early processing and approvals. PCH is looking into more efficient and effective ways to provide funding in a timely fashion.</p>	<p><b>Recommendation Not Applicable</b> Two received in March, two in April, three in May, one in November. Funding can commence April 1 each year.</p>