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**REPORT ON THE
FOLLOW-UP AUDIT
OF THE
ABORIGINAL WOMEN'S PROGRAM (AWP)**

**THE CORPORATE REVIEW BRANCH
CANADIAN HERITAGE**

JUNE 25, 2003

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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 Women's Program (AWP). The primary objective of the audit was to assess the extent to which recommendations included in the 2002 internal audit report, 2001, have been implemented. The audit reviewed 35% of program files from the 2001-02 and 2002-03 fiscal years, representing 41% of program funding.

AWP was originally approved in 1971 to assist Aboriginal women in developing their own organizations to address specific social, economic and political issues. Annual program funding was \$2,245,566. For the 2001-02 and 2002-03 fiscal years, project-based grant and contribution funding of \$3,185,496 million was provided to 51 not-for-profit organizations through three program streams: The *Original Program*, the *Family Violence Initiative*, and the *Self-Government Initiative*. AWP is managed and delivered by the Aboriginal Programs Directorate through PCH headquarters and regional offices.

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 although improvements have been made since the 2002 internal audit report, AWP is not yet fully compliant with the Treasury Board *Policy on Transfer Payments*. For example, payments are automatically structured as advances, not reimbursement; the Contribution Agreements do not include all the required clauses defined in TB policy; and the application did not adequately address planned outcomes and criteria to measure the success of the initiative.

The audit team confirmed that of the 16 recommendations from the 2002 audit, six were fully implemented, seven were partially implemented, and three were not implemented. The audit team found that overall program management, monitoring and due diligence practices have improved since the 2002 internal audit. This follow-up audit, however, found additional areas for improvement. For example, some program proposals are not in accordance with program guidelines; the level of detail is insufficient to support project budgets; past reporting requirements are not met prior to release of funds for the following year; and evidence on file is insufficient to determine whether projects were completed as proposed. To fully implement program monitoring and due diligence practices, overall program management needs to improve.



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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 Women's Program (AWP). The purpose of the audit was to assess the extent to which recommendations included in the 2002 internal audit report, conducted in the winter, 2001, have been implemented.

AWP was created in 1971 to assist Aboriginal women in developing their own organizations to address specific social, economic and political issues. Since the inception of the Program, financial assistance has been provided to Aboriginal women's groups at the national, provincial/territorial, community-based and local levels.

The Program is currently managed by the Aboriginal Programs Directorate (APD) of PCH and delivered by headquarters and regional offices. Annual program funding was \$2,245,566. During the 2001-2002 and 2002-2003 fiscal years, funding in the amount of \$3,185,496 (\$243,036 in grant funding and \$2,492,460 in contribution funding) was provided to 51 recipients (16 in the form of grants; 35 in the form of contributions). The overall Program objective is to enable Aboriginal women to influence policies, programs, legislation and decision-making that affect their social, cultural, economic and political well-being within their own communities and Canadian society while maintaining their cultural distinctiveness and preserving cultural identity. There are three program components:

- *The Original Program.* Enables Aboriginal women to maintain representative national organizational structures; influence public policy and decision-making; maintain cultural distinctiveness and enhance leadership capabilities.
- *The Family Violence Initiative.* Enables Aboriginal women to address violence-related issues within the nuclear as well as extended family within Aboriginal communities; and
- *The Self-Government Initiative.* Enables Aboriginal women to participate fully and equitably in the consultation and decision-making process.

Operational funding in the form of contributions is provided to national Aboriginal women's organizations that enables them to carry out their role as coordinating and representative bodies. Project grant and contribution funding is provided to organizations at the provincial/territorial, community-based and local levels to assist them in undertaking specific activities intended to improve the situation of Aboriginal women in their communities and to enable them to carry out priority projects relating to cultural retention, community health, or socio-economic development.

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 2002 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 practices and procedures by Program management.

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 51 organizations for a total amount of \$3,185,496. A sample of 18 funding arrangements was selected:

- ten arrangements for the 2001-2002 fiscal year, including eight contributions and two grants, for a value of \$553,066 and \$86,000 respectively; and
- eight arrangements for the 2002-2003 fiscal year, including five contributions and three grants for a value of \$636,600 and \$44,340 respectively.

The total value of the sample selected represented 35% of program files and 41% 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:

- 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 2002 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:

- assessment of the implementation of management's response to recommendations included in the 2002 internal audit report; and
- assessment of a sample of funding arrangements entered into after the 2002 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 although improvements have been made since the 2002 internal audit report, AWP is not yet fully compliant with the Treasury Board *Policy on Transfer Payments*. For example, payments are automatically structured as advances, not reimbursement; the Contribution Agreements do not include all the required clauses defined in TB policy; and the application did not adequately address planned outcomes and criteria to measure the success of the initiative.

The audit team confirmed that of the 16 recommendations from the 2002 audit, six were fully implemented, seven were partially implemented, and three were not implemented. The audit team found that overall program management, monitoring and due diligence practices have improved since the 2002 internal audit. This follow-up audit, however, found additional areas for improvement. For example, some program proposals are not in accordance with program guidelines; the level of detail is insufficient to support project budgets; past reporting requirements are not met prior to release of funds for the following year; and evidence on file is insufficient to determine whether projects were completed as proposed. To fully implement program monitoring and due diligence practices, overall program management needs to improve. The following sections summarize the extent of implementation, new practices, observations and recommendations for improvement. 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

AWP's Terms and Conditions (Ts & Cs) require 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 evidence was present in the 18 files reviewed to determine authorization for the individual to sign the application. For contribution funding arrangements, this refers to either the Application Form or the Contribution Agreement (CA); for grant funding arrangements, this refers to the Application Form. As a result, the audit team was unable to determine if the Boards of Directors approved the application, were aware of planned activities and whether applications for funding had in fact been submitted on behalf of the organization.

5.1.1 Recommendation

The Director, APD, ensure that headquarters and regional files contain evidence that an individual has the authorization to sign an application form and in the case of a contribution funding arrangement, authority to sign the CA.

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. Signing authorities are presented as part of the application process. The degree of risk is minimal as evidence of authority to sign is presented before the contribution agreement is signed.

Evidence of authority to act and sign on behalf of the organization will be requested when the funding arrangement is a grant. Information regarding grants will be sent to regions by September, 2003.

Demonstration of Community Support

Program Ts & Cs require that "Applicants must demonstrate support from the community to be served" and the 2002-2003 Program guidelines state that "letters of support from community members" are required to be included in the application package. The audit team noted four of 18 instances where the required documentation was not present in project files. The audit team concluded that the Program was therefore unable to determine if the recipients were supported by the communities they were intended to serve and yet the Program proceeded to recommend the initiative for approval.



5.1.2 Recommendation

The Director, APD, ensure that headquarters and regional program files contain evidence of support from the community represented by proposed applicants.

5.1.2 Management Response

The requirements for demonstration of community support are different for program funding and for project funding. Letters of support are not required for program funding. Applicants for program funding are required to demonstrate they are a national Aboriginal women's organization that represents a majority of their constituent Aboriginal women's population. Interim file review information will be provided to regions by September 2003.

The AWP guidelines that were distributed in May 2002 indicate that applications for project funding must include letters of support from community members. Applicants for project funding must meet the eligibility requirements of AWP, however, they do not need to represent the community.

APD will work with regions to ensure file review processes reflect program requirements. A program manual will be developed by March, 2004.

Guideline Requirements

For the audit scope period, AWP issued program guidelines outlining specific proposal requirements and supporting documentation to be provided. In five of 18 files reviewed, proposals did not meet requirements outlined in the guidelines. The information was either not on the file or the information submitted was not sufficiently detailed. In addition, the CAs did not include details concerning planned outcomes and how project success would be measured. As such, it was not possible to determine success of the funding initiative, whether the recipient represented the community, whether payments were in accordance with program requirements and whether Program support was recognized.

5.1.3 Recommendation

The Director, APD, ensure that proposals meet Program guideline requirements and in instances where the requirements are not met, AWP obtain the necessary information or reject the application.



5.1.3 Management Response

APD will work with regions to ensure file review processes reflect program requirements to ensure program requirements are met. Interim file review information will be provided to regions by September 2003. A program manual will be developed by March 2004.

5.1.4 Recommendation

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

5.1.4 Management Response

Contribution agreement templates have been developed that provide for information on planned outcomes and evaluation requirements. The agreements were developed in collaboration with the regions and reviewed by Legal Services and the Centre of Expertise. They will be distributed for use in 2003-04.

It has also been noted that the May 2002 guidelines do not contain sufficient detail to permit applicants to develop planned outcomes and criteria to measure success. APD will work with regions to revise the guidelines to include more information on planned outcomes and success measures. Revised guidelines will be completed by March 2004.

Budget Documentation

The 2001-2002 AWP application guidelines require the Applicant to provide a budget for planned project expenditures and provide information to support the proposed budget. The 2002-2003 Guidelines are silent on the issue surrounding documentation supporting the budget. In seven of 18 funding arrangements, the audit team noted that documentation was either not in project files, or it was not sufficiently detailed and therefore did not adequately support the rationale for planned expenditures. Consequently, the audit team concluded that Program personnel were not aware of either the specific details related to planned activities or the reasonableness of forecasted amounts.

5.1.5 Recommendation



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

5.1.5 Management Response

APD will work with regions to revise the guidelines to include more information on the project budget, to ensure that file review processes reflect program requirements and that program requirements are met. Revised guidelines and a program manual will be completed by March 2004.

Past Performance of the Applicant

The TB Guide supports the requirement to document the Applicant's past performance. Further, it is a key element of due diligence in the funding approval process is to ensure that prior funding arrangements with the applicant have been successfully completed and for the Program to provide assurance that an Applicant will be able to successfully complete the initiative and in turn provide justification for recommending approval of the application. In eight of 18 files, there was no documentation on file regarding the Applicant's past performance with AWP or other departmental programs.

For a long-standing recipient, documentation of an applicant's past performance could be in the form of a note to file developed by 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.

For applicants that are new to the Program and the Department, the Program Officer should attempt, as applicable, to contact outside funding organizations that may have provided funding in the past. A good source of information is revenues reported in the Applicant's financial statements. Instances where risks have been identified should be noted and addressed and justification provided on file for recommending approval for funding.

5.1.6 Recommendation

The Director, APD, ensure that files recommended for funding contain documentation relating to an Applicant's past performance with AWP, other departmental programs and, as applicable, outside organizations.

5.1.6 Management Response



APD will work with regions to ensure file review processes include documentation relating to an Applicant's past performance with AWP, other PCH programs and outside organizations as applicable. A program manual will be developed by March 2004.

5.1.7 Recommendation

The Director, APD, ensure that risks identified are noted, addressed and justification is provided on file for recommending funding.

5.1.7 Management Response

APD will work with regions to develop risk assessment criteria for AWP to be assessed as part of the file review process. An interim risk assessment will be developed by September 2003. The risk assessment will be included in the program manual, to be completed by March 2004.

Panel Assessment

In the 2002 internal audit report, the audit team recommended the implementation of panel assessment processes in all regions. The purpose of these panels were to ensure that funding is approved for the most meritorious projects. Management responded by stating that all applications were subject to panel assessments.

The audit team noted three of 18 instances where evidence of the results of the regional panel assessments were not present in project files.

5.1.8 Recommendation

The Director, APD, ensure that in the regions, all applications are subject to panel assessments and that funding approval be granted to the most meritorious projects.

5.1.8 Management Response

In most cases, project or program funding for AWP is not approved on a competitive basis. For program funding, the eligibility is defined in the Terms and Conditions and the funding level is pre-determined. The files are assessed by the Program and reviewed by a Branch Review Committee to ensure the funding proposal meets the program requirements.



For projects at the regional level, competitive processes may not exist as, in most cases, the total value of the applications received does not exceed the funding that is available. In other cases, funding is distributed among the different constituents (ie. Metis women's organizations, First Nations women's organizations etc). Files in the regions are assessed to ensure the funding proposal meets the program requirements.

Panel assessments will be considered when the value of applications received exceeds the available budgets.

5.2 Eligible Expenditures

Contribution transfer payments are supported by a CA between the Program and the recipient. The agreements must contain information consistent with the Program's Ts & Cs and information and clauses related to the funding arrangement.

TB Policy requires that CAs contain: a) the requirement that recipients account for the use of funds; and b) a list of allowable expenses by category. The audit team noted that listings were not present in the CAs for 2 of the 13 contribution funding arrangements. In these instances it was not possible to determine if the nature and amount of expenses claimed in the final financial report were in accordance with the planned initiative, leading to the conclusion that opportunities for improvement exist in the area of monitoring, specifically with respect to closure of funding initiatives.

5.2.1 Recommendation

The Director, APD, ensure that CAs contain a listing of eligible expenditure amounts, by expenditure category.

5.2.1 Management Response

Contribution agreement templates have been developed that provide for a listing of eligible expenditure amounts, by expenditure category. The agreements were developed in collaboration with the regions and reviewed by Legal Services and the Centre of Expertise. They will be distributed for use in 2003-04.

Budget Transfers



Contribution Agreements require that, in instances where actual expenditures would exceed a stipulated percentage threshold (generally 15%), recipients must obtain prior written authorization from the Program to re-allocate or transfer funds among budget categories. The purpose of this clause is to ensure that the Program is aware that initiatives are being completed as planned. Five of eight funding arrangements from 2001-2002 contained a budget transfer clause. In one of these five files, actual expenditures for one category exceeded the approved budget by 90% and there was no evidence on file confirming Program authorization. The audit team concluded that in these instances, there was a lack of monitoring of the funding initiatives and that there is room for improvement in the review of final financial reports.

With respect to budget transfers exceeding predetermined threshold amounts, Program authorization is required prior to transfer of funds. The audit team noted three instances where the requirement was not included in the CA. In instances where the clause was included in the CA, the audit team noted that the threshold varied between 10% and 15%.

5.2.2 Recommendation

The Director, APD, establish a threshold in the CA for which recipients are authorized to effect transfers within approved budget categories.

5.2.2 Management Response

Contribution Agreement templates have been developed that provide for a threshold of 15% for transfers within categories. Transfers in excess of 15% require prior written authorization. The agreements were developed in collaboration with the regions and reviewed by Legal Services and the Centre of Expertise. They will be distributed for use in 2003-04.

5.2.3 Recommendation

The Director, APD, ensure that prior written authorization is obtained by the Program in instances where actual expenditures may exceed the established threshold.

5.2.3 Management Response

APD will work with regions to establish consistent monitoring processes that reflect program requirements and to ensure that appropriate prior authorization is obtained where expenditures are expected to exceed the



established threshold. Monitoring processes will be established as part of the program manual to be developed by March 2004.

Payment Holdback

The TB Guide states that: “the portion of the contribution held back is a matter of judgement based on risks ...”. The review of the CAs in the audit sample indicates that the normal holdback is 10% of the total amount of funding approved. In two of the 13 contribution files reviewed, documentation indicated that the recipient had not, under previous funding arrangements, reported within the required timeframes. In both cases the holdback amount was 10% and Program personnel indicated that consideration had not been given to increasing the holdback percentage to encourage the recipient to report within the timeframes called for in the CAs. Funds were not paid until reports were received by the Program.

5.2.4 Recommendation

The Director, APD, ensure that holdback clauses included in CAs are sufficient in amount to manage potential risks.

5.2.4 Management Response

APD will work with regions to develop risk assessment criteria, including determination of appropriate holdbacks to be assessed as part of the file review process. Risk assessment criteria are to be developed as part of the program manual, which will be completed by March 2004.

Consistency of Contribution Agreements

Contribution Agreements must contain information consistent with Program Ts & Cs, TB Policy and TB Guide clauses related to the particular funding arrangement. The audit team noted, in several of the agreements, the absence of TB Policy-required clauses. Examples included:

- the Minister’s right to terminate an agreement during a year in the event of government-wide spending restraints;
- conflict of interest and Post-Employment Code for Public Office Holders (1994) requirements;
- clear identification of eligible expenditure amounts, by expenditure category; and
- final reporting due dates.



Further, one CA stated that the Recipient could retain up to 5% of the awarded contribution, as a surplus, to pursue objectives of the funding initiative in a subsequent fiscal year. This is contrary to Program Ts & Cs.

5.2.5 Recommendation

The Director, APD, ensure that the Program prepare a CA template that is in compliance with TB and departmental requirements.

5.2.5 Management Response

Contribution Agreement templates have been developed in collaboration with the regions and reviewed and approved by Legal Services and the Centre of Expertise. They have been distributed for use in 2003-04.

5.2.6 Recommendation

The Director, APD, ensure that the template is forwarded to the Grant and Contribution Centre of Expertise for review and approval.

5.2.6 Management Response

Contribution agreement templates have been developed in collaboration with the regions and reviewed and approved by Legal Services and the Centre of Expertise. They have been distributed for use in 2003-04.

5.2.7 Recommendation

The Director, APD, ensure that the template is used by headquarters and regional offices and that modifications of substance are approved by the headquarters or regional Director, as applicable, supported by a note to file.

5.2.7 Management Response

APD will forward the template to regions with instructions on the use of the templates including the requirement that any modifications of substance to the template must be approved by the Centre of Expertise and/or Legal Services.

5.3 Payment Process



TB Policy indicates that payments should be in the form of reimbursement of expenditures paid by the recipient. TB further states that where advances are necessary, they should be limited to cash requirements based on cash flows.

To meet TB Policy requirements that payment amounts should be limited to a recipient's cash requirements, it is necessary for the recipient to provide a cash flow indicating the timing for the need for funding. This is appropriate for transfer payments whether the payments are made as advances or reimbursements. For seven of 18 files reviewed, cash flows were not present. As a result the audit team was unable to determine if payment amounts were in accordance with the recipients' actual cash requirements.

The audit team noted in all of the CAs reviewed, initial payments were structured as advances of either seventy-five or ninety percent of the awarded amounts, consistent with the TB Policy for advances. In two instances, recipient financial statements indicated that the recipient had cash reserves as at the financial statement date, therefore advances were not required and payments should have been in the form of reimbursement of expenditures instead of advances.

5.3.1 Recommendations

The Director, APD, ensure that recipients provide cash flow documentation demonstrating the timing of cash requirements for all grant and contribution funding initiatives.

5.3.1 Management Response

The AWP Guidelines that were distributed in May 2002 require that applications contain a detailed plan and total budget for the proposed project based on supportable costs and linked to the planned activities. The guidelines will be revised to provide more specific information on cashflows. APD will work with regions to ensure file review processes include assessment of cashflow documentation. A program manual will be developed by March 2004.

5.3.2 Recommendation

The Director, APD, ensure that payments in the form of advances occur only in instances where there is a demonstrated need for such an advance.

5.3.2 Management Response



APD will work with regions to ensure file review process includes assessment of the requirement for advance payments. Assessment processes must take into account any cash reserves may have been received for other purposes. A program manual will be developed by March 2004.

5.4 Financial Reporting

Reporting Within Timeframes

The 2002 internal audit report included a recommendation that recipients file financial and non-financial reports, within required timeframes as documented in the CA. The purpose of this is to use due diligence principles and permit the Program to monitor progress of the funding initiative. The audit team noted four of 13 contribution funding arrangements where recipients did not submit reports within required timeframes. Generally, the CAs required reporting within sixty days following the project completion date. In two instances, the audit team noted that no timeframe was reflected in the CA.

Furthermore, to obtain a level of assurance that the project proceeded as planned, the audit team recommended that the Program ensure that reports be accurate and that costs had been incurred in accordance with the approved budget. In the follow-up audit, the audit team found 5 of 13 instances where the final project report indicated a bottom line surplus/deficit of \$0.00. It is unlikely that projects result in a break-even financial position.

5.4.1 Recommendation

The Director, APD, ensure that recipients file reports (financial and non-financial) within required timeframes as specified in the CA and ensure that these reports represent accurate results for the initiative.

5.4.1 Management Response

APD will work with regions to ensure consistent monitoring processes include timely and accurate submission of reporting requirements. A program manual will be developed by March 2004.

Final Reporting

The 2002 internal audit report observed instances where payments were released when the recipient had not complied with the reporting requirements of the previous fiscal year.



Management responded that for regional files, “regional checklists will include a verification that all reporting requirements for funding through PCH have been met.”.

The audit team noted two regionally-administered AWP files where proposals were processed by the Department in 2002-2003 when 2001-2002 reporting requirements had not been met. The audit team observed that there would be improved diligence if funding arrangements were only approved in instances where prior year funding was fully accounted for.

5.4.2 Recommendation

The Director, APD, ensure that new year proposals are not approved in instances when the Applicant has not met previous year AWP reporting requirements.

5.4.2 Management Response

APD will work with regions to establish consistent file review processes to ensure that new proposals are not approved in instances when the applicant has not met previous year AWP reporting requirements. A program manual will be developed by March 2004.

The audit team noted that in two of 10 files from the 2001-02 fiscal year, proposed initiatives were not completed as planned. In two other instances, despite requests from AWP following initiation of the follow-up audit, the recipient did not provide details of project results. The audit team noted that generally, information concerning the delivery of planned outputs was not included in program files and could not confirm whether Program personnel requested information surrounding planned deliverables. The audit team was therefore not able to determine whether the project was delivered as approved. This indicates a gap in the monitoring process as the files were closed regardless of information regarding the successful delivery of the initiative.

5.4.3 Recommendation

The Director, APD, investigate the circumstances surrounding the four funding arrangements where the possibility exists that funded initiatives were not completed as planned, and if required, conduct a recipient audit and proceed with recovery action where appropriate.

5.4.3 Management Response



APD will work with regions to investigate the four funding arrangements and to take appropriate follow-up action. Investigation will begin by July, 2003.

Expenditures Incurred Beyond Project Completion Date

TB Policy outlines the basic provisions to be included in CAs, one being “the effective date, the date of signing and the duration of the agreement”. The Guide further states that CAs may be amended for a number of reasons, such as amending the termination date. Such changes must include a note to file justifying a brief extension, along with the amended agreement. Agreements may not be amended retroactively.

The audit team noted in three of ten arrangements for 2001-2002, expenditures incurred beyond the project completion date and were considered eligible for reimbursement. In each case, the CA stated the project commencement and completion dates and that payments would be made “only in relation to activities conducted and expenditures incurred by the recipient during that period.”. In one instance there was a note to the file justifying the extension, however the CA was not amended. For the remaining two files, there was neither a note to the file nor an amended CA.

5.4.4 Recommendation

The Director, APD, examine the circumstances surrounding these three funding arrangements and consider the feasibility of conducting recipient audits to determine whether recovery action is required.

5.4.4 Management Response

APD will work with regions to investigate the three funding arrangements and to take appropriate follow-up action. A program manual will be developed by March 2004.

5.4.5 Recommendation

The Director, APD, implement program management practices that ensure that recipients do not receive funding for expenditures beyond the approved project completion date unless the CA has been appropriately amended.



5.4.5 Management Response

APD will work with regions to establish consistent monitoring processes that reflect program requirements and ensure that recipients do not receive funding for expenditures beyond the approved project completion date unless the CA has been appropriately amended. Investigation will begin by July 2003.

5.5 Expenditure of Public Funds

AWP provides funding to recipients for specific initiatives. 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 or short-term investments were less than the amount of deferred revenue, the deficiencies being \$36,000, \$44,000, \$76,000 and \$102,000 respectively. The audit team was not able to determine whether the amounts relate to AWP funding or from other public sources and has concluded that recipients may have utilized resources from public funding organizations for uses other than intended.

From the point of view of diligence, if during the assessment process, there is uncertainty as to whether the recipient has used funding for intended purposes, this risk should be managed through activities such as: requiring the recipient to manage the project 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 work with regions to develop risk assessments to be included in the file review , including the investigation of situations where uncertainties exist



prior to the approval of funding. Risk assessment criteria will be developed as part of a program manual to be completed by March 2004.

5.6 Training

Management responded to a recommendation in the 2002 internal audit report that the Program identified the need for training for AWP personnel, that the Program was examining options to provide necessary training and that the Branch had a team dedicated to supporting the initiative in the Branch and across regions. The audit team was informed that training has not been delivered.

During the follow-up audit, the audit team was provided with a draft training course outline. The audit team found that the outline was missing several key components, including: 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. 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 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. Specific training programs were developed and delivered in some of the regions, for example, a project development, implementation and evaluation workshop for Aboriginal women was delivered in Edmonton in March 2003 and a course on Outcomes Management for Community Groups was also delivered in the NWT in March 2003. A proposal writing workshop will be held in Saskatoon of Aboriginal women from organizations from across Canada in June 2003 in conjunction with a Dialogue Circle which is part of the AWP evaluation.

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). The content of the training will address the observations in the follow-up audit. 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 a contribution arrangement between the Department and a recipient. The 2002 audit report observed that recipient audits had not been conducted and a recommendation was made that the Program undertake recipient audits. In this respect, during fiscal year 2001-2002 the Program 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 audit team also noted that funding was provided to the recipient in 2002-2003, prior to the closure of the recipient audit.

For fiscal year 2002-2003, AWP has not conducted recipient audits for headquarters or regional funding arrangements for fiscal year 2001-2002. For 2002-2003, AWP program management has 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 prior to approval of funding for the subsequent fiscal year.



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 Department of Canadian Heritage Policy on the Audit of Transfer Payment Recipients which was approved in April 2003. As these were the first recipient audits of Aboriginal programs undertaken in a long time, it took some time to work with the recipients 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 AWP file in 2001-02. Three Recipient audits were initiated in 2003-03 including a regional file, however, these did not include an AWP file.

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. A recipient audit plan will be developed by September 2003.

5.8 Funding Mechanism

Program Ts & Cs allow the provision of funding through grant arrangements or through contribution arrangements. Many programs establish a threshold to determine the appropriate funding mechanism. Contributions are used when the element of risk is higher and the initiative can be more effectively managed according to specific clauses documented in a CA.

In their response to a recommendation in the 2002 internal audit report, APD management responded that the AWP policy requiring all funding initiatives greater than \$10,000 be funded as contributions needed to be re-addressed to determine the appropriateness of the threshold amount. APD has maintained that the \$10,000 threshold amount and funding arrangements up to \$10,000 could be funded as grants. The sample for this follow-up audit included five grant funding arrangements, two from 2001-2002 and three from 2002-2003. The following observations were noted:

- Three of the five initiatives were for amounts of \$10,000 or greater.
- Four of the five initiatives were to first time applicants to the Program where contribution funding may have been more appropriate.



The audit team concluded that as a result, the Program has not met its own policy requirements with respect to these arrangements.

5.8.1 Recommendation

The Director, APD, ensure that the grant versus contribution threshold is respected. All departures are to supported by a note of justification on the file by the Director, APD.

5.8.1 Management Response

A guideline has been established setting \$25,000 as the threshold for grants versus contributions. The guideline includes criteria, including risk factors to be considered, in the determination of the funding arrangement. Any departures will be supported by a note to the file authorized by the appropriate authority.



ANNEX A SUMMARY OF RECOMMENDATIONS AND LEVEL OF IMPLEMENTATION FROM THE 2002 INTERNAL AUDIT OF AWP

RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Recommendation Partially Met. This matter was corrected in 2002-2003. No further recommendation required. Definition included in the 2002-2003 guidelines, page 3. However, the description should state that events that occur each year, (Annual General Meetings) are also considered Core activities.</p> <p>There was core funding to one organization in 2001-2002, acknowledged by the Program Officer.</p> <p><i>Management update:</i> The core funding arrangement to the provincial organization in 2001-02 was approved by the National Review Committee based on the substantiation provided by the region. Core funding to the organization was subsequently discontinued.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program amend or re-write the current Ts&Cs to meet the requirements outlined in TB's Policy on Transfer Payments.</p>	<p>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.</p> <p>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.</p> <p>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</p>	<p>Recommendation Not Met. The evaluation of the Program is planned for completion by August, 2003. No further recommendation. A Results-based Management and Accountability Framework and the program evaluation were not completed at the time of the follow-up audit.</p> <p>The guidelines contained the requirement for applicants to provide information on the goals and objectives of the organization, planned activities, beneficiaries of these activities and the anticipated results and outcomes. However, with respect to planned outcomes, the guidelines did not contain sufficient detail to permit applicants to develop planned outcomes and criteria to measure success. Seven of the eight proposals contained only planned activities.</p> <p><i>Management Update:</i> RMAF will be completed as part of the comprehensive review of Aboriginal programs. The review will be completed by March 2005 in accordance with requirements of TB Transfer Payment Policy.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
	<p>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.</p> <p>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.</p> <p>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.</p>	<p>This was not done.</p> <p>Program officers have not been provided training. Refer to report, Recommendation 5.6.1</p> <p>Management update: Refer to Management Response 5.6.1</p>
<p>The Program develop one applicant guide that should be used in all Regions and Headquarters. The framework for the guide</p>	<p>The Program has developed a working committee to develop an interim Program Guide to be used by all regions and</p>	<p>Recommendation Partially Met. The audit team has provided recommended changes that have been discussed with Program personnel, therefore no further</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>should be based on the Program's Terms and Conditions.</p>	<p>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.</p>	<p>recommendation required. The guide was dated May 16, 2002 and is in "draft" format. The document remained in draft format until recently, the reason for the delay being the need to have it translated.</p> <p>Management update: While the guide was in "draft" format, program officers were advised to use the document until the final version was available</p>
<p>The Program ensure that:</p> <ul style="list-style-type: none"> 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. 	<p>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."</p>	<p>Recommendation Not Met. Refer to 5.1.4 of this report for further recommendation. Terms and Conditions have not been re-written.</p> <p>Management update: Ts&Cs will be renewed following a comprehensive review of all Aboriginal programs. The renewal will be completed by March 2005 in accordance with TB policy on Transfer Payments.</p>
<p>The Program ensure that cash flow documents submitted by Applicants reflect planned/anticipated revenues from all sources</p>	<p>Cash flow documents are assessed by program officers to ensure planned expenditures demonstrate a realistic timing of</p>	<p>Recommendation Partially Met. Refer to 5.3.1 and 5.6.1 for further recommendation. Training has not been provided to prospective applicants.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>and planned expenditures demonstrate a realistic timing of requirements.</p>	<p>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.</p> <p>To date, most regional funding has been provided as a grant and cash flow requirements are less stringent.</p> <p>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.</p> <p>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.</p> <p>At the regional level, groups are asked to provide all relevant information, including potential revenue sources and objectives. This</p>	<p>Management update: Refer to response for 5.3.1 and 5.6.1</p> <p>The audit team was informed that the \$10,000 limit was confirmed.</p> <p>The audit team noted that 3 of the 5 grant funding arrangements selected in the sample were for amounts greater than \$10,000. Refer to section 5.8.1 of this report for further recommendation.</p> <p>Management update: See management response to 5.8.1</p> <p>In seven files, cash flows were not present and as a consequence, program officers were not aware of the timing for the recipients' cash requirements. The practice was to make advance payments. Refer to section 5.3.1 of this report for further recommendation.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
	information will be included in the program guide that is being developed.	Management update: See management response to 5.3.1
The Program ensure that funding approval be granted to the most meritorious applications and consider implementation of panel assessment processes in all Regions.	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.	Recommendation Partially Met. Refer to 5.1.8 of this report for further recommendation. The results of regional panel assessments were not present in three files. Management update: In most cases, files are not approved on a competitive basis due to the limited number of applications. Panel assessment may not be the most appropriate mechanism. APD will work with regions to develop appropriate review process.
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.	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.	Recommendation Met The audit team did not note any instances where the amount awarded was less than 80% of the amount requested by the applicant. Amounts awarded did not exceed the requested amount.
The Program ensure that:	At the national level, changes were made for	Recommendation Partially Met. Refer to



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>a. Recipients file reports (financial and non-financial) within required timeframes; and</p> <p>b. the reports are accurate and that costs have been incurred in accordance with the approved funding budget.</p>	<p>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).</p> <p>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.</p>	<p>5.4.1 of this report for further recommendation. In four files, final reports were not received within the timeframe called for in the CAs.</p> <p>Recommendation Partially Met. Refer to 5.4.1 of this report for further recommendation. With respect to accuracy of final reports, the audit team noted:</p> <ul style="list-style-type: none"> ▶ five instances where the financial report indicated a \$0 surplus/deficit, which is unlikely for a project initiative. ▶ one instance where actual costs for a particular expenditure category exceeded 15% of the budgeted amount and authorization was not sought by the recipient and therefore not provided by the program officer. <p>Management update: See management response to 5.4.1</p>
<p>The Program ensure that, when called for, Recipients make re-payments of surplus funding.</p>	<p>Ts&Cs allow for deferral of surpluses to future periods for operational funding.</p> <p>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</p>	<p>Recommendation Met Management's response is correct.</p> <p>The audit team did not note any instances where surpluses were realized by the recipient.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
	<p>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.</p> <p>Recovery of surplus funding not required for grants.</p>	
<p>The Sector ensure that payments are withheld in instances where a Recipient has not met previous years' reporting requirements.</p>	<p>At the national level, a checklist is attached to each file outlining the requirements for each payment. Reporting obligations for APD and other departmental programs will be verified prior to processing payments. This information is easily available through GCIMS.</p> <p>At the regional level, regional checklists will include a verification that all reporting requirements for funding through PCH have been met.</p>	<p>Recommendation Not Met. Refer to 5.4.2 of this report for further recommendation.</p> <p>The audit team noted three instances where recipients had not met reporting requirements pursuant to 2001-2002 funding arrangements, yet funding was awarded in 2002-2003.</p> <p>Management update: See Management response 5.4.2</p>
<p>The Program ensure that reports and other materials supplied by Recipients are thoroughly reviewed and evidence of review is contained in the files.</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 program officers, tabs, highlighting etc. will also be provided to reflect the review of the file.</p>	<p>Recommendation Met Evidence of review of documentation provided by recipients was present in all files.</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>The Program:</p> <p>Create "permanent" files for each Recipient including all necessary organizational data. Recipients should be required to provide amended documentation as changes occur; and</p> <p>Ensure that Applicants provide annual financial statements from the previous fiscal year. Consideration should be given to the following:</p> <ul style="list-style-type: none"> ▶ 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. 	<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 data each year, they are requested to confirm that there have been no changes over the past year.</p> <p>A. 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</p> <p>b. 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.</p>	<p>Recommendation Met</p> <p>Recommendation Met Requirement was met.</p> <p>Recommendation Met. The audit team is not aware if the threshold was set.</p> <p><i>Management update:</i> This report indicates “ The audit team was informed that the \$10,000 limit was confirmed.”</p>
<p>The Program undertake audits on behalf of the Minister to ensure</p>	<p>The Audit and Evaluation Plan for 2001-2002 includes 6 recipient audits for the Aboriginal</p>	<p>Recommendation Partially Met. Refer to 5.7.1 for further recommendation. One audit was conducted for a 2000-2001 funding</p>



RECOMMENDATION	MANAGEMENT RESPONSE	STATUS
<p>Recipients' compliance with the financial obligations of the Contribution Agreement.</p>	<p>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.</p>	<p>arrangement. Management update: See management response 5.7.1</p>
<p>The Program ensure that a process exists whereby initiatives undertaken by one Region or Headquarters are "shared" with all Program personnel.</p>	<p>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.</p>	<p>Recommendation Met The audit team noted that communications have taken place.</p>