



Canadian
Heritage

Patrimoine
canadien

AUDIT OF PCH SINGLE RECIPIENT CONTRIBUTION PROGRAMS

SUMMARY OF FINDINGS

Canadian Museum Association (CMA)

FINAL REPORT

May 28, 2003

Department of Canadian Heritage
Corporate Review Branch
Assurance Services

Canada[®]



TABLE OF CONTENTS

1.0	BACKGROUND	1
2.0	OBJECTIVE	1
3.0	SCOPE	2
4.0	METHODOLOGY	2
5.0	CONCLUSIONS	3
6.0	OBSERVATIONS AND RECOMMENDATIONS	4
6.1	Use of a Single Recipient Contribution Program	4
6.2	Opportunities for Improving the Management of the Program	4
6.3	Reliability of the Information Used for Decision Making	8
6.4	Effectiveness of Management Controls and the Risk Management Framework	9
6.5	Program Outcomes and Results	11
6.6	Advisability of Joint Audits with Other Government Departments	12



1.0 BACKGROUND

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

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

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

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

2.0 OBJECTIVE

The overall objective of the audit was to provide Departmental senior management with:

- information on the criteria used for selection and determination of six single recipient programs and their compliance with the intent of the transfer payment



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

Areas that were addressed included:

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

3.0 SCOPE

Over the years and for a variety of reasons, Canadian Heritage (PCH) has established a number of contribution programs, each of which has only one recipient. One of them is with the Canadian Museums Association (CMA) which was founded in 1947 and represents approximately 2,000 individuals and 600 member institutions. The Association functions as the principal point of contact between the federal government and the Canadian museum sector. It has collaborated with Canadian Heritage over a number of years on the realization of many objectives.

Funding has been provided for the CMA's ongoing activities by Canadian Heritage and predecessor departments since 1974-1975. In addition to this sustaining support, project funding has also been provided by Canadian Heritage for initiatives under the terms of the Museums Assistance Program and other programs. The sustaining funding is used to support communications, professional development and standards, and membership services and administration.

This report specifically addresses the audit findings related to the contribution agreement between the Canadian Museums Association and Canadian Heritage. The audit considered how the contribution agreements that were in place for 2000-2001 and 2001-2002 fiscal years, were managed.



4.0 METHODOLOGY

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

- the requirements of the October 1996 and June 2000 Treasury Board Secretariat *Policy on Transfer Payments*¹.
- the approved terms and conditions for the contribution;
- the contribution agreement between Canadian Heritage and the recipient; and
- attributes of a well managed contribution program as defined by the Office of the Auditor General.

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

- review of the documentation that authorized the establishment of the contribution agreement between PCH and the CMA;
- review of the contribution agreements between PCH and CMA for the period April 1, 2000 to March 31, 2001 and April 1, 2001 to March 31, 2002;
- review of internal approval documents and briefing notes associated with the contribution agreement;
- review of financial reports and activity reports submitted to PCH by the CMA during the 2000-2001 and 2001-2002 fiscal years;
- review of *Grants and Contributions Approval and Payment Form* and supporting documentation for payments made to the CMA during the 2000-2001 and 2001-2002 fiscal years;
- a review of the CMA's books and records supporting the costs submitted to PCH for reimbursement; and
- discussions with the CMA's Business Manager.

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

¹The revised policy was effective June 1, 2000. It replaced the Policy dated October 15, 1996 and the Policy on Repayable Contributions. The approved terms and conditions for existing transfer payment programs continue to apply until the earlier of their expiry date or March 31, 2005, at which point Departments must obtain Treasury Board approval to replace or renew such terms and conditions. An Information Notice issued by TBS June 1, 2000 indicated that only transfer payment agreements signed after August 31, 2000 had to reflect the changes in the policy.



5.0 CONCLUSIONS

We offer the opinion that:

- the contribution agreement between the Canadian Museums Association and PCH is generally in compliance with the requirements of the approved program Terms and Conditions and the *Policy on Transfer Payments* that was in effect at the time the agreement was signed except with respect to the frequency of payments;
- several opportunities exist for improving the management of the program;
- there are significant limitations in the information currently used for decision making;
- opportunities exist to strengthen the management controls and risk management framework associated with this contribution program in both PCH and the CMA;
- well-defined program outcomes and results need to be developed so that program management can better focus attention on results achievement, measure performance regularly and objectively, learn from this information and adjust to improve efficiency and effectiveness; and
- while opportunities for joint audits with other government departments are limited, PCH has several other contribution agreements with the CMA that should be considered for a combined audit.

6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Use of a Single Recipient Contribution Program

Funding has been provided to the Canadian Museums Association in the form of a contribution for its ongoing operations since at least the 1993-1994 fiscal year. The original terms and conditions for the contribution were approved as part of the 1993-1994 Multi-Year Operational Plan and were then renewed in 1999.

Because of the loss of corporate memory over the past decade as a result of the restructuring of departments leading to the creation of the Department of Canadian Heritage and the significant number of retirements that were encouraged through early retirement incentive programs, it is not possible to determine the specific factors that were taken into account when it was determined that a single recipient contribution program should be established for the CMA's ongoing operations. There is no question that over the past decade, there has been an increasing utilization of contributions for transfer payments rather than grants across all federal government departments because of the greater accountability for how the funds were spent.



6.2 Opportunities for Improving the Management of the Program

During the period audited, two contribution agreements were in place. Significant changes were made in the agreement for the 2001-2002 fiscal year in comparison to the one that had been in place for 2000-2001. These changes served to bring the contribution agreement with the CMA more in line with the requirements of the 2000 Policy on Transfer Payments. Several differences, however, were noted between the requirements of the 2000 policy and the contribution agreement for 2001-2002. The key difference was related to the payment terms.

In both agreements examined, a significant portion of the contribution was payable (75% or 90%) upon signing of the agreement with the balance based on the receipt of an activity report and a financial statement. The approved terms and conditions of the program indicated that payments including advances were to be made in accordance with the TB policy. Both the 1996 and 2000 *Policy on Transfer Payments* indicate that advance payments are to be avoided and that progress payments should be made to reimburse the recipient for expenditures made. For a contribution between \$250,000 and \$500,000 which this one fell into, an advance for the first quarter followed by monthly payments is recommended. Both agreements were signed very late in the fiscal year (January or February) which may have contributed to the very large amount of the first payment in relation to the total amount payable. The 2000 Policy recommends that the first payment in an agreement of less than 4 months of the size given to the CMA should be at most, 50% of the total amount payable. The payment terms utilized were consistent with those of grant programs rather than contribution programs.

Both agreements also required that the CMA recognize the financial support provided by the federal government in all public announcements, press releases, and publicity. For those costs that are potentially eligible under the terms of this contribution agreement, PCH provides approximately 40% of the funding required by the CMA. No acknowledgement of this funding was found in CMA publications. Two of the CMA's publications that are funded by PCH include an acknowledgement of funding from the Museums Assistance Program to support CMA programs. While the internal PCH approval documents refer to this contribution as being part of MAP, it is not as it has different terms and conditions. The 2001-2002 contribution agreement calls this single contribution program the "Canadian Museums Association Sustaining Support Program."

Recommendations

It is recommended that the Director, Heritage Programs Directorate

6.2.1 ensure that the requirements of the *Policy on Transfer Payments* are



followed and reflected in any contribution agreement with the CMA and that where exceptions are required, that the necessary approvals are obtained; and

- 6.2.2 ensure that the proper recognition be given to the funding provided to the CMA by PCH for the Canadian Museums Association Sustaining Support Program.

Management Responses

- 6.2.1 The Director, Heritage Programs Directorate, will ensure that the requirements of the *Policy on Transfer Payments* are followed and reflected in the 2003-04 contribution agreement with the CMA. Where exceptions are required, the necessary approvals will be obtained.

- 6.2.2 The Director, Heritage Programs Directorate, will ensure that proper recognition be given to the funding provided to the CMA by PCH through precisions included in the 2003-04 contribution agreement for the Canadian Museums Association Sustaining Support Program.

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

- ***projects make sense for the applicant to carry out and for this program to fund.*** The application from the CMA for funding simply provides its total budget and plans for the year. The covering letter indicates that the funding is required to improve the “effectiveness and efficiency of key programs and services provided to the museum community in the areas of communications, training, professional development, membership services and administration.” The submission did not make it clear how the funding would be used to achieve this. The internal Project Detail Report repeats the information provided by the CMA and includes activities that are not funded by the contribution agreement. Without this kind of detailed information, PCH could not know exactly what it was funding and what will be achieved by expending the money.
- ***funding used for the purposes agreed.*** In the 2000-2001 agreement, the CMA could essentially use the money however they wanted to. Funding was targeted



towards three areas: communications, professional development and standards, and membership services and administration. The CMA, however, could transfer funds between the categories and between items within a category of expenditures as they saw fit. In the 2001-2002 agreement, eligible costs were defined as being the direct costs, in the same three general areas. Specific budgets for each of the three areas of activity were also set out.

The audit found no evidence that the Cultural Property Directorate has ever requested information at a level of detail that would enable it to determine if all the claimed costs were in fact eligible. The examination of the CMA's supporting documentation found that a significant portion of the costs claimed during 2001-2002 were allocated overhead costs from the membership services and administration area to other eligible activities, rather than direct costs². There was no provision in the contribution agreement for reallocating funds to other activities. Contribution agreements for other programs frequently set out a framework for reallocating funding to different activities. For relatively small amounts, PCH only needs to be advised. Above some threshold, PCH must approve the reallocation in advance.

Further, a significant amount of the costs attributed to professional development and standards were for the salaries of staff who were administering the Young Canada Works programs and other contribution programs with PCH, Foreign Affairs and International Trade and Human Resources Development Canada. These, too, do not appear to meet the definition of eligible costs as set out in the contribution agreement.

- **management has a good knowledge of program performance.** The CMA provided PCH with the required information as set out in the contribution agreement—periodic activity reports and financial statements. This information was designed to meet the requirements of the CMA's membership, not Canadian Heritage. It covered all of the CMA's activities and was for a fiscal year ending January 31st. It did not identify what the CMA had achieved with respect to identified activities for each of the three broad areas that are funded by PCH. Without a report that provides information against the activities set out in the contribution agreement and for the same time frame, it is difficult for management to have a good knowledge of program performance.

²The Society of Management Accountants of Ontario's *Management Accountants Handbook* defines a direct cost as one that "can uniquely and unequivocally be assigned to a single cost object."



Recommendations

It is recommended that the Director, Heritage Programs Directorate:

- 6.2.3 ensure that more detailed information is provided by the CMA on how the funding from PCH will be utilized and what will be achieved;
- 6.2.4 ensure that the contribution agreement describe under what circumstances funds can be reallocated from one activity to another including what approvals may be required in advance from PCH;
- 6.2.5 ensure that the CMA provide activity reports that detail what has been achieved for each of the funded activities during the period covered by the contribution agreement; and
- 6.2.6 ensure that financial reports that are in sufficient detail to enable program staff to assess the eligibility of the claimed expenses are provided by the CMA for a fiscal period that corresponds to that of the contribution agreement.

Management Responses

- 6.2.3 The Director, Heritage Programs Directorate, will ensure that further detailed information regarding the utilization of PCH funding and its resulting achievements is provided by the CMA and included in the 2003-04 contribution agreement.
- 6.2.4 The Director, Heritage Programs Directorate, will ensure that the 2003-04 contribution agreement clearly indicates the circumstances under which funding reallocation from one activity to another can occur, and include the advance approvals required from PCH.
- 6.2.5 The Director, Heritage Programs Directorate, will ensure that the CMA provide activity reports with detailed achievements for each of the funded activities during the period covered by the contribution agreement.
- 6.2.6 The Director, Heritage Programs Directorate, will ensure that financial reports are in sufficient detail to enable program staff to assess the eligibility of the claimed expenses provided by the CMA for a fiscal period that corresponds to that of the contribution agreement.

6.3 Reliability of the Information Used for Decision Making



Under the terms of the contribution agreement, the CMA was required to provide:

- in 2000-2001, a final activity report and a final financial statement prepared by the Recipient and duly signed by two members of the Recipient's Board of Directors. Consolidated audited financial statements were required upon request, within five months of the end of the CMA's fiscal year; and
- in 2001-2002, an interim activity report, final detailed report on the funded activities and final audited financial statements within six months after the CMA's fiscal year end.

All of the requirements for 2000-2001 were met. For 2001-2002, no interim activity report was found in the PCH program files and the CMA advised the audit team that one had not been prepared. The annual report submitted was the same as what was provided to the CMA's membership prior to its annual meeting and did not specifically address the funded activities. The final audited statements were prepared and provided.

As already noted, the requested information is not sufficiently detailed for PCH to carry out its due diligence responsibilities as set out in the memo to Senior Financial Officers/Senior Full-Time Financial Officers March 9, 2001 regarding *Policy on Transfer Payments-Implementation Issues and Clarification* especially with respect to financial integrity. While audited financial statements provide an indication of an organization's financial well-being, they are insufficient to provide assurance that funds have been spent for the intended purposes. Furthermore, the CMA's financial year is different than the federal government's so PCH has no information on the amount of the eligible costs incurred during the period April 1 to March 31st because it did not request it.

The contribution agreement has set out what activities are eligible. The CMA carries out other, unfunded activities which they record under the same headings as identified in the contribution agreement. For example, in the audit team's examination of the CMA's supporting records it was determined that a significant amount of the expenses recorded against Professional Development and Standards were covering the salary costs of staff members who were administering other contribution programs including the Young Canada Works program and thus were ineligible for funding under this agreement. Furthermore, part of the salary of the Executive Director and Business Manager were allocated to this category notwithstanding a contribution agreement that indicated that only "direct" costs were eligible. No rationale for the amount allocated was provided to the audit team by the CMA.

The implementation of the already identified opportunities for improving the management of the program should serve to also enhance the reliability of the information used for decision making purposes.



6.4 Effectiveness of Management Controls and the Risk Management Framework

The current terms and conditions for this program were approved in July 1999 and thus it has yet to come under the requirements of the 2000 *Policy on Transfer Payments* and the requirement for the preparation of a Risk-based Audit Framework (RBAF). No RBAF was found in the program files for this contribution program.

The review of the program files for the past several years by the audit team showed that increasingly more structure was applied to the administration of the program by PCH. A number of internal reports were prepared during 2001-2002 including a *Project Detail Report*, and a *Client Funding History*. Further, the request for payments have been subject to enhanced monitoring prior to payment. As already noted, the *Project Detail Report* had limitations and was not well aligned with the activities actually funded by PCH. The enhanced monitoring simply focussed on the CMA's previous record for completing activities as required and compliance to the reporting requirements as set out in the contribution agreement which have already been noted as being inadequate. The management control framework as it was applied by PCH was insufficient to adequately address the potential risks.

While the Cultural Policy Directorate is not obligated to have a RBAF at this time for this program, the preparation of such a document would assist it in identifying the risks it needs to manage and appropriate strategies for mitigating the risks.

The CMA was found to have no procedures in place to meet any unique reporting requirements that might be required by Canadian Heritage. Several years ago, the CMA changed its fiscal year end from March 31st to January 31st to make it easier to prepare the necessary reports for its annual general meeting which it wished to hold in late April or early May each year. It also acquired new accounting software, ACCPAC, at approximately the same time. According to ACCPAC's web site, all versions of the software have a job costing module. The CMA has not acquired this module but rather has added additional accounts in its chart of accounts to facilitate limited project cost tracking.

The CMA simply claimed any expense that its Business Manager deemed eligible without reference to the specific requirements of the contribution agreement. The contribution agreement, for example, defines the eligible costs for the communications activity as the costs associated with the publication of a number of periodic publications and the ongoing development and maintenance of the CMA website. Included in the expenses for the CMA's fiscal year end were postage costs associated with distribution. From the CMA's perspective, it was reasonable to include the postage as part of its definition of a communications related expenditure but it was not, under the terms of its contribution agreement, an eligible expenditure for reimbursement from PCH.



A significant portion of the costs allocated to Professional Development and Standards in the CMA's fiscal year ending January 31, 2002 were overhead costs associated with a portion of the salary of the Executive Director and Business Manager, office rent, professional fees, office supplies, etc. which would seem to better fit the definition of Secretariat Administration which was covered under the activity Membership Services and Administration. Again, such a cost allocation may have been appropriate for the CMA's purposes to get a sense of the full cost of this activity, but it was inconsistent with the cost eligibility criteria as set out in the contribution agreement. The CMA's internal reporting requirements are not necessarily the same as its external reporting requirements for funding bodies such as PCH. Its internal processes must accommodate these different reporting requirements.

Recommendations

It is recommended that the Director, Heritage Programs Directorate should:

- 6.4.1 have an RBAF prepared for this program;**
- 6.4.2 conduct a recipient audit to determine if an overpayment has been made; and**
- 6.4.3 work with the CMA to identify the processes required to provide PCH with financial and activity information that is better aligned with what PCH funds.**

Management Responses

- 6.4.1 According to the *Policy on Transfer Payments*, an RBAF will be developed in 2003-2004.**
- 6.4.2 The Director, Heritage Programs Director, will conduct a recipient audit during the fiscal 2003-04 to determine if an overpayment has been made. Future contribution agreements will provide more precise information concerning eligible costs.**
- 6.4.3 The Director, Heritage Programs Directorate, will work with the CMA to identify the processes required to provide PCH with financial and activity information that is better aligned with PCH funding.**

6.5 Program Outcomes and Results

The contribution agreement had no well defined program outcomes and results.



The 2001-2002 agreement notes that the Minister is authorized “to enter into individually negotiated contribution agreements with the Applicant in support of its ongoing operations, in order to advance the objective of strengthening the federal government’s role in sustaining and sharing the excellence of Canada’s museum community, both for the benefit of this community and the people of Canada”. Other than some very limited reporting requirements as already described, there are no required program outcomes and results.

A comprehensive Results-based Management and Accountability Framework (RMAF) was not found in the program files. As the terms and conditions for the program were approved in 1999, it has not yet fallen under the requirements of the 2000 *Policy for Transfer Payments* and thus has not had to prepare a RMAF. As outlined in the management framework for the federal government, *Results for Canadians*, public service managers are expected to define strategic outcomes, continually focus attention on results achievement, measure performance regularly and objectively, learn from this information and adjust to improve efficiency and effectiveness. A RMAF would provide program management with a road map as to what information should be collected and how often.

Recommendation

It is recommended that the Director, Heritage Programs Directorate:

- 6.5.1 identify, in consultation with the CMA, measurable program outcomes and results for inclusion in the 2003-04 contribution agreement; and**
- 6.5.2 develop an RMAF by December 31, 2003 that would set out the framework for ongoing performance measurement of this program.**

Management Response

- 6.5.1 The Director, Heritage Programs Directorate, will identify in consultation with the CMA, measurable program outcomes and results.**
- 6.5.2 According to the Treasury Board Secretariat *Policy on Transfer Payments*, an RMAF will be developed.**

6.6 Advisability of Joint Audits with Other Government Departments

Approximately of the CMA’s revenues in its fiscal year ending January 31, 2002 came from the federal government in the form of contributions. Most of it was from Canadian Heritage for the Young Canada Works program but there was also funding made



available under the Museums Assistance Program in addition to the funding under this contribution agreement. There were also small amounts of funding from Foreign Affairs & International Trade (less than 5% of the total contributions) and Human Resources Development Canada (just over 1% of the total contribution).

As already noted in a previous report prepared for the Corporate Review Branch on the Museums Assistance Program, activities have been funded under MAP that one would have expected to have been part of the Canadian Museums Sustaining Support Program. The Grants and Contribution Directorate also identified this concern in its review of the agreement for 2001-2002. In the explanation provided by the program officer, a very fine distinction was made between the planned activities to be funded under MAP and what was historically part of the sustaining contribution, notwithstanding the description of the eligible activities in the approved program terms and conditions. There was no evidence found in the program file or the payment file of any discussion of these concerns beyond the program officer within the Cultural Properties Directorate and the Senior Financial Advisor within the Grants and Contributions Directorate.

Recommendations

6.6.1 It is recommended that the Director, Heritage Programs Directorate explore the feasibility of a recipient audit that would cover all the current contribution agreements between PCH and the CMA.

Management Responses

6.6.1 The Director, Heritage Programs Directorate, will explore the feasibility of a recipient audit that would cover all the current contribution agreements between PCH and the CMA in 2003-2004.