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CANADA MAGAZINE FUND POST-IMPLEMENTATION AUDIT REPORT

FEBRUARY 26, 2003

Canada



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EXECUTIVE SUMMARY

The Canada Magazine Fund (CMF) was officially launched in 2000 and is a key element of the Government's comprehensive policy in support of the Canadian magazine industry. The three funding components to the CMF provide support to: larger magazines for Canadian Editorial Content; smaller magazines for business development projects; and the industry associations for projects to support the Canadian magazine industry as a whole. The overall level of contributions was \$26 million in 2000-2001 and \$31 million in 2001-2002, the majority of which was in support of Canadian Editorial Content.

The audit team determined the CMF program exhibited many of the attributes of a well-managed program. Overall, the audit team found the CMF program has been well designed and employs effective management controls and risk management strategies. The implementation of the program was well planned in that Applicant's Guides were generally clear and complete, the attributes of the programs were widely communicated to the magazine industry, eliciting a high level of participation. The Support for Editorial Content (SEC) component was able to handle the volume of applications received but applicants to the Support for Business Development for Small Magazines (SBDSM) experienced delays of 6 to 12 months in receiving funding support for their projects.

File review instruments were found by the audit team to be consistently applied, and the files were complete and generally well organized, with key decision-making instruments positioned together. Program officers were diligent in gathering and assessing information to determine the eligibility of the application and in reviewing the interim and final reporting before advancing further funding over the course of the project.

In many respects, the SEC component appears to be managed as a grant program even though it was approved as a contribution program. Payments associated with the SEC component of the Canada Magazine Fund were paid at the end of the fiscal year as a lump sum amount with no holdback. This payment schedule does not meet the requirements of the June 2000 Treasury Board *Policy on Transfer Payments* in respect of the payment of an advance in one year for use by the recipient in the following year or in respect of the maximum advance of 90% with a minimum hold-back of 10% to be paid at the end of the agreement. The reporting requirements on the use of funds is also weak and is not being enforced.

The SBDSM and the Infrastructure components do not comply with their approved terms



and conditions requirement that funding be limited to projects that were incremental to the activities of the publisher or organization. Further, to ensure that the projects make sense, the applicant should be required to demonstrate the need for the project and that it will be sustainable into the future.

The CMF program should develop a risk- based strategy to undertake recipient audits that cover key eligibility criteria and compliance with the terms and conditions of the contribution agreement. The Program also needs policies and procedures on recovery of government funds where appropriate.



1.0 INTRODUCTION

The Canada Magazine Fund (CMF) was officially launched in 2000 and is a key element of the Government's comprehensive policy in support of the Canadian magazine industry. The Fund helps ensure that Canadian publishers continue to produce high-quality Canadian magazines that showcase the work of a cross-section of Canadian writers, photographers, illustrators and other creators. It also helps build industry capacity through support for business development of small magazines and for broad industry infrastructure projects.

The objectives of the CMF are to:

- foster the creation of Canadian editorial content in Canadian magazines;
- increase Canadians' access to Canadian magazines;
- enhance the quality and diversity of Canadian magazines; and
- strengthen the infrastructure of the Canadian magazine industry.

There are three separate components to the CMF:

- **Support for Editorial Content (SEC):** This component is designed to assist Canadian publishers maintain high levels of Canadian editorial content and allow eligible Canadian publishers to more effectively compete for revenues from the sale of advertising in their marketplace. Assistance is provided through formula-calculated funding based on publishers' investment in Canadian editorial content production. The fixed amount available on an annual basis is divided up amongst all eligible magazines based on a formula that gives a greater weight to expenditures below a certain level.
- **Support for Business Development for Small Magazines (SBDSM):** This component of the CMF is designed to assist in the development of stronger and more financially viable small publishing firms. It supports the growth of small circulation titles by investing in group and individual publisher projects that will increase circulation, advertising revenue and operational efficiencies. It is targeted at publishers with revenues of less than \$2 million and revenues for the applicant magazine of less than \$500,000.
- **Support for Infrastructure Development (Infrastructure):** This component of the CMF is designed to assist the industry as a whole to make the necessary transitional adjustments by providing funding to professional associations that undertake association-based projects in the areas of marketing, promotion, distribution, professional development and analysis of industry trends.



The amounts budgeted and expended for each of these components in fiscal years 2000-2001 and 2001-2002 are provided in Table 1 on the next page.

Table 1: Canada Magazine Fund, Contribution Budget and Actual Expenditures for 2000-2001 and 2001-2002

Grants and Contributions	Fiscal Year 2000 – 2001		Fiscal Year 2001 – 2002	
	Budget	Actual	Budget	Actual
Support for Editorial Content	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$25,000,000
Support for Business Development of Small Magazines	\$ 4,000,000	\$ 533,000	\$ 4,000,000	\$2,604,000
Support for Infrastructure Development	\$ 15,000,000	\$ 775,000	\$ 5,000,000	\$3,887,000
Total	\$ 44,000,000	\$ 26,308,000	\$ 34,000,000	\$31,491,000

The activity level within the CMF program was designed to increase over the first three years of the program but the level of funding was approved at a consistent level over the three years. Significant funding lapsed in the first year. Budgets were altered in the second year to reflect the actual requirements of the program.

2.0 OBJECTIVES

The overall objectives of this post-implementation audit are to provide:

- program management with information that can be used to improve the management of the CMF and the program's success in meeting its objectives, and;
- assurance that information for decision-making is reliable and that management controls and risk management strategies are effective.



3.0 SCOPE

The audit examined activities of the Canada Magazine Fund program for fiscal years 2000-2001 and 2001-2002. Audit work was conducted in February and March 2002 and examined the following:

- The approved terms and conditions and the requirements of the Treasury Board *Policy on Transfer Payments* were reflected in program design and implementation.
- Evidence of the 10 Attributes of a Well-Managed Contribution Program, as defined in the Auditor General of Canada's 1998 Report, Chapter 27, *Grants and Contributions* was demonstrated by the program. The attributes are:
 - selection of the appropriate funding mechanism;
 - program management at all levels can explain how recipients are expected to benefit from funding;
 - program officers understand who is eligible for funding, under what conditions, for what purposes, and in what amounts;
 - potential applicants are aware of the program;
 - projects makes sense for the applicant to carry out and for the program to fund;
 - more deserving projects are funded at an appropriate level;
 - funding is used for the purposes agreed;
 - problems with project and program performance are resolved quickly;
 - management reporting demonstrates a good knowledge of program performance; and
 - money owed to the government is collected.
- Operational policies, procedures and practices, including the administration of files (both approved and rejected), had appropriately addressed provisions of key elements of due diligence.
- Planning, organizing, controlling and communicating were effective and efficient.

The scope of this audit did not include testing of the information management systems used by the program; the measurement of results for the individual contribution agreements or the CMF component as a whole; or, the program's activities in gathering information on the industry.



4.0 APPROACH AND METHODOLOGY

The audit examined program design and implementation, due diligence and program processes. Information to support the audit conclusions was gathered through interviews with staff and management, review of program documentation including the Applicant's Guide and project assessment templates, and review of project files selected from the population of approved and rejected applications. Files were selected for review for each component of the program as outlined in the balance of this section.

SEC Component. Over 500 applications were received each year. The audit reviewed 47 approved and rejected SEC files covering the 2000-2001 and 2001-2002 fiscal years. The sample was selected on a targeted basis focusing on large dollar value contributions for the first year. Some of the large dollar value files were tracked into the second year to study the administration of the file from one year to the next. The remainder of the files were selected at random using the Excel random number generator. Dollar values of files in the second year were not known at the time of the sample selection. The distribution of files audited is provided in Table 2 on the next page.

Table 2: SEC Component: Summary of files reviewed

Type of File	Fiscal Year 2000-2001	Fiscal Year 2001-2002
Number of applications received by Canadian Heritage	515	557
Number of approved files reviewed	19	16
Dollar value of approved files reviewed	\$5,201,296	\$725,807 ¹
Number of rejected files reviewed	4	8
Total number of files reviewed	23	24

SBDSM Component. The audit reviewed 25 files that were assessed in the 2000-2001 and 2001-2002 fiscal years, and included both approved and rejected files. The sample was selected on a random basis using the Excel random number generator. The distribution of files audited is provided in Table 3 below.

Table 3: SBDSM Component: Summary of files reviewed

¹ The contribution values of the files for the current year were not known at the time the file sample was selected, so large dollar value contributions were not targeted.



Type of File	File status as of March 21, 2002	Number of Files reviewed
Total number of applications received by Canadian Heritage	232	25
Number of approved files	104	11
Number of files still under review	43	7
Number of withdrawn files	49	4
Number of ineligible files	35	3

Infrastructure Component. The audit reviewed 6 files that were approved in the 1999-2000, 2000-2001 and 2001-2002 fiscal years, and included both approved and pending files. The sample was selected judgmentally to cover some of the largest projects and a variety of applicants. The distribution of files audited is provided in Table 4 below.

Table 4: Infrastructure Component: Summary of files reviewed

Type of File	Number of Files
Total number of applications received by Canadian Heritage	44
Total number of files reviewed	6
Number of approved files	5
Number of files still under reviewed	1

The audit was conducted between February and March 2002 according to the standards identified in the Treasury Board, April 2001 *Policy on Internal Audit*.

5.0 CONCLUSIONS

The audit team determined the CMF program exhibited many of the attributes of a well-managed program but improvements should be made in the areas of: reporting on the use of the funds, assessment of whether the proposed projects meet a demonstrated need, are incremental and sustainable and collection of money owed to the government. The SEC component needs to be adjusted to be fully in compliance with the Treasury Board *Policy on Transfer Payments*. Overall, we found the CMF program has been well designed, and employs effective management controls and risk management strategies.



The audit team determined that the design of the program contained several key elements that contributed to the generally successful implementation of the program. These elements include client communication strategies, clear and complete Applicant's Guides, a well organized approach to implementing the program and diligent review of applications and documentation of decisions by staff. Notwithstanding these key elements, opportunities exist to improve the success of the program in meeting its objectives by requiring SBDSM and Infrastructure applicants to demonstrate that the proposed projects are incremental, sustainable, and meet a demonstrated need. The success of the SBDSM component of CMF has been impeded by slow processing of applications due to understaffing in the first year of operation.

There are opportunities to improve the reliability of information used to determine the eligibility of applicants by improving the information requested to substantiate Canadian Editorial Content for SEC and SBDSM applicants, requiring that claimed eligible editorial expenses for SEC be reconciled to the financial statements of the publisher, and, ensuring minimum levels of advertising are met by SBDSM applicants.

There are opportunities to improve the reliability of information used to determine that funding is used as intended by requiring more detailed reporting on SEC funding.

The effectiveness of management controls can be improved by restricting SEC funding to 40% of eligible expenses as set out in the terms and conditions of the program and by advancing the funding according to the requirements of the Treasury Board *Policy on Transfer Payments*.

Effective risk management strategies such as staff training, standardized assessment forms and clear criteria for eligibility have been implemented. Risk management strategies may be improved by developing and implementing a risk-based audit strategy for recipients, which includes an audit of eligibility criteria and of the use of funding, establishing procedures to track and recover overpayments, and ensuring that all obligations under previous contribution agreements have been met before entering into subsequent agreements.



6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 General

Treasury Board Requirements for RMAF and RBAF

The *Results-based Management and Accountability Framework* (RMAF) was completed in July 2001 and is comprehensive. The RMAF describes clear roles and responsibilities, ensures clear and logical design that ties resources to expected outcomes, appropriate performance measures and sound performance measurement strategies to ensure adequate reporting on outcomes.

The *Risk Assessment and Risk-based Audit Framework* (RBAF) identified three key risks to program delivery: insufficient aggregate data on the industry, adverse reaction of applicants who did not receive funding approval and workforce issues in staffing the program on a timely basis. The risks identified in the Risk Assessment included in the Risk-based Audit Framework are being addressed in the organizational structure and controls of the program, except for staffing within the infrastructure program and development of a risk-based audit strategy for contribution audits of recipients.

While the CMF program has undertaken audits of contribution recipients, they have not yet developed an risk-based audit strategy to identify an appropriate number and selection criteria for audits.

The Infrastructure component is still at risk regarding staffing because all but one Infrastructure file is administered by the same program officer, creating a concern for continuity if this individual leaves the program.

Recommendation # 1:

The Director of the Canada Magazine Fund ensure a risk-based audit strategy for the audit of contribution recipients is developed and implemented. The scope of these audits should include all key eligibility criteria as well as financial reporting and completion of deliverables.

Management Response:

The CMF has conducted a number of audits as part of ongoing program management: six for SEC and two for SBDSM. An audit strategy for all components



of the program has been prepared and approved by the Director. The terms of reference for the auditors are under development and discussions with auditors have begun.

The risk-based audit framework takes into account certain factors in determining which recipients are recommended for a contribution audit. Among these are:

- amount of the contribution (low risk; higher risk);
- multi-year contribution (more than \$30,000);
- general uncertainties (e.g., questions about Canadian editorial content; financial situation of the client);
- type of project;
- regional representation;
- good final activity report (impact of the project);
- reconciling expenditures with contribution agreement.

The strategy was developed during the summer of 2002 and will be fully implemented by the end of this fiscal year (March 2003). The strategy for 2003-2004 is also in development.

Recommendation #2:

The Director of the Canada Magazine Fund ensure that several staff have experience with the Infrastructure component to provide for continuity and corporate memory.

Management Response:

The Infrastructure component now has an additional one and a half program officers, for a total of two and a half, as well as an administrative support person. The current officers are writing procedures to ensure corporate memory and are planning to review and update the guide as required. We are committed to completing the procedures by end of December 2002 and revising the guide by the end of the 2003-2004 fiscal year.

Program Demonstrated Many Attributes of a Well-Managed Contribution Program

The audit found that the CMF program demonstrates many of the attributes of a well-managed contribution program as defined by the Auditor General. Program strengths include:



- Program management at all levels can explain how recipients are expected to benefit from funding;
- Program officers understand who is eligible for funding, under what conditions, for what purposes, and in what amounts. Parameters were documented in the Applicant's Guide and are transparent to applicants, with the exception of the definition of a newspaper and funding for web site content which are discussed in Section 6.2, *Application and Eligibility*, of this report.
- Potential applicants are aware of the program. The Department has communicated the parameters of the CMF program through their web site and through 18 information sessions across Canada to about 2,500 magazines and 150 associations.
- Projects make sense for the applicant to carry out and for the program to fund. The SEC component is not project-based, but rather is designed to provide broad support for Canadian content across the Canadian magazine industry. The SBDSM and Infrastructure components are project-based and the types of projects funded are intended to strengthen small publishers and the industry as a whole.
- More deserving projects are funded at an appropriate level. The available SEC funding is allocated based on a ratio of an eligible magazine's eligible editorial expenditures in comparison to the total eligible editorial expenditures for all eligible applicants. The funding formula includes increased weighting of the eligible expenditures of smaller magazines but overall the magazines with higher eligible expenditures receive more funding.
- Problems with project and program performance, for the most part, are resolved quickly. A detailed examination of program delivery time-frames was conducted during file review and program delivery time-frames were found to be reasonable, with the exception of SBDSM where approvals and funding have taken 6 months to a year from the application deadlines.

Several aspects of the program were not demonstrated as strongly as could be for a well-managed contribution program as defined by the Auditor General. These aspects, which are addressed later in this report, include:

- Funding is used for the purposes agreed;
- Management reporting demonstrates a good knowledge of program performance; and
- Money owed to the government is collected.



6.2 Application and Eligibility

Canadian Editorial Content

The approved terms and conditions for SEC and SBDSM indicate eligible magazines should contain no less than 80% Canadian content. The audit found that quantification of Canadian Editorial Content for the SEC component was reliant on the publisher marking relevant articles and photographs in the sample magazines submitted with their application. Publishers were not required to provide information on the authors or content to establish that it, in fact, met the definition of Canadian content. Further, the program officers had no tools such as a database of freelance Canadian writers and photographers that they could use to assist in confirming Canadian content.

Although independent verification by program officers of whether the articles and photographs had been accurately represented as Canadian Content was not always possible, many of the applications reviewed had “notes to file” and changes to Canadian Editorial Content percentages in the assessment because the program officers discovered anomalies in the labeling assigned by publishers.

The application criteria for the SBDSM component did not require applicants to provide sample issues of their publication marked to identify which content they claimed as Canadian. This left program officers with insufficient information to assess whether the claimed Canadian Editorial Content was accurate.

Although the level of Canadian Editorial Content is a key criterion for eligibility, the recipient audits conducted for SEC and SBDSM did not review the claims made for Canadian Editorial Content.

Recommendation # 3:

The Director of the Canada Magazine Fund consider expanding information requested from applicants so that sufficient information (such as the name and address of writers, photographers and artists contributing to sample issues) is available to objectively assess Canadian Editorial Content in magazines.

Management Response:

Canadian magazines in general contain a high level of Canadian editorial content. Certain genres of Canadian magazines, however, such as scholarly and arts/literary magazines, sometimes contain more foreign content. Because of what we



understand about the Canadian magazine industry, we take a risk-based approach to the auditing of Canadian editorial content and pay special attention to the kind of magazines that tend towards a lower level of Canadian editorial content. As an additional measure, Canadian content will form part of the audit recommendations (see recommendation #5).

We believe that we are provided with sufficient information in order to verify the level of Canadian editorial content. The existing assessment tool provides for a physical examination of the magazine, including names and biographies of contributors. If Canadian editorial content is close to 80%, publishers are asked to mark all the issues for the year, specifically identifying Canadian content. This year, we are requesting that publishers identify photographs, illustrations and text separately. If there are any doubts about the level of Canadian editorial content, or if the attestation does not seem to match what is observed in the content, the officer contacts the magazine during the assessment phase and requests further explanation. Officers routinely request more information if included photographs are clearly not taken in Canada. All of these practices are over and above the signed attestations of publishers, which, according to legal advice received during the design phase of the CMF, was considered sufficient.

Recommendation # 4:

The Director of the Canada Magazine Fund consider establishing tools and mechanisms to enhance objectivity in assessing Canadian editorial content in magazines.

Management Response:

We believe that our assessment tool and procedures work well to identify Canadian editorial content. The Risk-Based Audit Framework (RBAF) provides a comprehensive system to identify Canadian editorial content which does not place too onerous a burden on small Canadian magazines, but addresses the requirement for the program to be duly diligent. As part of our regular practice, we will develop tools as questions arise, with the assistance of Research, Analysis and Compliance, and Legal Services.

Recommendation # 5:

The Director of the Canada Magazine Fund consider including an audit of Canadian Editorial Content as part of the audit of recipients under the SEC and SBDSM components.



Management Response:

As described above (Recommendation #3), we are taking a risk-based approach to the auditing of Canadian editorial content. An audit of Canadian editorial content could arise in one of two ways: because questions during the assessment phase result in a recommendation for audit; or because the file is chosen as part of the risk-based audit strategy. In the latter case, the audit of Canadian editorial content would not be a standard feature of all audits, but would be recommended under the category “general uncertainties.”

Definition of a Magazine

A new process for differentiating between magazines and newspapers was introduced to the CMF program for 2001 – 2002. The SEC Applicant’s Guide for 2001 – 2002 indicated that newspapers were ineligible for funding, but did not explain the new criteria for determining whether a publication was a “newspaper” as defined by the Department. One publication which was approved for over \$400,000 of funding in the first year of the program was rejected in the second year because it was categorized as a newspaper. This inconsistency puts the Department at risk with respect to demonstrating a clear mandate for the program and transparency regarding implementation of eligibility criteria. According to the new screening tool, if the rejected publication had been bound with one staple or if it had the word “magazine” in its title, it would have qualified as a magazine and been considered eligible for funding. If these criteria had been communicated to the publication it might have been possible for the publication to adjust to meet the new definition and qualify for funding, without changing newsprint format, layout, frequency of publication, themes, editorial content, advertisers, or market niche.

Recommendation # 6:

The Director of the Canada Magazine Fund ensure the introduction of new program eligibility criteria is clear and clearly communicated, including the rationale, to all applicants on a timely basis.

Management Response:



Changes were made to definitions in consultation with industry representatives and posted on the Departmental website, in addition to being sent to all clients by e-mail. Refined definitions can be found under the “What’s New / Additional Definitions” section of the CMF website. With respect to the “newspaper” definition cited in the discussion preceding Recommendation #6, the new definition of “newspaper” was included in the most recent Applicant’s Guide. New procedures, such as e-mail contact, letters and the use of the departmental website, have been established to ensure that the CMF client base is informed in a timely manner of any significant changes in eligibility.

Eligibility of Web Site Projects

While the addition of content to a magazine’s web site could be considered to meet the Canada Magazine Fund objective of increasing Canadians’ access to Canadian magazines, it does not clearly fit within the objectives of the SBDSM component or into any of the Eligible Projects outlined in the Applicant’s Guide. Six of the eighteen projects (approved or under review) in the audit sample included web site enhancements that did not clearly fit in any of the categories of Eligible Projects included in the Applicant’s Guide. If program management considers this type of project to fit within the program, it should be clearly included in the Applicant’s Guide as an Eligible Project so that all applicants are aware that web site content will be funded. Program staff would then have criteria to evaluate this type of proposal. Otherwise, program staff should be given clear guidelines that only web site projects that fit within the existing Eligible Projects should be approved.

Recommendation # 7:

The Director of the Canada Magazine Fund either clearly define additions to web site content as an Eligible Project under SBDSM (add to Applicant’s Guide and provide criteria to staff) or provide staff with clear guidelines to exclude additions to web site content from approved projects.

Management Response:

The new guide for the Business Development for Small Magazine Publishers component (now called Support for Business Development for Small Magazine Publishers) includes examples of eligible costs associated with eligible projects in the areas of market research, advertising, circulation and editorial and design. Update of website (e.g., online subscriptions) is an eligible expense in the context of an eligible project, whereas costs related to the creation of a web site are considered ineligible expenses.



The Program contends that many web site enhancement projects are explicitly for the purposes of promotion and marketing and/or to promote improved distribution. As such, they are certainly eligible under the Program.

All web site enhancements that have been funded to date were clearly part of eligible projects. Web site enhancements may represent an eligible expenditure in a context where it's an appropriate strategy for an eligible project. For example, if the project is to increase the number of subscriptions, the web site may need to be enhanced to facilitate online subscriptions. All web site enhancements funded through the CMF were in the context of projects that sought to increase advertising or circulation figures.

The decision was made during the design of the CMF not to fund the creation or launch of web sites as projects under BDSMP. The reference tool in our assessment process allows officers to determine if additions to existing website are eligible expenses or not.

Projects Should be Incremental to Existing Activities

The approved terms and conditions for SBDSM require projects to normally represent activities above and beyond the publisher's regular activities. The Applicant's Guide does not require applicants to demonstrate how the proposed project was incremental to the previous activities of the magazine. Several of the files reviewed included approval of project components that were either clearly not or likely not incremental to the existing operations of the magazine. For instance, while some applications requested assistance to participate in trade shows, no information was provided as to whether the magazine had been promoted at these trade shows in the past. Assistance has been provided to print and insert subscription cards in a magazine that had similar subscription cards in the sample editions included in the application. In another case, assistance was provided for a new column but the column was already included in the magazine editions submitted with the application.

Recommendation # 8:

The Director of the Canada Magazine Fund revise the eligible project criteria and processing to include a demonstration that the proposed SBDSM project is incremental to the existing operation of the magazine.



Management Response:

These enhancements can be a strengthening of those activities to complement existing plans. The guide clearly identifies eligible and ineligible expenses for a project, clearly stating that ineligible expenses include:

- ongoing operating costs of the magazine;
- occupancy costs;
- ongoing production costs of the magazine; and
- salaries/benefits and overhead costs not directly related to the project.

The program does consider incrementality in its assessment of projects. As part of regular analysis of a file, the officer must ensure that there is an added value for any subsequent activity and this value must be supported by market research. For example, in terms of subscription campaigns, the list used should be different from a standard list used for previous campaigns. Some of the projects might appear to be activities that magazines carry out as a matter of course but the reality for many small magazines is that they cannot afford to undertake market research or development of a media kit. It makes good business sense to support these kinds of projects. In terms of attendance at events, trade shows, etc., we would fund subsequent attendance if there were demonstrable positive results from previous attendance. These kinds of projects are over and above the ongoing operations of certain magazines. We consider incremental activities as anything outside the business of publishing the magazine on a regular schedule.

Project Assessment Should Consider Incrementality, Sustainability and Demonstration of Need

The assessment of Infrastructure application did not consider whether the projects were incremental, sustainable, properly researched, or had budgets reflecting market rates for expenses. While all projects were assessed for consistency with program objectives, it was not always clear that the proposed projects made sense for the applicant to carry out and for the program to fund. In some cases, the proposed projects were very similar to the existing activities of the association. It was not clear that the Infrastructure program was funding incremental activities that could not otherwise be undertaken.

In other cases, such as support for the start-up of a quarterly professional development publication, the application did not show how the activities could be maintained once the fifteen-month project was completed. In both cases where support was provided to develop computerized management tools for publishers, the proposals failed to demonstrate that the need for such tools had been confirmed with the association



membership or that comparable tools were not already available in the market place. In one case, the approved budget for project management and administrative expenses included compensation rates for staff well above market salaries.

Recommendation # 9:

To ensure that funded projects make sense for the applicant to carry out and for the program to support, the Director of the Canada Magazine Fund revise the criteria for the assessment of proposals to consider whether the need for the project has been well researched, projects are incremental to existing activities of the organization and whether the project deliverables are sustainable by the organization at the conclusion of the project.

Management Response:

In the CMF's Terms and Conditions, the objectives of the Infrastructure Support Program are to "...provide services, training and development opportunities" to the industry. By their nature, some of these activities will be one-time events and, because infrastructure projects serve the industry as a whole, many are innovative and have yielded results. We do not believe that the Terms and Conditions demand that all projects must be shown to be sustainable after the conclusion of the project.

It should also be noted that of the six Infrastructure projects considered by the auditor. These projects did not have the benefit of a guide and the question of sustainability or the organization's capacity to carry out the project was not addressed as stringently as they would be in subsequent applications. In more recent files, the applicant has been questioned on and provided information about both sustainability and capacity.

Part of the current assessment is consideration of the organization's capacity to carry out the project. To this end, organization charts are requested, along with information about how much is paid to people working specifically on the project, what percentage of jobs go to the project's implementation and what percentage of this project makes up of total operations. In one case considered by the auditor, the CMF paid for a consultant to do an organizational review to determine if the applicant had the capacity to take on the project. A Memo to File was forwarded to Corporate Review, which approved the project. As the infrastructure component has matured, we increasingly use a more incremental approach.

The requirement for sustainability is included in the contribution agreement, where appropriate. Some projects are one-off activities and this requirement would not



apply. Instead of applying the concept of sustainability to all projects, the program requires that all applicants demonstrate in the results that they are managing efficiently and indicate how they are going to do this in the short term and the long term. Some applicants that have higher risk projects are reporting monthly. We want them to develop new ground, but we do manage the risk that this innovation entails.

It should also be noted that funding provided for Infrastructure projects passes through the funded association to the industry. The largest association, the CMPA, has not grown, but what they've provided to the industry has grown. Ongoing operations have not been funded under any Infrastructure project.

Criteria Needed for Level of Advertising

The approved terms and conditions for SBDSM indicate that eligible recipients should be advertising-reliant magazines. However, no minimum level of advertising content was included in the eligibility criteria provided in the Applicant's Guide. The extent to which the magazines are reliant on advertising is not being evaluated in determining eligible magazines for the SBDSM component. By comparison, the SEC component is also mandated to support advertising-reliant magazines and uses a minimum 10% advertising content to measure if a magazine is advertising-reliant. In four of the eighteen SBDSM files examined that were approved or still under review, the level of advertising pages was in the range of 10% while the remainder had advertising well in excess of 10% of total content. The magazines that had lower levels of advertising obtained their revenues from grants and subscriptions.

Recommendation # 10:

The Director of the Canada Magazine Fund revise the SBDSM eligible magazine criteria to include a minimum level of advertising.

Management Response:

The expectation that small magazines benefitting from SBDSM should be "advertising reliant" is inappropriate to this group of magazines and to the objectives of the CMF. SBDSM is intended for business development and is not responding to competitiveness in the advertising market as the SEC component is designed to do. Reliance on advertising is not a business model for many small magazines, particularly for cultural magazines. Project support is often aimed at increasing advertising revenues, but for many small magazines, increasing



circulation is a first step before increasing advertising revenue is even a possibility. Only funding small magazines that are “advertising reliant” would eliminate a substantial number of significant Canadian magazines from CMF assistance and would be contrary to the intent of the component. Hence, we have had to consider the advertising reliance clause as 0% in order to meet the objectives of the program, although this may change in the future.

Applicant’s Guide

The audit team’s examination of the Applicant’s Guide for each of the three program components found them to be clear and comprehensive. Program officers interviewed in the course of the audit had a similar assessment. They refer to the Applicant’s Guide as “the bible for the program”. There were no queries from magazines found in the SEC program files examined that would suggest that applicants did not find the Applicant’s Guide clear and comprehensive.

The original SBDSM Applicant’s Guide did not provide enough structure to ensure applicants provided all the relevant information in an organized format. Supplementary forms were developed to gather the information in a consistent format. These forms have been integrated into the new SBDSM Applicant’s Guide issued in 2002.

6.3 Review and Approval

Project Files Reflect Diligent Review by Officers

An examination of the selected SEC files revealed application review instruments (including the project assessment tool generated by the CMFIS) were consistently applied, and the files were complete and organized, with key decision-making instruments positioned together.

The quality and completeness of the original submissions to the Infrastructure and SBDSM components varied considerably. The project files showed that the program officers carefully reviewed the submitted material to determine what information remained outstanding. Requests to the applicants for further information were specific and detailed. In particular, program officers were very thorough in ensuring that the budget information was developed in a format that would meet reporting requirements. The project files were complete and well organized.

SEC Review Processing was Well Planned



Good planning of the SEC component enabled the efficient assessment of over 500 applications annually for the SEC component. New staff were hired to deliver the program; they were trained on all aspects of program delivery and had adequate orientation and mentoring in the first months on the job. This was confirmed in staff interviews and there was a general consensus that training and preparation were useful, constituting a good management practice.

Workload planning was also good. It consisted of assigning an equal number of files to program staff, monitoring the progress of the files based on predetermined time allotments per file, and reporting by program staff to the chief. This provided the structure necessary for timely delivery of the program and constituted a good management practice.

Delays on SBDSM Application Processing Due to Understaffing

There was inadequate staffing to ensure the efficient delivery of the SBDSM component. The strong response of over 230 applications by the initial application deadlines of December 2000 and March 2001 created a significantly greater workload than had been planned for. There were originally only three project officers on staff. In January 2001, all applicants were sent a letter indicating that staff would be dealing with applications in the order they were received and that due to high volume levels, delays in processing all applications were expected. In some cases the proposed projects, such as attending a trade show or undertaking a special issue, were time sensitive. The applicants were unable to proceed until they had a funding commitment and many applications needed to be revised by the time they were being reviewed. Of the 11 approved files that were reviewed, 3 received funding in 6 months but the remainder took 10 to 13 months to receive funding. An eligible application that was submitted in December 2000 was still under review approximately 15 months later.

In two files included in the audit sample, the applications were reviewed promptly, but a further five months passed before the applicant was advised that they were ineligible for funding under the SBDSM component. In one of these cases, the applicant might have been eligible to apply to the SEC program had they been advised promptly of their ineligibility under the SBDSM component.

No new applications were accepted for almost a year from March 2001 until February 2002 while the backlog was dealt with. Applications to the program are now being accepted on a continuing basis rather than by deadline dates, which should smooth out the workload. The new Applicant's Guide requires applications be submitted four months before the start of a project.

Capacity of Infrastructure Applicants Was Not Considered



The audit found that the assessment of early Infrastructure project proposals did not always consider whether the association had the capacity to manage the number and range of projects approved.

Many of the associations who applied to the program were small organizations that had previously undertaken only limited promotional activities and professional development for their members. The proposals made to the Infrastructure program would have increased the level of program activities of some of the applicants by twenty fold. In one case, nine projects with a combined budget of \$1.3 million over 15 months were approved for an association whose budget in the previous year was \$50,000. This association was unable to deliver the projects on a timely basis as set out in the contribution agreement.

In order to reduce the possibility of this occurring in subsequent agreements, the Infrastructure program has changed its process and now approves a limited number of projects at one time with larger projects segmented into discrete phases in separate contribution agreements. This incremental approach is more in keeping with the capacity of the applicants to manage and co-fund projects.

Contribution Cap

The approved terms and conditions for the SEC component indicate that the "...formula based funding will only cover a portion (approximately up to 40%) of the creation of editorial content." A comparison of the actual funding approved to the editorial expenses claimed in the applications showed that the funding formula calculation was not limiting the funding levels to 40% of the editorial expenses. The audit team found that in the first year of the program (2000-2001), for 54 out of 402 contributions for the SEC component analyzed, the contributions paid out represented more than 50% of editorial expenses claimed in the application. The 54 files represented a total contribution of \$1,008,322. The average contribution for the 402 applications was 33.74% of the claimed editorial expenses and the contributions ranged from 19.27% to a high of 57.23% of the claimed editorial expenses.

For 2001-2002, the audit team found in a similar analysis, that 22 files out of 455 approved files in the process of being finalized at the time of the audit, had a recommended contribution amount that exceeded 50% of the editorial expenses claimed in the application. The 22 files represented a total contribution of \$291,711. The average recommended contribution for the 455 approved files was 28.71% of the claimed editorial expenses. The amounts ranged from 16.97% to 50.37%.

Recommendation # 11:



The Director of the Canada Magazine Fund revise the formula calculation of the SEC component to cap the contribution to 40% of the editorial expenses claimed in the application.

Management Response:

The Terms and Conditions state that formula-based funding will “only cover a portion (approximately up to 40%) of the creation of editorial content”. If a broader definition is used than the narrower one related to “eligible editorial expenses”, recipients of SEC can certainly fall within the 40% limit. Even using the narrow definition applied in the audit, surpassing the 40% limit is an issue for only the smaller publications whose contributions are augmented by the factoring applied in the formula. We feel that applying this limit in the narrow sense would be inappropriate and would disadvantage the smallest magazines.

It must be noted that 40% was illustrative and not prescriptive. 40% was only an estimate based on information we had at the time. The percentage of contribution is actually between 16% and 50%, with small, vulnerable magazines receiving more.

Correlation Between Audited Financial Statements and Eligible Expenses

In the first year of the program, applicants had to provide financial statements that had been subject to external audit or review. This information was aggregated in such a manner that it could not be reconciled with the editorial expenses shown in the SEC application, especially when the publisher produced more than one magazine. To obtain the information necessary to process the application, program officers had to contact the applicant by telephone.

In the second year of the program, applicants were required to provide a statement of income/profit and loss for the applying magazine. The Applicant’s Guide for 2001-2002 provides a format and detail for presenting the income profit/loss statement. Although this is an improvement over the previous year, the information requested still does not provide a breakdown of audited/reviewed expenses for reconciliation with eligible expenses. The file review and program officer interviews indicated that follow-up action with the applying magazine was consistently required to clarify and confirm expenses because of the absence of reconciliation in the two financial presentations. The financial information



section of the application could be improved by requesting an independently audited income/profit and loss statement separated into eligible editorial expenses and non-eligible editorial expenses to enhance the officers' ability to independently ascertain the qualifying amount for program contribution.

Recommendation # 12:

The Director of the Canada Magazine Fund consider requiring independently audited/reviewed financial information with regard to eligibility criteria for the program.

Management Response:

For this funding cycle of SEC, we are asking for financial statements for the company, as well as an income statement for each magazine published by the company. We have also added a column to the income statement for the magazine that differentiates totals for the company from line items for the magazine, which allows us to better reconcile financial statements to magazine expenses. This year, we have also requested that profit and loss statements be signed by the publisher.

The auditor that participated in the training of officers this year thought that the additional column was a useful tool, but warned that we would never be able to reconcile expenses with statements 100% because every company prepares their expenses in a different way. These changes, however, will increase consistency of reporting of expenses.

Full Financial Statements were Not Provided in All Applications

The original SBDSM Applicant's Guide required a financial report (revenue and expenses) or review engagement financial statements for the applicant. While all applications reviewed provided revenue and expenses for the specific magazine, not all provided full financial information, including a balance sheet, and notes to the financial statement where available. These statements could provide valuable information to assess the risk of the financial status of the publisher which could impact on their ability to contribute financially and to complete the project. The due diligence training for project officers identified financial health of the publisher as a risk issue for the program. Project officers were instructed to request and assess deficit recovery plans where the organizations seeking funding had incurred annual or cumulative deficits. The new Applicant's Guide specifically



includes financial statements in the checklist for a complete application and requires that a balance sheet be included.

Communicating with Clients

After training for the SEC component occurred in the fall of 2001 and files were distributed for assessment, meetings were held twice a week to clarify processes and discuss issues. As the comfort level of program staff with assessment procedures rose, the meetings occurred once a week, then once every two weeks and then as required. Program officers indicated that the level of support from supervisors and the chief was good and that there was ready access to them at all times. Communication to management regarding program delivery was informal for the most part, with e-mails at key decision points.

A central, toll-free number was provided to applicants for clarification on the process, the Applicant's Guide, and the contents of the web site. Once program officers got involved in reviewing files, a communication relationship was established directly with the client. Each file had a track of notes from the applicant (e-mails and faxes as follow-up to telephone conversations) and to the applicant from the program officer. Officer interviews indicated that communication with the client was ongoing and generally good.

All Infrastructure files reviewed had notes to file or emails confirming communications with the client. CMF program staff have been proactive in attending association conferences and other events to meet association members, learn more about the industry and promote the CMF program components. Contacts at the various associations have been invited to meet with departmental staff to increase understanding by the association of how the program is administered.

Application Assessment Tools

The SEC assessment tool generated by the Canada Magazine Fund Information System (CMFIS) is well-structured, clear, and covers key criteria for applicant eligibility. The applicant assessment tool could be improved by including a screening criterion to ensure applicants are not applying to both the Small Magazines component and the Support for Editorial Content component as funding can only be received from one of the components in a fiscal year. Interviews with program officers have indicated that although they are given a list of Small Magazine applicants at the beginning of SEC application process, there is no check-off point in the SEC review process for stacking.

The preliminary assessment of one application clearly identified the applicant as having received Support for Editorial Content in 2001 but no follow up was undertaken to ensure that the applicant complied with all the requirements of this first contribution agreement



before further funding was provided. This applicant received funding under a SBDSM contribution agreement but has still not completed the reporting requirements under the preceding SEC contribution agreement.

The preliminary analysis tools/checklists used by SBDSM to assess the eligibility of the publisher and the magazine were compared to the eligibility requirements set out in the Applicant's Guide. The preliminary analysis tool/checklist was found to be complete and to provide a consistent structure to document the assessment of eligibility of publishers and magazines.

The *Project Assessment Template* and the *Recommendation and Approval Form (RAF)* used by SBDSM and Infrastructure to assess the eligibility of the project were compared to the requirements set out in the Applicant's Guide. The Project Assessment Template and the Recommendation and Approval Form were found to be complete and to provide a consistent structure to ensure that the assessment process is well documented and that the projects are linked to the program objectives.

File review instruments were found by the audit team to be consistently applied, and the files were complete and generally well organized, with key decision-making instruments positioned together.

Recommendation # 13:

The Director of the Canada Magazine Fund ensure that screening criteria be added to both the SEC and SBDSM assessment process including the written procedures, to identify situations where an applicant has applied to both components in the same fiscal year or has not fulfilled all the requirements of previous CMF contribution agreements; and that such applications respect stacking regulations as per the TB *Policy on Transfer Payments*.

Management Response:

Administrative staff complete a checklist when a program file is opened, which identifies application to other components of the CMF and to the Publications Assistance Program (PAP). The analysis tool and procedures ensure that program officers do a second check as part of their assessment. Assessment for a subsequent application to any component would not proceed until the requirements of the previous contribution agreement had been met. The analysis tool for SBDSM also addresses stacking.



Information Management

The controls in place for information management appear to be good, although, minor adjustments to the automated system – Canada Magazine Fund Information System (CMFIS) - are required. CMFIS is currently used to capture project data, assess applications, and determine funding amounts for the SEC component. When fully implemented it will also be used by the SBDSM and Infrastructure components. Program management and officer interviews have indicated that information is complete, reliable, accessible and is maintained, but certain fields are not responding to commands.

The SBDSM component uses a spreadsheet-based tracking system to document the status of each file in the review and approval process. The CMFIS system will replace the current tracking system once it is fully operational.

The SEC unit has logistical controls to track the status of files and to compile weekly reports on the progress in processing. The program staff interviewed by the audit team closely tracks the progress of their files with personalized “Bring Forward” systems, using Excel or Lotus Notes as tracking mechanisms. The program officers report back to the Chief on file progress and provide details as to the number of files analyzed, information outstanding, etc.

Organizing

The organizational structure in place for SEC is generally good and allows for an efficient and well-controlled review of applications. There are eight SEC program officers who review files and interact with applicants as required. If recommended for approval, the file is forwarded to one of the two supervisors for review. If the supervisor determines that additional information is required, the file is passed back to the program officer for completion. If the file is accepted, it is forwarded to the Chief for quality control on key elements. The Manager oversees the process, is informed of progress and issues, and is the departmental representative for outgoing correspondence to potential candidates. An Information Officer provides reception and information services for the program’s toll-free line.

An area for improvement has been identified by the CMF staff with respect to the review conducted by the supervisor. Interviews with Program management and staff indicated that the supervisor’s review is not confined to key areas, but consists of a review of the entire file already reviewed by the program officer. There is a risk that having the same review done by two levels blurs the lines of accountability on the assessment of files and in some cases, results in duplication of effort.



Applications rejected by the program officers are forwarded to a review committee to confirm whether the file should in fact be rejected or whether it should be considered further. This review approach is an example of the application of due diligence and is a good management practice.

Recommendation # 14:

The Director of the Canada Magazine Fund clarify the lines of accountability in place for file review, especially as they relate to the roles of the program officers and the supervisors. It is recommended that the program officers have primary responsibility for determining eligibility and should recommend eligible files for approval by the supervisors.

Management Response:

SEC must process a high volume of files in a short time period. Because analysis is done in so little time (approximately one day per file), two sets of eyes ensure consistency and quality control. The current role of the program officer is different from that of the supervisor in that the program officer signs the Recommendation for Approval Form (RAF), the analysis tool, and initials the list of eligible expenses per magazine to attest that these are true numbers. The supervisor also signs the RAF, but not the analysis tool. This process addresses the real problem of maintaining quality and consistency in light of high volume and quick turnaround, helping to minimize the possibility of mistakes. We believe that it is too early in the program's history to change accountability at this time. We will, however, review the lines of accountability before the next funding cycle.

6.4 Payment and Financial Processes

Controls on Payment Schedule and Client Deliverables

Infrastructure and SBDSM files contain copies of interim and final reporting by clients to support advances and final payments under the contribution agreements. Complete information is gathered and assessed before subsequent payments are approved. The files show evidence of timely reminders to clients if reporting has been delayed. Advances are consistent with the Treasury Board *Policy on Transfer Payments*.

In many respects, the SEC component appears to be managed as a grant program even though it was approved as a contribution program. A grant only has eligibility and



entitlement requirements and is normally paid out in installments based on the recipient's needs. By contrast, a contribution program is designed to pay a share of eligible costs as they are incurred and reported by an eligible, approved recipient.

The revised Treasury Board *Policy on Transfer Payments* also requires that "contributions are paid on the basis of the achievement of performance objectives set out in a contribution agreement or as a reimbursement of eligible costs incurred or expenditures made by a recipient". When advance payments are made, the policy indicates in Annex B that a maximum of 90% can be paid out in advance of need. The balance is to be paid out at the end of the agreement.

Payments associated with the SEC component of the Canada Magazine Fund have been paid at the end of the fiscal year as a lump sum amount with no holdback. No cash flow of future anticipated expenses is required to show when the funds will be used. Rather, available funding is allocated among eligible applicants by using the ratio of an applicant's eligible expenses to the sum of the eligible expenses of all applicants. The amount paid is based on the amount of eligible expenses in the previous fiscal year that have been identified on the application form which is submitted in October (i.e., a magazine submits an application in October 2001 based on 2000-2001 expenses and receives funding at the end of March 2002.).

Since the terms and conditions of the Canada Magazine Fund were approved in July 2000, the program design and implementation is subject to the revised Treasury Board *Policy on Transfer Payments* which was issued June 1, 2000. The Policy indicates that advance payments of contributions must not be made to a recipient in one fiscal year when the related expenditures of the recipient are not likely to be incurred until the following fiscal year. Advances required for the new year should be issued as of April 1 and charged to an appropriation in the new year. In exceptional circumstances where it is deemed necessary to meet program objectives and is permitted under the agreement, an advance may be made prior to the end of the fiscal year, but it must not exceed the expenditures expected to be incurred by the recipient during April of the new fiscal year.

Recommendation #15:

The Director of the Canada Magazine Fund revise the payment schedule for the SEC contribution agreement to be consistent with the Treasury Board *Policy on Transfer Payments*.

Management Response:



We have consulted with Finance on this issue and have been told that because formula funding is based on eligible expenses in the previous year, no holdback is required. Funding is provided after expenses have been reviewed and approved for eligibility. We are, however, considering implementing two or more payments for higher risk files. We have undertaken analysis of magazines that have stopped publishing, as well as newer magazines, and are working on how to assess risk indicators for magazines. By the end of the fiscal year, we should have in place a way to identify magazines that may be at risk and how funding should be released to these magazines. We will also study how using staggered payments might facilitate monitoring of publishers' health and spread the workload for officers over a longer period of time.

Implementation of Section 34

In all the SEC files selected in the audit sample from the 2000-2001 year, the signature on the Approval for Payment form indicating approval under Section 34 of Financial Administration Act was dated prior to the signature on the contribution agreement, however this issue was rectified in files reviewed for the 2001-2002 fiscal year. There was an absence of verification of the funding process when Section 34 was signed. However, in all these files, the processing of the payment occurred after the signing of the contribution agreement so the Department did not issue cheques on files without a contribution agreement in place.

Contribution Agreements Improve as the Infrastructure Component Matures

The contribution agreement for two Infrastructure files selected for review did not include a detailed list of activities and outcomes. The agreements did not provide a budget for the entire project, including contributions commitments by other governments and by the association. In both of these projects, revisions to the approved expenditures were sought at the end of the project as the actual pattern of expenditure did not correspond to the original application. Both of these agreements had been amongst the first ones signed for the Infrastructure program.

Contribution agreements for all subsequent projects in the audit sample included a detailed budget for the entire project and a detailed list of objectives, activities and expected results. This increased level of detail in the contribution agreement provided clarity on the scope of activities to be carried out and the format for reporting on these activities.



6.5 Monitoring and Reporting

Reporting on the Use of SEC funding

For the SEC component, the audit found that the mechanisms in place for ensuring that the funds were utilized for the purposes agreed at the outset were weak. There was no follow-up process in place to ensure that the reporting mechanisms in place were being followed.

The Applicant's Guide and the signed contribution agreements required that recipients invest the funds in Canadian Editorial Content and account for the use of the funds. Program management also indicated to the audit team that they expected the funds to be invested by recipients on a going forward basis. The reporting requirements were incorporated into the program application for subsequent years. Recipients are required to submit information by the following October (i.e., October 2002 for funds received at the end of March 2002) on how the funding has helped in the creation of Canadian editorial content, and how it affected circulation, readership and advertising revenues². From the files reviewed, recipient organizations have not reported in detail on how funds were used or on their overall investment in Canadian editorial content. In general, reporting was limited to 2 to 4 narrative sentences with no dollar attributions. This level of detail is inadequate to assess whether the funds had in fact been used for the purposes agreed. Even though there was a general consensus among program managers that reporting was inadequate, the program decided to move ahead with funding and request further clarification on reporting after completion of the second round of funding.

SEC recipients receive a lump sum payment, with no hold back, rather than advances matched to their cash flow requirements. This mechanism places total reliance on an after the fact determination of whether the funds have been utilized for the purposes intended. If it is determined that the funds have not been used appropriately, Canadian Heritage is required to recover these funds. The Treasury Board *Policy on Transfer Payments* requires that payments not normally be made until performance objectives have been achieved or expenses incurred. By having this evidence on hand before the final payment is made, the Department would have greater assurance that all the funds were utilized for the purposes agreed.

² Applicant's Guide and Application Form 2001-2002, page 7, Section 2.5.1



There are no procedures in place to track recipients who have not substantiated their eligibility for funding by submitting their circulation reports from the first year or who have not re-applied for funding in the second year and have not submitted their post-project reports for the first year of funding.

Recommendation #16:

The Director of the Canada Magazine Fund ensure that post-project reporting provide sufficient information to meet Treasury Board requirements for performance tracking.

Management Response:

SEC has developed a checklist to assist magazines to meet government reporting requirements. The checklist is broken down into specific expenses in the categories of Canadian editorial content, circulation, advertising and readership. Magazines must submit this detailed report with their new application. For the current funding cycle, officers will contact magazines right away if more information is required about how last year's funds were spent. Reporting will improve as the industry comes to understand what is required.

Recommendation #17:

The Director of the Canada Magazine Fund ensure that contribution agreements specify that funding must be repaid if reporting requirements are not met.

Management Response:

The contribution agreement states that funding must be repaid if reporting requirements are not met. We have checked the reports of all the magazines that have reapplied to the program. We have a process in place to check the magazines who haven't reapplied. They will be contacted by letter and notified that they have to submit a report or must repay the funds received from the program. Because magazines have a year to spend the contribution, we ask them to indicate both how they have spent funds, and, if they haven't spent the whole contribution, how they plan to use it before the end of the fiscal year. All recipients of funding in the last cycle will be contacted by the end of the calendar year.

Recommendation # 18:



The Director of the Canada Magazine Fund consider including a review of the investments in Canadian Editorial Content made as a result of SEC funds received as part of the audit of recipients under the SEC.

Management Response:

A review of the investments in Canadian editorial content will be part of the financial audit for recipients. In addition to individual audits, we will report globally on how much was spent on Canadian content by all recipients.

Procedures for Collecting Money Owed to the Government

CMF has no collection procedures for money owed by contribution recipients. Management was aware of two SEC files from the first year with circulation reports outstanding; however, no action has yet been taken with respect to reclaiming the contribution funds. Contribution audits of six recipients from the first year were conducted in May 2001 by an external accountant (on contract to PCH) to review how accurately editorial expenditures were reported in the application process. Of the six audits, one had understated expenses, one had adequately stated expenses, two had minor overstatements in the order of 1% to 2%, one had overstated by 11% and another had overstated by 19%. No action has yet been taken to either close the files or reclaim money owed to the government.

The Department was also slow to act in requesting a refund of an overpayment determined by a SBDSM contribution audit. The 25 files reviewed as part of this audit included one of the two SBDSM files that has been subject to a contribution audit. The final payment under this project was made in July 2001 and a contribution audit of eligible expenses was completed by August 2001. Even though the audit report indicated over reporting of expenses of \$3,608.00 resulting in an overpayment of \$1,819.00, a request for repayment of this amount was not made until February 2002. The repayment was received in March 2002. The Procedures Manual for SBDSM does not clearly assign responsibility for requesting repayments or address the steps in recovering overpayments.

Recommendation # 19:



The Director of the Canada Magazine Fund ensure that file closure procedures are implemented and that adequate mechanisms are in place to track overpayments and recover money owed to the government.

Management Response:

In SEC, we send a letter to the recipient asking them to repay the money owed to the government. So far, the program has requested two individual magazines to repay funds because they received an overcontribution: one because it overstated editorial expenses and the other because it stopped publishing.

The current contribution agreement does address overpayment. The recipient signs an agreement that states that they must reimburse the program if they don't use the funds properly.

The procedures manual for SBDSM also addresses overpayment. Refunds are now being requested based on the final financial report on the project. The program is addressing this on a case-by-case basis. So far, we have collected all outstanding amounts.

Ineligible Expenses

In one SBDSM file, the advertisements in an economics magazine were almost entirely for other products of the publisher, including other publications and limited partnership investments. The file did not flag any concerns of the project officer that this publication might be ineligible - published for the purpose of promoting the interest of the principal business of the person who publishes it. Furthermore, the approved project provided assistance for production costs, which are ineligible expenses. The first project report indicated that the funding had instead been used for a capital purchase, which is also an ineligible expense. A revised report was then submitted changing the description of the expenditure but indicating the expense, which was budgeted on a per issue basis, was all incurred in one month. The interim report also indicated that instead of the marketing and promotion plan outlined in the contribution agreement, promotional prizes were being given to new subscribers. No investigation was evident in the file to ensure that the cost of these prizes, an ineligible expense, were not included in the reported eligible expenses.

The tacit approval of the use of funds for ineligible purposes due to insufficient follow up based on the information available, was observed on just this one file, of the 25 examined as part of the audit and thus was not considered as the normal practice. Nonetheless,



project officers as part of their responsibilities for administering programs have a responsibility for ensuring that all program funds are spent for the purposes intended and for taking followup action as required when the information they receive suggests that funds were spent on something else.

Recommendation #20:

The Director of the Canada Magazine Fund have a contribution audit undertaken of the organization that submitted the SBDSM application which the audit team has identified as likely to include ineligible expenses.

Management Response:

In the specific case cited in the report, the project officer investigated all declared expenses and was comfortable releasing the final holdback. Nonetheless, this file has been recommended for a contribution audit by the program because the client tried to claim ineligible expenses in his final report and because there were inconsistencies in the reports that required clarification.

Conflict of Interest

In one of the Infrastructure files selected for review, two instances of potential conflict of interest were identified. The original proposal was prepared by the executive director of the industry association. The application included detailed budgets for each component of the proposal and also identified the proposed contractors. The executive director was identified as the lead contractor or co-ordinator for most components. No concerns over this conflict of interest were noted on the file. After the project was approved, it became clear that the board of the association did not approve of the executive director also being a contractor for the projects. In order to ensure that both the management and the board of directors of associations are aware of progress and problems with Infrastructure projects, the program now requires that both the management and the board of directors of associations indicate their approval by signing contribution agreements and interim and final reports.

A subsequent executive director for the same association is related to the primary contractor for one of the projects. No concerns over this conflict of interest were noted on the file. The program should have required the association to ensure an unrelated person would be responsible for monitoring the work performed and approval of the payments for this project.



Recommendation #21:

For the protection of both the federal and the association contributions to project funding, the Director of the Canada Magazine Fund should ensure that potential conflict of interest situations between the project manager (the association) and contractors are avoided by having the responsibility for selecting contractors, monitoring the work performed and approving payment assigned to association staff or volunteer executive who can act at arm's length from the contractor.

Management Response:

With regard to the case cited in the Audit Report, there was no conflict when the project was initiated. There was a change in the organizational structure that suggested a possible conflict. At that time, the program kept in close contact and initiated steps that would be appropriate in any situation of potential conflict of interest:

- no new funds forwarded during the initial period of uncertainty;
- close monitoring, with monthly reporting;
- additional sign-off on financial statements;
- breakdown on in-kind contribution specific to each component of the project;
- independent audit at the completion of the project.

The contribution agreement already includes a clause about conflict of interest. We have included a clause in the new contribution agreement that states that for any contracting of over \$25,000, the client must have a transparent acquisition process where they use various vendors, that they hire in a fair manner and that the client respect the Government's Acts.



ANNEX A

CMF MANAGEMENT ACTION PLAN

RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
#1. The Director of the Canada Magazine Fund ensure a risk-based audit strategy for the audit of contribution recipients is developed and implemented. The scope of these audits should include all key eligibility criteria as well as financial reporting and completion of deliverables.	An audit strategy for both SEC and Industry Development components has been prepared and is currently under consideration by the Director. The terms of reference for the auditors are under development.	Fully implemented by end of this fiscal year. (March, 2003)
#2. The Director of the Canada Magazine Fund ensure that several staff have experience with the Infrastructure component to provide for continuity and corporate memory.	The current officers are writing procedures to ensure corporate memory and are planning to review the guide and update, as required.	Procedures completed by end of calendar year and guide revised by end of the 2003/04 fiscal year.
#3. The Director of the Canada Magazine Fund consider expanding information requested from applicants so that sufficient information is available to objectively assess Canadian Editorial Content in magazines.	We believe that we are provided with sufficient information in order to verify the level of Canadian editorial content. The existing assessment tool provides for a physical examination of the magazine. If there are any doubts about the level of Canadian editorial content, or if the attestation does not seem to match what is observed in the content, the officer contacts the magazine and requests further explanation.	
#4. The Director of the Canada Magazine Fund consider establishing additional tools and mechanisms to enhance objectivity in assessing Canadian editorial content in magazines.	We will develop tools as questions arise, with the assistance of Research, Analysis and Compliance, and Legal Services	As questions arise



RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
<p>#5. The Director of the Canada Magazine Fund consider including an audit of Canadian Editorial Content as part of the audit of recipients under the SEC and SBDSM components.</p>	<p>An audit of Canadian editorial content will arise in one of two ways: because questions during the assessment phase result in a recommendation for audit; or because the file is chosen as part of the risk-based audit strategy. In the latter case, the audit of Canadian editorial content would not be a standard feature of all audits, but would be recommended under the category “general uncertainties.”</p>	<p>By end of the 2002/03 fiscal year.</p>
<p>#6. The Director of the Canada Magazine Fund ensure the introduction of new program eligibility criteria is clear and clearly communicated, including the rationale, to all applicants on a timely basis.</p>	<p>Changes were made to definitions in consultation with industry representatives and posted on the Departmental website, in addition to being sent to all clients via e-mail. New procedures, such as e-mail contact, letters and the use of the departmental website have been established to ensure that the CMF client base is informed in a timely manner of any significant changes in eligibility.</p>	
<p>#7. The Director of the CMF either clearly define additions to website content as an Eligible Project under SBDSM (add to Applicant’s Guide and provide criteria to staff) or provide staff with clear guidelines to exclude additions to website content from approved projects.</p>	<p>The new guide for this component (SBDSM) includes examples of eligible costs associated with eligible projects in the areas of market research, advertising, circulation and editorial and design.</p>	
<p>#8. The Director of the CMF revise the eligible project criteria and processing to include a demonstration that the proposed SBDSM project is incremental to the existing operation of the magazine.</p>	<p>The program does consider incrementality in its assessment or projects. As part of regular analysis of a file, the officer must ensure that there is an added value for any subsequent activity and this value must be supported by market research.</p>	



RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
<p>#9. To ensure that funded projects make sense for the applicant to carry out and for the program to support, the Director of the CMF revise the criteria for the assessment of proposals to consider whether the need for the project has been well researched, projects are incremental to existing activities of the organization and whether the project deliverables are sustainable by the organization at the conclusion of the project.</p>	<p>In the CMF Terms and Conditions, the objectives of the Infrastructure Support Program are to "...provide services, training and development opportunities" to the industry. By their nature, some of these activities will be one-time events and because infrastructure projects serve the industry as a whole, many are innovative and have yielded results. We do not believe that the Ts&Cs demand that all projects must be shown to be sustainable after the conclusion of the project. In more recent files, the applicant has been questioned on and provided information about sustainability and capacity. The requirement for sustainability is included in the contribution agreement, where appropriate. The program requires that all applicants demonstrate in the results that they are managing efficiently and indicate how they are going to do this in the short and long term.</p>	
<p>#10. The Director of the Canada Magazine Fund revise the SBDSM eligible magazine criteria to include a minimum level of advertising.</p>	<p>The reference to "advertising reliant" (currently considered 0%) is inappropriate for small magazines and will be changed in the subsequent submission when the program reports back to Cabinet.</p>	
<p>#11. The Director of the Canada Magazine Fund revise the formula calculation of the SEC component to cap the contribution to 40% of the editorial expenses claimed in the application.</p>	<p>40% was illustrative rather than prescriptive and may not be the appropriate figure.</p>	
<p>#12. The Director of the Canada Magazine Fund consider requiring independently audited/reviewed financial information with regard to eligibility criteria for the program.</p>	<p>For this funding cycle of SEC, we are asking for financial statements for the company, as well as an income statement for each magazine published by the company. Profit and loss statements, signed by the publisher, have also been requested.</p>	<p>2002/03</p>



RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
<p>#13. The Director of the Canada Magazine Fund ensure that screening criteria be added to both the SEC and SBDSM assessment process including the written procedures, to identify situations where an applicant has applied to both components in the same fiscal year or has not fulfilled all the requirements of previous CMF contribution agreements; and that such applications respect stacking regulations as per the <i>TB Policy on Transfer Payments</i>.</p>	<p>Administrative staff complete a checklist when a program file is opened that identifies application to other components of the CMF and to the Publications Assistance Program (PAP). The analysis tool and procedures ensure that program officers do a second check as part of their assessment. Assessment for a subsequent application to any component would not proceed until the requirements of the previous contribution agreement had been met. The analysis tool for SBDSM also addresses stacking.</p>	
<p># 14: The Director of the Canada Magazine Fund clarify the lines of accountability in place for file review, especially as they relate to the roles of the program officers and the supervisors. It is recommended that the program officers have primary responsibility for determining eligibility and should recommend eligible files for approval by the supervisors.</p>	<p>We will, however, review the lines of accountability.</p>	<p>Before next funding cycle in 2003/04.</p>



<p>#15. The Director of the Canada Magazine Fund revise the payment schedule for the SEC contribution agreement to be consistent with the Treasury Board <i>Policy on Transfer Payments</i>.</p>	<p>We have consulted with Finance on this issue and have been told that because formula funding is based on eligible expenses in the previous year, no holdback is required. Funding is provided after expenses have been reviewed and approved for eligibility. We are, however, considering implementing two or more payments for higher risk files. We have undertaken analysis of magazines that have stopped publishing, as well as newer magazines, and are working on how to assess risk indicators for magazines. By the end of the fiscal year, we should have in place a way to identify magazines that may be at risk and how funding should be released to these magazines. We will also study how using staggered payments might facilitate monitoring of publishers' health and spread the workload for officers over a longer period of time. Will develop techniques to identify magazines that may be at risk and determine how funding should be released to these magazines.</p>	<p>By end of the 2002/03 fiscal year.</p>
<p>#16: The Director of the Canada Magazine Fund ensure that post-project reporting provide sufficient information to meet Treasury Board requirements for performance tracking.</p>	<p>All recipients of funding in the last cycle will be contacted. Contribution agreements already spell out what needs to be reported.</p>	<p>By end of the 2002 calendar year.</p>



RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
#17. The Director of the Canada Magazine Fund ensure that contribution agreements specify that funding must be repaid if reporting requirements are not met.	The Contribution Agreement states that funding must be repaid if reporting requirements are not met. We have checked the reports of all applicants and have a process in place to check the magazines that have not reapplied. They will be contacted by letter and notified that they have to submit a report or must repay the funds received from the program.	By the end of the 2002 calendar year.
# 18: The Director of the Canada Magazine Fund consider including a review of the investments in Canadian Editorial Content made as a result of SEC funds received as part of the audit of recipients under the SEC.	A review of the investments in Canadian editorial content will be part of the financial audit for recipients. In addition to individual audits, we will report globally on how much was spent on Canadian content by all recipients.	End of the 2002-03 fiscal year.
#19. The Director of the Canada Magazine Fund ensure that file closure procedures are implemented and that adequate mechanisms are in place to track overpayments and recover money owed to the government.	Procedures are in place. The program is addressing overpayment on a case-by-case basis.	All recipients of overpayments will be contacted by the end of the 2002-03 fiscal year.
#20. The Director of the Canada Magazine Fund have a contribution audit undertaken of the organization that submitted the SBDSM application which the audit team has identified as likely to include ineligible expenses.	In the specific case cited in the report, the project officer investigated all declared expenses recommended for a contribution audit by the program because the client tried to claim ineligible expenses in the final report and because there were inconsistencies in the reports that required clarification.	End of the 2002-03 fiscal year



RECOMMENDATION	MANAGEMENT ACTION	TIMELINE
<p>#21. For the protection of both the federal and association contributions to project funding, the Director of the Canada Magazine Fund should ensure that potential conflict of interest situations between the project manager (the association) and contractors are avoided by having the responsibility for selecting contractors, monitoring the work performed and approving payment assigned to association staff or volunteer executive who can act at arm's length from the contractor.</p>	<p>With regard to the case cited in the audit report, there was no conflict when the project was initiated. We have included a clause in the new contribution agreement that states that for any contracting of over \$25,000, the client must have a transparent acquisition process where they use various vendors, that they hire in a fair manner and that the client respect the Government's Acts.</p>	<p>Implemented</p>