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# ***REPORT ON THE AUDIT OF EXCHANGES CANADA***

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***Corporate Review Branch  
Canadian Heritage***

FEBRUARY 26, 2003

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## ***EXECUTIVE SUMMARY***

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As a result of a department-wide program risk assessment and in accordance with Exchanges Canada's Results-Based Management and Accountability Framework (RMAF)/Risk-Based Audit Framework (RBAF) commitment to Treasury Board Secretariat, the 2002-03 audit plan of the Assurance Services Directorate, Corporate Review Branch (CRB) of the Department of Canadian Heritage (PCH), identified a requirement to conduct an audit of the Exchanges Canada Program.

The fieldwork for the audit took place between June 2002 and October 2002 and included a review of a 100% sample (39) of Youth Exchanges and Youth Forums project files for the years 2000-2001 and 2001-2002. Interviews were conducted with Exchanges Canada and Finance personnel and representatives from five Exchanges Canada partners. The audit process followed the standards and requirements set out in the Government of Canada Treasury Board Secretariat's *Policy on Internal Audit* and employed as primary criteria the Auditor General of Canada's attributes for well managed grant and contribution programs.

The audit team assessed the components of the Treasury Board Policy on Transfer Payments against the management control framework and generic contribution agreement used by Exchanges Canada and found no significant issues in the program design, management control framework or program processes and risk management of Exchanges Canada. Overall, the program is well managed. The review of the project files determined that all required documentation was found and that due diligence is exercised in recommending projects for funding and monitoring. The following issues comprise the key audit findings:

- There is no evidence that an Advisory Board exists to deliberate on the approval of projects recommended by the Interdepartmental Working Group, as required per the Program's Terms and Conditions and the Operational Guide.
- 50% of files containing a Risk Assessment recommending project monitoring site visits demonstrated evidence of such a visit.
- Three of 39 project files contained a completed Monitoring Report form.
- In the case of cancelled or rejected projects, there is no documented evidence in project files to support the reasons for cancellation or rejection. Exchanges Canada's role is not clearly defined regarding the extent of approval of Partner promotional material and advertising.



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## ***INTRODUCTION***

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The Exchanges Canada Program represents a strategic investment in Canada's youth that enables them to appreciate the diversity of Canada and to build ties between communities and Canadians. The initiative is consistent with the Government's focus on strengthening common bonds of citizenship among Canadians and with the Department of Canadian Heritage's strategic outcome of *Canadians Connected to One Another*.

The objectives of the overall Exchanges Canada initiative are:

- to contribute to improved knowledge and understanding of Canada among Canadian youth, enabling them to learn first-hand about the history, geography, industry, institutions, cultures, communities, languages and other facets of their country;
- to help Canadians connect to one another and create lasting linkages, across the country and between groups, thereby helping to strengthen the fabric of Canadian society; and
- to develop Canadian identity and attachment to Canada among youth by enhancing appreciation of both the diversity and the shared aspects of the Canadian experience.

Exchanges Canada program funding for the period April 2001 to March 2005 is approximately \$20,400,000 per fiscal year for direct program delivery to support approximately 15,000 exchange participants per year. In addition, the program receives approximately \$5,000,000 in operating funds.



The 2002-03 audit plan of the Assurance Services Directorate, Corporate Review Branch (CRB) of the Department of Canadian Heritage (PCH), identified the requirement to conduct an audit of the Exchanges Canada program. The requirement was established as a result of a department-wide program risk assessment and a commitment made to Treasury Board Secretariat in the Program's Results-Based Management and Accountability Framework (RMAF)/Risk-Based Audit Framework (RBAF).

The audit objectives were to provide Exchanges Canada management with:

- information that can be used to improve the management of the Program and enhance the Program's success in meeting its objective;
- assurance that management controls and risk management frameworks are effective; and
- assurance that information for decision-making is reliable.

The audit criteria used in the audit were those provided by Corporate Review Branch (CRB), the Office of the Auditor General (OAG), the Treasury Board Policy on Transfer Payments and the TB Policy on Internal Audit.

## **SCOPE**

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The audit team conducted a 100% review of project files for the 2000-2001 and 2001-2002 fiscal years. The 39 files consisted of ten from Youth Exchanges and 29 from Youth Forums. The following elements of the Program were examined:

- Program Design and Implementation: The extent to which Program design and implementation reflects the objectives of the Department and of the Treasury Board.
- Management Control Framework and Due Diligence: The Program's operational policies, procedures and practices, including funding files (both approved and rejected), were examined to determine whether provisions have been made for key elements of due diligence.
- Program Processes and Risk Management: The RMAF and RBAF and automated systems and non-automated processes were examined.

Audit fieldwork was conducted between June and October, 2002.



## ***METHODOLOGY***

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The audit methodology followed the standards and requirements set out in the Government of Canada Treasury Board Secretariat's *Policy on Internal Audit* and employed as primary criteria, the Auditor General of Canada's attributes for well managed grant and contribution programs.

The audit was conducted through interviewing Program Officers at Exchanges Canada and with Finance and Corporate Review officials to identify current processes and procedures. Five third-party Delivery Agents ("Partners") were interviewed in order to assess roles and responsibilities and to obtain their perspective on the operation of Exchanges Canada.

The principal audit techniques used included:

- reviewing program documentation and its compliance with Treasury Board (TB) and departmental policies, guidelines and procedures;
- evaluating the system of internal controls within Exchanges Canada;
- testing program processes to determine whether they operate as set out in the Operational Guide; and
- studying policy and procedure manuals, management directives and externally imposed regulations (eg. Treasury Board *Policy on Transfer Payments* and the *Financial Administration Act* ) to determine those requirements where compliance by the audited entity is important.



## CONCLUSIONS

Following are the observations resulting from the audit fieldwork. The audit team found no significant issues with respect to program design, the management control framework, program processes and risk management of Exchanges Canada. Due diligence is exercised in recommending projects for funding and in monitoring projects funded. Recommendations included in this report primarily result from minor inconsistencies in file documentation.

### **A. Eligibility, Application, Review and Approval Process**

Potential Applicants can obtain information about Exchanges Canada and its programs via the Internet. Using a public search engine (Google) the audit team searched the Internet using the phrase "Youth Exchange" and "Exchanges Canada". In both cases there were over 700 websites found dealing with youth exchanges. Most of those sites referenced Exchanges Canada.

The Exchanges Canada website contains adequate program information and helps facilitate the application process. It provides information on its initiatives and financially supported projects. It offers access to over 250 exchange programs for Canadians, funded by the federal and other governments and the private sector. The website identifies the Program and provides a brief description of eight partners for Youth Exchanges and Youth Forums. Exchanges Canada contact information is located on the web site. A review of the May 2002 *Webtrends* report identified 8,500 visits to the Exchanges Canada website, with the average visit lasting about 9 minutes.

Printed brochures from Exchanges Canada and its partners are available from the Canada Place Office located at 12 York Street in Ottawa. For potential recipients who do not have access to the Internet, Exchanges Canada attends conferences and places advertisements in various sources. In addition, Exchanges Canada partners have agents who distribute program promotional material to schools and community groups.

Exchanges Canada has a promotional events web-based calendar that facilitates communication between PCH Regional offices and organizations delivering exchanges by linking promotional and recruitment activities. The calendar is used to co-ordinate attendance at these events and to minimize the possibility of a Non Government Organization (NGO) and Exchanges Canada both displaying the same information at the same event. The calendar is also a good tool for keeping the public informed of youth organization events.



The calendar includes a questionnaire that can be completed by users to identify how often it is used and whether it is useful. It is available for public viewing but only if the viewer knows its web address. There are no automated links from the Exchanges Canada website to the events calendar, which reduces the benefits of providing Program information to the public.

**Recommendation #1:**

**That the Director, Exchanges Canada consider the feasibility of making the promotional calendar accessible to the general public. This can be accomplished by providing an automated link from the Exchanges Canada website.**

**Management Response:**

**The promotional calendar was not designed for the general public, rather it was designed as a tool to coordinate promotional events for delivery organizations and Departmental Regional Communication staff. Many of the events listed in the calendar are not open to the public. The Exchanges Canada Web site, the 1-800 number and promotional activities undertaken in the context of the communications plan meet the need of the general public.**

Exchanges Canada is responsible for approving promotional and advertising material developed by its partner organizations. The audit found that Exchanges Canada's role is not clearly defined regarding approval of this material. The original, generic Contribution Agreement does not mention anything about approval of promotional material, however paragraph 11.2 of the Amendment to the Agreement states "that all publicity material originated by the Recipient, its agents or participating organizations must be approved by the Department of Canadian Heritage prior to publication or circulation".

The five Exchange partners interviewed by the audit team indicated that this clause causes Exchanges Canada to be too intrusive in the delivery of their programs. They felt that Exchanges Canada has the right to ensure that appropriate Exchanges Canada logos and information are included on any promotional material developed by partners, however the partners stated that Exchanges Canada would not approve promotional items when it did not agree with grammar and punctuation. For example, one partner stated that Exchanges Canada edits sentence structure, pagination and format. This partner's new application format was delayed six months due to the back and forth between Exchanges Canada and the partner. Exchanges Canada personnel indicated





that their review was beneficial since errors were detected and corrected prior to production.

#### **Recommendation #2:**

**That the Director, Exchanges Canada formally define its roles and responsibilities regarding any third party promotional items.**

#### **Management Response:**

**Exchanges Canada will issue a revised logo guide to all Recipients clarifying the responsibilities of the Recipients as per the Agreement, as well as the procedures and timelines that will apply in the approval of promotional materials.**

There is rigour and transparency in the review and approval of proposals. The audit team found that Recommendation for Approval Forms (RAFs) provide the rationale for accepting a project and are also used to document the justification for approving the funding of projects. RAFs describe each project, identify the total project budget, amount requested and amount recommended. The recommended payment schedule is listed along with a high level project budget. RAFs were signed by the appropriate officers including the Program Officer, Manager, Director and Director General.

Proposals follow a standard format that includes information about the organization and the project, action plans and tentative milestone dates. Proposals identify communication and advertising plans as well as a description on how the participation of the Government of Canada will be acknowledged. The recipient's corporate by-laws or constitution are included, along with the minutes of its most recent annual meeting, a list of the Board of Directors and any additional documentation deemed important. Project budgets, cash flows, amount requested from Exchanges Canada and other sources of financial support are included and budgeted items are linked to specific activities and itemize planned expenditures for each item within the Program. To address TB Policy on Transfer Payment conditions for stacking of funding, Exchanges Canada verifies sources and amounts of funding from other organizations. These amounts are itemized separately in the audited financial statements.

The audit scope included the review of files for four cancelled projects in 2000-2001 and one rejected project in 2001-2002. No documentation existed in the files to describe why the projects were cancelled or rejected. The audit team noted that three of these



had reapplied and received project approval in 2001-2002 for the same dollar amounts for the projects cancelled in 2000-2001. One cancelled project in 2000-2001 had an approved project in 2001-2002 for twice the amount of the cancelled project. The Operational Guide indicates that the reason for rejection of a project should be documented. The audit team did not find rejection letters from Exchanges Canada, nor did the team find letters from the applicants indicating these projects were cancelled.

**Recommendation #3:**

**That the Director, Exchanges Canada ensure there is a section in the project file that provides rationale for and evidence of project cancellation or rejection.**

**Management Response:**

**Exchanges Canada is putting standardized procedures in place for rejecting and cancelling projects. The procedures include completing the GCIMS form that provides the rationale, printing a copy for the project file and keeping the files for rejected projects on-site for a full year following the year in which the project was rejected. The Operational Guide is being revised to incorporate GCIMS procedures for rejecting and cancelling projects as well as a model rejection letter.**

***B. Payment and Financial Processes***

The audit identified no significant missing information or lack of program controls. There is a well-defined management control framework in place within Exchanges Canada. The audit team found the Program to have a comprehensive Operational Guide that is used by Program Officers which helps to standardize all processes. The Operational Guide describes the management control framework, application workflow, guide to Monitoring and the RMAF and RBAF process. Based on the file review, the audit found that with few exceptions, Exchanges Canada is following its Management Framework Principles as set out in the Operational Guide.

The Operational Guide contains a description of the funding application workflow and indicates the requirement for an assessment/recommendation which is the responsibility of the Program Officer. The fifth step in this activity indicates that an Interdepartmental Working Group must recommend projects to the Exchanges Canada Advisory Board for approval. The audit team found that the Advisory Board does not exist and that there is



no evidence of such a board approving any application. Draft Terms of Reference and a draft of the roles and responsibilities of the Advisory Board have been developed but not yet approved or implemented.

**Recommendation #4:**

**That the Director, Exchanges Canada establish an Advisory Board to review applications for Innovative projects submitted by NGOs and OGDs under Youth Forums Canada.**

**Management Response:**

**The establishment of an Advisory Board was recommended in the context of an Exchanges Canada program funding 100,000 exchanges per year. Full program funding as not been allocated at this time. Therefore there is no funding available for new initiatives to be considered. In addition, the need for an Advisory Board was also determined in the context that Exchanges Canada would be delivered by a Special Operating Agency. The Department will not consider the creation of a SOA until full funding is confirmed for the future of Exchanges Canada. As such, the establishment of an Advisory Board will be pursued when future program funding has been confirmed.**

The audit found that Program payments comply with requirements specified in the *TB Policy on Transfer Payments*. Contribution Agreements identify the payment terms for recipients. The first payment is made after the Agreement is signed and upon receipt and approval by Exchanges Canada of the annual budget for the activities funded and a monthly cash flow statement. Interim payments are made on the basis of interim financial reports. Final payments are made only upon receipt and approval of a Final Activity Report and Financial Report.

Payment information contained in project files details payment processes and provides evidence that invoices and/or expenditures have been reviewed for eligibility and accuracy and that they have been appropriately approved. Files contained written analysis of interim financial reports. Recommendations and justification for payment or for withholding payment were clearly stated in the written analysis. Instances where payments were withheld were conducted in accordance with the Terms and Conditions of the Contribution Agreement. All files were appropriately signed off under Sections 33 and 34 of the Financial Administration Act.



The *TB Policy on Transfer Payments* does not specify minimum or maximum limits for capital spending and allows the Department to establish its own policies and procedures regarding capital assets.

The Statement of Work attached to the Contribution Agreements requires recipients to seek pre-approval from Exchanges Canada when purchasing capital assets over \$250. This low limit creates more work for the recipients and is impractical. It is the opinion of the audit team that there does not appear to be any increased risk to Exchanges Canada by increasing the pre-approved amount, which could reduce the amount of paperwork required by both Exchanges Canada and the funding recipient.

**Recommendation #5:**

**That the Director, Exchanges Canada increase the pre-approval amount for capital assets from \$250 to \$1,000.**

**Management Response:**

**Exchanges Canada will increase the base amount for pre-approval of capital assets from \$250 to \$1,000.**

**C.      *Program Administration and Project Monitoring***

According to the Operational Guide, findings from site visits should be documented using the "Monitoring Report" form, which enables Program Officers to standardize documentation prepared as a result of recipient site visits. The form identifies the visit number, date and main reasons for the visit. The form contains a checklist to ensure that the Program/Financial Officer has reviewed the administration of funds, verified expenditures and revenues for the relevant period and examined the financial records. Recommendations may also be documented.

The file review identified that documentation exists supporting site visits, however very few files contained a completed Monitoring Report Form. Files that included documentation on site visits consisted of Program/Financial Officer notes but the actual form, as per requirements set out in the Operational Guide, is not being consistently completed. The Form could be automated as a template to ensure consistency in the items reviewed and completeness of discussions that occur.

**Recommendation #6:**



**That the Director, Exchanges Canada ensure all program officers use a Monitoring Report Form when documenting results of a site visit to a funding recipient.**

**Management Response:**

**Subsequent to the years covered in the audit, Exchanges Canada has revised its monitoring reporting form to better suit the needs of Program Officers. This new form will contribute to a consistent reporting format for monitoring visits.**

Exchanges Canada has developed a comprehensive Contribution Agreement that specifies all necessary policy and program requirements of the recipient and the contributor. Included with each agreement is a Statement of Work outlining the program description, expected results, key activities, reporting requirements, milestones and any special conditions. The Statement of Work includes a cost breakdown with a list of eligible expenses and a payment schedule including a cash flow forecast.

Program files demonstrated evidence that recipients have abided by the terms and conditions of the Contribution Agreement. If the recipient did not abide by the terms and conditions, they did not receive payment.

In order for Exchanges Canada to achieve its objectives, funded exchanges are to include participants from all provinces and territories. In addition, special measures are taken to encourage participation of youth from four targeted groups: youth with disabilities, Aboriginal youth, youth from low income families and youth from rural or isolated communities. Program files contain evidence that funded exchanges were open to participants from all provinces and territories and encouraged the participation of youth from the four targeted groups.

Applications and proposals identify the estimated participation by region and target group. There are performance expectations described in the agreements and there are clear linkages between activities and expected results for individual exchange projects. The files reviewed contained evidence of consultation between program officers and recipients, which provided evidence that program officers reviewed interim reports and contacted recipients if performance expectations were not met. Program Officers also assess performance by reading interim reports submitted by recipients. Interim reports reviewed identified any variances between the budget and actual expenditures.

The Program has implemented a risk assessment, monitoring and reporting regime that facilitates appropriate and reliable measurement of results. For example, Contribution



Agreements include a Statement of Work that defines the allocation of eligible recipients per province or territory of residence and the number of participants expected from the targeted groups. Reporting requirements are defined and include descriptions of the Program Progress Reports, Statistical Reports, Participant correspondence data requirements and Final Program Report. Interim reports submitted to Exchanges Canada by recipients identify the registered number of participants compared to the allocated number of participants noted in the Contribution Agreement. Files contained evidence that Program officers monitor financial and activity reports.

To develop a plan for the monitoring of individual agreements, program officers use a Risk Assessment Form to help determine the number of site visits that should be made to an individual project. The Form helps to determine the extent of monitoring required by identifying seven risk attributes: dollar value; complexity of the activities or the Program; confirmation of additional funding; number of participants; previous experience with the contractor; duration of the Agreement; and public profile of the Agreement.

Each attribute is rated on a scale of 1 to 5, with one being low and 5 being high. The sum of the ratings yields the risk of the Program. Low risk Programs (1-14) are supposed to assign at least one monitor with preferably one on-site visit; medium risk Programs (15-23), two monitors with one on-site visit; and high risk Programs (24-35), three monitors with at least two on-site visits. Monitoring can include on-site visits and/or phone calls, reports, e-mails or other means of reviewing the performance of an Exchange project. The audit identified that 50% of the files containing a medium or high Risk Assessment demonstrated evidence of a site visit.

#### **Recommendation #7:**

**That the Director, Exchanges Canada, ensure that site visits are conducted as required and that they are adequately documented in each file.**

#### **Management Response:**

**Exchanges Canada will continue to hold monthly “Project Monitoring” meetings that serve as a Bring-Forward system for monitoring activities conducted by Exchanges Canada. The frequency and nature of monitoring exercises will continue to be determined by an initial risk assessment of the proposal, using the “Risk Assessment Template”. The Monitoring Reporting Form described in Management Response #6 will ensure that site visits are adequately documented in each file.**



## ***ANNEX A - MANAGEMENT ACTION PLAN***

<b>RECOMMENDATION</b>	<b>MANAGEMENT RESPONSE AND ACTION PLAN</b>	<b>TIMELINE</b>
<p>1. That the Director, Exchanges Canada consider the feasibility of making the promotional calendar accessible to the general public. This can be accomplished by providing an automated link from the Exchanges Canada website.</p>	<p>The promotional calendar was not designed for the general public, rather it was designed as a tool to coordinate promotional events for delivery organizations and Departmental Regional Communication staff. Many of the events listed in the calendar are not open to the public. The Exchanges Canada Web site, the 1-800 number and promotional activities undertaken in the context of the communications plan meet the need of the general public.</p>	
<p>2. That the Director, Exchanges Canada formally define its roles and responsibilities regarding any third party promotional items.</p>	<p>Exchanges Canada will issue a revised logo guide to all Recipients clarifying the responsibilities of the Recipients as per the Agreement, as well as the procedures and timelines that will apply in the approval of promotional materials.</p>	<p>Implemented in December 2002</p>
<p>3. That the Director, Exchanges Canada ensure there is a section in the project file that provides rationale for and evidence of project cancellation or rejection.</p>	<p>Exchanges Canada is putting standardized procedures in place for rejecting and cancelling projects. The procedures include completing the GCIMS form that provides for the rationale, printing a copy for the project file and keeping the files for rejected projects on-site for a full year following the year in which the project was rejected. The Operational Guide is being revised to incorporate GCIMS procedures for rejecting and cancelling projects as well as a model rejection letter.</p>	<p>February 2003</p>



<p>4. That the Director, Exchanges Canada establish an Advisory Board to review applications for Innovative projects submitted by NGOs and OGDs under Youth Forums Canada.</p>	<p>The establishment of an Advisory Board was recommended in the context of an Exchanges Canada program funding 100,000 exchanges per year. Full program funding has not been allocated at this time. Therefore there is no funding available for new initiatives to be considered. In addition, the need for an Advisory Board was determined in the context that Exchanges Canada would be delivered by a Special Operating Agency. The Department will not consider the creation of a SOA until full funding is confirmed for the future of Exchanges Canada. As such, the establishment of an Advisory Board will be pursued when future program funding has been confirmed.</p>	
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RECOMMENDATION	MANAGEMENT RESPONSE AND ACTION PLAN	TIMELINE
5. That the Director, Exchanges Canada increase the pre-approval amount for capital assets from \$250 to \$1,000.	Exchanges Canada will increase the base amount for pre-approval of capital assets from \$250 to \$1,000.	All future contribution agreements will include this change.
6. That the Director, Exchanges Canada ensure all program officers use a Monitoring Report Form when documenting results of a site visit to a funding recipient.	Subsequent to the years covered in the audit, Exchanges Canada has revised its monitoring reporting form to better suit the needs of Program Officers. This new form will contribute to a consistent reporting format for monitoring visits.	Implemented in May, 2002
7. That the Director, Exchanges Canada ensure that site visits are conducted as required and that they are adequately documented in each file.	Exchanges Canada will continue to hold monthly "Project Monitoring" meetings that serve as a Bring-Forward system for monitoring activities conducted by Exchanges Canada. The frequency and nature of monitoring exercises will continue to be determined by an initial risk assessment of the proposal, using the "Risk Assessment Template". The Monitoring Reporting Form described in Management Response #7 will ensure that site visits are adequately documented in each file.	Implemented in May, 2002