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*AUDIT OF THE
NATIONAL SPORT ORGANIZATION
SUPPORT PROGRAM*

FINAL REPORT

February 26, 2003

Department of Canadian Heritage
Corporate Review Branch
Assurance Services

Canada

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EXECUTIVE SUMMARY

The audit of the National Sport Organization (NSO) Support Program was conducted pursuant to the approved Department of Canadian Heritage (PCH) Audit and Evaluation Plan for 2002-2003.

The objectives of this audit were to provide program management with:

- assurance that the management framework, controls, and processes in place are effective in managing risk and ensuring that information for decision-making is reliable; and,
- recommendations, where applicable, to strengthen the management of the program to enhance the program's success in meeting its objective.

The audit team's conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted between July 4, 2002 and September 30, 2002. In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that the design, management framework, controls and processes in place for the NSO Support Program are effective in managing risk and ensuring that information used for decision making is reliable. However, the audit team did however identify some areas where management processes can be strengthened.

Our recommendations are as follows:

1. The examination of options for strengthening accountability for the Multi-Sport/Service Organization (MSO) and National Sport Centre (NSC) program components should be completed on a timely basis.
2. A Letter of Agreement should be prepared and signed between each NSC and its national partners which outlines the operating principles that guide NSC operations and accountability.
3. The performance measurement strategy outlined in the Results-based Management and Accountability Framework (RMAF) should be implemented to



ensure that the required performance information is communicated to recipients and program staff and that it is collected and tracked to provide reporting of results on the program.

4. Performance reporting should be implemented for the 2002/2003 fiscal year as required by the Treasury Board Secretariat (TBS) Policy on Transfer Payments.
5. TBS approval should be obtained to allow payments to recipients to continue up to 120 days after the termination of contribution agreements until such time as the Final Accounting By Block Reports is obtained by Sport Canada Program Officers.
6. Monitoring plans and practices executed by Program Officers should include ensuring the receipt of Final Accounting By Block Reports on a timely basis.
7. A generic contribution agreement should be prepared and include all terms and conditions identified in the relevant Sport Canada Contribution Guidelines as well as include clauses that:
 - limit the liability of the federal government, if applicable, where the recipient has entered into a loan, capital lease or other long term obligation in relation to the project for which contribution funding is being provided; and
 - require that any person lobbying on behalf of the applicant be registered pursuant to the Lobbyists Registration Act.



1.0 Background

The NSO Support Program is managed by the Sport Canada Branch of PCH. The program is designed to allocate and manage funding and program implementation within a wide range of organizations engaged in fulfilling Sport Policy objectives and priorities.

The objectives of the program are to: enhance the ability of Canadian athletes to excel at the highest international levels through fair and ethical means; enhance the programming, co-ordination, and integration of development activities aimed at advancing the Canadian sport system, through working with key partners; and increase access and equity in sport for targeted under-represented groups.

The NSO Support Program provides core and project funding to four distinct groups of sport organizations; specifically, National Single Sport Federations (NSFs), Sport Organizations for Athletes with Disabilities (SOADs), MSOs, and NSCs.

Support for these organizations is provided through five separate initiatives:

National Sport Federations/New Funding for Sport Program/Domestic Sport Program

The NSFs, New Funding for Sport and Domestic Sport components are brought together in a single component because they provide funding to organizations that have able bodied and/or disabled athletes as their members and use the Sport Funding and Accountability Framework (SFAF) and/or the Funding Framework for Athletes with a Disability (FAFAD) for eligibility requirements.

The eligibility of NSFs and SOADs for funding from the NSF Support Component and the New Funding for Sport Component is determined through the SFAF and/or the FAFAD. The NSF Support Program provides support to NSFs and SOADs for: administration; professional staff salaries and travel; coaches' salaries and travel; coaching development; officiating development; athlete development; national competitions; high performance programs; sport science and medicine; international meetings; and women's initiatives.

The funding from the NSF Support Program, the New Funding for Sport Program, and the Domestic Sport Program (DSP) component is allocated yearly, based on an annual review. Total program funds distributed in each of the past two years for this component (3 combined programs) are as follows 2002/2003 - \$42,980,000, 2001/2002



- \$41,503,090. The program provided funding to 53 organizations in 2002/2003 and 50 organizations in 2001/2002.

Multi-Sport/Service Organizations

A total of 18 MSOs provide essential services to the sport community through two major initiatives, namely:

- support for MSO programs, services and administration; and
- support for Games Missions associated with Canadian teams at Major Games including travel, accommodation, meals, medical and paramedical services, and administration.

The 18 MSOs supported by this component are grouped into four organizational categories according to their primary mandate: advocacy; service; education; and, games.

The funding from the MSO Support component is allocated yearly, based on an annual review. Total program funds distributed in each of the past two years for the MSO Support component are as follows: 2002/2003 - \$8,155,000, 2001/2002 - \$8,469,000.

National Sport Centres

The NSC component consists of a network of eight centres in Vancouver, Calgary, Saskatchewan, Winnipeg, Toronto, Montreal, Quebec City and Atlantic Canada. The network of NSCs, which also includes Victoria as a legacy of the 1994 Commonwealth Games, was created in the mid-90's through partnerships with the Coaching Association of Canada, the Canadian Olympic Association, and Sport Canada. The partners view the Centres as a major vehicle for both enhancing the level of athlete performances and increasing the efficiency in delivering services to high performance athletes and coaches. Centre services complement high performance programming of NSFs and focus on coordinating access and delivery of essential support services for athletes and coaches.

The funding from the NSC component is allocated yearly, based on an annual review. Total program funds distributed in each of the past two years for the NSC component were as follows: 2002/2003 - \$3,400,000; and 2001/2002 - \$3,400,000.

In April 2002, a new Canadian Sport Policy was endorsed by the federal/provincial/territorial ministers responsible for sport. The policy represents a shared vision and direction for sport development and is designed to enhance sport



through Canada over the next ten years in four primary areas: participation, excellence, capacity and interaction. Program Management and staff have been working on updating program terms and conditions, Sport Canada Guidelines, RMAF and Risk-based Audit Framework (RBAF), and processes to reflect changes in the policy. The NSO Support Program name has been changed to Sport Organization Support Program (SOS).

The audit of the NSO Support Program was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2002-2003.

2.0 Audit Objectives and Scope

The objectives of this audit were to provide program management with:

- assurance that the management framework, controls, and processes in place are effective in managing risk and ensuring that information for decision-making is reliable; and,
- recommendations, where applicable, to strengthen the management of the program to enhance the program's success in meeting its objective.

The scope of the audit covered funding decisions from April 1, 2001 to March 31, 2003. Areas that were addressed included: Program Design and Implementation; and Program Management Framework and Processes, including the application of due diligence in the review of funding applications, the on-going monitoring of approved funding and the reporting of results achieved.

3.0 Audit Approach

The audit was conducted in accordance with generally accepted auditing standards, and the standards and requirements set out in the TBS Policy on Internal Audit.

The audit approach included the development of audit criteria against which observations, assessments and conclusions were drawn. These criteria were derived primarily from the "Attributes of a Well-Managed Grant or Contribution Program" outlined in the Office of the Auditor General (OAG) publication, "A Framework for Identifying Risk in Grant and Contribution Programs" and the TBS Transfer Payment Policy. The audit criteria are presented in Section 4 below.



Work performed included:

- conducting interviews with program management and officers;
- conducting interviews with representatives from PCH Finance Branch, Grants and Contributions Secretariat, and Corporate Review Branch;
- reviewing relevant program documentation;
- conducting a risk assessment on key contribution program activities and processes; and,
- conducting detailed reviews of a representative sample of recipient files. The audit coverage achieved is outlined below:

2002/2003					
TYPE & TOTAL NUMBER OF ORGANIZATIONS	\$ AUDITED RECIPIENTS	TOTAL PROGRAM FUNDS DISTRIBUTED	% TOTAL \$ AUDITED	# FILES AUDITED	% FILES
NSO = 53	10,116,000	31,425,000	32%	13	25%
MSO = 18	4,035,000	8,155,000	49%	4	22%
NSC = 8	1,500,000	3,400,000	44%	3	38%
TOTAL	\$ 15,651,000	\$ 42,980,000	36%	20	25%
2001/2002					
NSO = 50	9,577,200	29,634,090	32%	13	26%
MSO = 19	3,730,000	8,469,000	44%	4	21%
NSC = 8	1,500,000	3,400,000	44%	3	38%
TOTAL	\$ 14,807,200	\$ 41,503,090	36%	20	26%

4.0 Audit Criteria

The criteria used to address the audit objectives were approved by the Department's Corporate Review Branch. The criteria address both the design of the program as well as the program management framework and processes in place for the program. The audit criteria are listed below:



Program Design

1. The design of the NSO Support Program is consistent with the TBS Policy on Transfer Payments.
2. The objectives of the NSO Support Program are linked with the strategic direction of the Department.
3. There is appropriate authority for the NSO Support Program.
4. The design of the NSO Support Program addresses risks to the Department and includes an RMAF and RBAF.
5. The management of the NSO Support Program is organized with sufficient resources.
6. Roles and responsibilities related to the management of the NSO Support Program are well defined, clear and well communicated.
7. The program mandate, objectives and expected results are clearly understood by Departmental program officers.
8. Policies, guidelines/training, tools and processes are in place to ensure compliance with the Financial Administration Act and with TBS Policy on Transfer Payments and to ensure financial management over funding provided to recipients.
9. Expected indicators of program performance and results are clear and measurable, and are linked to the program objectives.
10. Monitoring over contribution activities and processes is performed and is risk-based.
11. Recipient audits are performed and are risk-based.
12. There is a financial system that tracks and reports contribution related information that is relevant for management and decision making purposes.



13. Program performance and results are reported to Parliament and to TBS.

Program Management Framework and Processes

1. NSO Support Program information is well communicated to create awareness for all potential applicants.
2. Applicant guidelines and application forms for both the program eligibility process and the annual application process are communicated in an open and transparent manner.
3. Program eligibility criteria for applicants for the NSO Support Program are applied in a fair and consistent manner in accordance with the TBS Policy on Transfer Payments and with Departmental policies and procedures.
4. Evaluation criteria for applicant funding on an annual basis are applied in a fair and consistent manner in accordance with the TBS Policy of Transfer Payments and Departmental policies and procedures.
5. Contribution agreements are prepared and signed that include terms and conditions in accordance with the TBS Policy on Transfer Payments and the TBS approved program terms and conditions.
6. Payment and recovery activities and processes, including the exercising of financial authorities, are carried out in accordance with the Financial Administration Act, and with TBS and Departmental policies and procedures.
7. Performance and results reports are received from applicants on a timely basis and are reviewed by appropriate officials with the overall results reported in an appropriate manner to Departmental senior management.
8. Monitoring plans are produced annually, and monitoring activities are carried out in accordance with these plans.
9. Recipient audit plans are produced annually, and recipient audit activities are carried out in accordance with these plans.

5.0 Statement of Assurance



The audit team's conclusions are based on the assessment of findings against the pre-established criteria as defined in section 4 above and reflect the audit work conducted between July 4, 2002 and September 30, 2002. In the audit team's opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that the design, management framework, controls and processes in place of the NSO Support Program are effective in managing risk and ensuring that information used for decision making is reliable. However, the audit team did identify some areas where management processes can be strengthened. The findings and recommendations that follow address these areas.

6.0 Findings and Recommendations

6.1 Accountability Framework for Program Components

The objective of an accountability framework for funding programs is to ensure that monies will be used to further program objectives. Two key elements of an accountability framework are the definition of criteria for program eligibility and the determination of annual funding levels.

We have outlined below our findings for each program component.

NSF/SOAD Components

The accountability frameworks (the SFAF and FAFAD) for the NSF/SOAD component of the NSO Support Program identify organizations that are eligible for program funding, determine the level and area of funding, and monitor the use of funding. Applicant eligibility for program funding is assessed every four years based on meeting the requirements of the SFAF and FAFAD. A funding ranking of applicants is produced based on their objective contribution to stated federal sport priorities, and the impact of federal contributions is monitored through program accountability. Funding decisions each year also consider the applicants' SFAF and FAFAD reference level.

The audit team found that:



- the assessment process for program eligibility is rigorous;
- the annual funding application process was followed in a consistent manner; and
- funding decisions were made after careful consideration of the submitted applications and the size of the program budget.

MSO Component

The process for determining eligibility for MSOs involves assessment of factors that are qualitative in nature. Funding eligibility is determined by Sport Canada after taking into consideration MSO services to the sport community and the fit with Sport Canada's strategic directions and goals. MSO operational plans are reviewed to ensure that MSO program objectives complement the Canadian Sport Policy. Annual funding covers core expenses and is based on historical precedent.

The audit team found that:

- program management is currently examining options for strengthening accountability for the MSO program component;
- the application process was followed in a consistent manner; and
- funding decisions are made after careful consideration of the submitted applications and the size of the Program budget.

NSC Component

Funding eligibility for NSCs is limited to the current network of eight NSCs. The Sport Canada Guidelines state that "A Letter of Agreement between each NSC and the national partners outlines the operating principles that guide NSC operations and accountability". Funding provided covers core expenses and is based on historical precedent. Annual funding applications are supported by documentation on future plans and requirements, as well as program achievements in the preceding year. The plans and past achievements cover financial, operational and technical areas.

The audit team found that:

- program management is currently examining options for strengthening accountability for the NSC program component;
- the above noted Letter of Agreement does not exist at this time;
- the application process was followed in a consistent manner; and
- funding decisions are made after careful consideration of the submitted applications and the size of the program budget.



A Letter of Agreement with clearly defined operating principles would enhance accountability and decision making to ensure that funds are used to further program objectives.

Recommendations

- 1. The Director, Sport Programs should ensure that the examination of options for strengthening accountability for the MSO and NSC program components is completed on a timely basis, and that this considers program eligibility criteria and criteria for determining funding levels.**
- 2. The Director, Sport Programs should ensure that a Letter of Agreement is prepared and signed between each NSC and the national partners which outlines the operating principles that guide NSC operations and accountability.**

Management Responses

- 1. Development of Accountability Frameworks, with national standards, for the MSO and NSC clients has been started and will be implemented April 1, 2003. Program eligibility criteria and criteria for determining funding levels will be examined during 2003-04 to determine best approaches and alignment with the Canadian Sport Policy.**
- 2. With the move to Accountability Frameworks between the NSCs and Sport Canada, the Letter of Agreement is no longer required and has been removed from the guidelines as a requirement. Accountability Frameworks contain the national standards that each NSC has to achieve. The Accountability Framework will be implemented April 1, 2003.**

6.2 Reporting of Program Performance and Results

Internal Reporting of Program Performance and Results

The RMAF for the program identifies intended results, performance indicators, data

sources/collection methods, measurement frequency and the responsibility for collecting and reporting the data.

The audit team found that the program has not communicated the performance information reporting requirements outlined in the RMAF to recipient organizations. As a result, information sent by recipients is varied and does not facilitate the consolidation of program performance information for departmental senior management reporting purposes. Recent evaluations conducted on the three components of the NSO program identified performance data requirements as an area where program management needs to make improvements to develop processes to standardize the capture of information and the reporting from recipients to enable reporting on overall results of the program.

External Reporting of Program Performance and Results

The TBS Policy on Transfer Payments requires departments to have detailed reporting on performance and results. The policy requires that for each transfer payment program with transfers in excess of \$5 million, departments must include in the Departmental Report on Plans and Priorities supplementary descriptive material, such as stated objectives, expected results and outcomes, and milestones for achievement. In addition, departments must include in the Departmental Performance Report evidence of results achieved, related to results commitments and specific planned results as stated in their Reports on Plans and Priorities.

The audit team found that the following reporting on the program does not comply with the above requirements :

- the PCH 2002-2003 Estimates - Part III Report on Plans and Priorities provides only a brief narrative description of the NSO Support Program; and
- the Performance Report for the period ending March 31, 2001 includes only summary information on the program.

Recommendations

- 3. The Director, Sport Programs should implement the performance measurement strategy outlined in the RMAF to ensure that the required performance information is communicated to recipients and program staff and that it is collected and tracked to provide reporting of results on the**
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program.

4. The Director, Sport Programs should work closely with the Planning and Corporate Affairs Sector to ensure that performance reporting be implemented for the 2002/2003 fiscal year as required by the TBS Policy on Transfer Payments.

Management Responses

3. The performance measures included in the Program's RMAF are being communicated to the clients through the 2003-04 contribution application process. Clients will be required, as appropriate, to provide performance measurement data as part of their application and/or by other mechanisms as required. Sport Canada is developing a database to house the data collected, with a roll-up report to be prepared in the Fall 2003.

Baseline data for NSOs regarding Accountability Framework National Standards was collected in the Fall 2002 and will be part of the Fall 2003 roll-up report. Baseline data for MSOs and NSCs will be collected during the 2003-04 fiscal year.

4. The recommendation has implications with respect to the Department's method of reporting of program performance through the DPR. Sport Canada will work with the appropriate Branch within the department to improve program reporting and is prepared to provide additional information as required.

6.3 Final Accounting By Block Reports

Findings

The TBS Policy on Transfer Payments requires that a portion of a contribution should only be paid following the final accounting for the contribution by the recipient. This requires that departments withhold a portion of funds for a given year until all reporting requirements are met. This amounts to a holdback, which is usually applied at a rate of 10%. The policy further states that Departments must seek TBS approval for any exception to the cash management policy.



The audit team found that no holdback is made on current year instalments and that the program has not obtained TBS approval to allow payment of the final months instalment to recipients before Final Accounting By Block Reports are submitted.

The NSO Program Guidelines state that recipients must provide Sport Canada with a Final Accounting By Block Report which is used to assess whether spending was in accordance with contribution agreement terms and conditions. The guidelines further provide for these reports to be submitted within 120 days after the termination of the Contribution Agreement and that September and subsequent monthly contribution payments are contingent upon receipt of the final accounting from the previous fiscal year. This design is not compliant with the TBS Policy on Transfer Payments.

The testing of contribution files revealed that some organizations had not provided the Final Accounting By Block Report related to contributions received during the 1999/2000 fiscal year and still received payments for 2001/2002 and 2002/2003. October 2002 payments were withheld for organizations who had not submitted outstanding Final Accounting By Block Reports for 2001/2002 by the end of August.

Recommendations

5. **The Director, Sport Programs should seek TBS approval to allow payments to recipients to continue up to 120 days after the termination of contribution agreements until such time as the Final Accounting By Block Reports is obtained by Sport Canada Program Officers.**
6. **The Director, Sport Programs should ensure that monitoring plans executed by Program Officers include following up on the receipt of Final Accounting By Block Reports by recipients.**

Management Responses

5. **The revised Terms and Conditions follow Treasury Board Policy with respect to Advance Payments. The revised Contribution Agreement that has been drafted for use commencing April 1, 2003 indicates that installments for September and beyond shall only be paid after receipt and acceptance by the Department of the Recipient's final accounting from the previous fiscal year.**
6. **Sport Canada will create a system where Program Officers remind**



recipients that accounting is due. A reminder will be sent to them in early June with follow-up in early July. Implementation is scheduled for fiscal 2003/04.

6.4 Contribution Agreement Terms and Conditions

The audit team found that the existing generic contribution agreement used by the program is consistent with the requirements of the TBS Policy on Transfer Payment, with the exception that it does not include clauses to:

- limit the liability of the federal government, if applicable, where the recipient has entered into a loan, capital lease or other long term obligation in relation to the project for which contribution funding is being provided; and
- require that any person lobbying on behalf of the applicant be registered pursuant to the Lobbyists Registration Act.

The revised agreement needs to include the clauses identified above that are not included in the current agreement to mitigate the associated risks to the department.

The audit team also noted that the Sport Canada Contribution Guidelines form part of the existing contribution agreement. Therefore, it is necessary to refer to both documents to identify the terms and conditions to which an organization is accountable. A single contribution agreement document with clearly articulated terms and conditions would improve understanding and compliance to obligations outlined therein.

The audit team understands that the contribution agreement is in the process of being revamped by PCH program management with assistance from PCH Finance.

Recommendation

- 7. The Director, Sport Programs should ensure that the new generic contribution agreement include the clauses as outlined above, as well as all terms and conditions identified in the relevant Sport Canada Contribution Guidelines.**



Management Response

- 7. Sport Canada has developed a new contribution agreement to be put in place for April 2003. The new contribution agreement includes the generic clauses and includes or references all terms and conditions identified in the Sport Canada Contribution Guidelines. PCH Finance and Legal staff were consulted in the development of the document and the document is consistent with Treasury Board guidelines.**