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REPORT ON THE

**AUDIT OF THE HOSTING PROGRAM (SPORT CANADA)
ASSURANCE SERVICES DIRECTORATE**

CORPORATE REVIEW BRANCH

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EXECUTIVE SUMMARY

The audit of the Hosting Program was conducted pursuant to the approved Department of Canadian Heritage (PCH) Audit and Evaluation Plan for 2004-2005. The purpose of the audit was to provide senior management with assurance on the soundness of program processes; determine where the organization is most exposed to risk; and recommend remedial actions as appropriate. The scope of the audit covered funding decisions for the 2002-2003 and 2003-2004 fiscal years.

The audit team's conclusions are based on the assessment of findings against the preestablished objectives as defined in section 2 and reflect audit work conducted between June 16 and September 30, 2004. 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.

The audit team found that the Hosting Program is generally well managed. This is particularly the case for the International Single Sport Events (ISSE) Program component which has in place formal practices and controls to assess and approve applications.

The audit team identified some areas where management practices and processes could be strengthened:

- The current budget planning process does not ensure adequate funding will be available to meet all program commitments.

- Frameworks have been developed and/or implemented for various events. However, a coordinated strategic approach for prioritizing hosting sport events has not been established for all four categories of the Hosting Program. A risk exists that the benefits of hosting events may not be maximized without a clear approach or rationale for hosting international and national sport events.

- In view of the restructuring of the unit to a division, and the complexity of the program process, there is a risk that corporate memory may not be adequately transferred. In addition, new employees may not have access to formal documentation to assist them, other than the knowledge passed on by experienced officers.

- The application assessment process for IMSE and Strategic Focus Events needs to be formalized to ensure due diligence is applied consistently across the four

- program components. What exists for ISSE could serve as a model. File documentation needs to be improved, more specifically at it relates to the RAF to ensure decisions made are properly supported.

- Due diligence on payments and recoveries needs to be strengthened. There are currently no controls in place to ensure that supporting documentation, as requested per the agreement, is received and analyzed before a payment is made and that systematic recovery actions are taken for surplus funds.

- The use of three different systems to manage the grants and contributions information of the Hosting Program leads to inefficiencies (duplicate data entry, no central repository of information) and increases the risk of errors (data integrity).

- There is a need to strengthen and formalize the process for monitoring and reporting on the Program performance.

- A formal audit plan, based on risk, has not yet been developed for the audit of recipients.

The audit report includes nine recommendations. Management agrees with all recommendations. According to the management responses, one recommendation has been implemented and the others will be addressed by 2006-2007.

1.0 BACKGROUND

The Hosting Program is administered by the Major Games and Hosting Division, Sport Canada Branch, PCH. Athletes, coaches, officials, volunteers, administration members, media participating in hosted events and visitors/viewers benefit from the program.

The recipients of the program are organizations that are incorporated under federal or provincial law for the specific games/events, as nonprofit organizations. Events are supported in one of four categories:

- *International Single Sport Events* (ISSE): includes World Championships, Olympic/Paralympic Qualification Events, World Cup, or major regional competitions.

- *International Multisport Events (IMSE)*: includes the Olympic/Paralympic Games (winter and summer), the Commonwealth Games, and the Pan American Games.

- *Strategic Focus Events*: includes the Jeux de la Francophonie Internationale and the North American Indigenous Games (NAIG).

- *Canada Games*: annual contributions are made to host societies to support these events that are held every second year, alternating between summer and winter.

Hosting Program Targets

Specific targets and objectives of Sport Canada that apply to the Hosting Program are outlined in the program's Terms and Conditions as:

a) High Performance Athletes and Coaches: to enhance the ability of Canadian athletes to excel at the highest international levels through fair and ethical means.

b) Sport System Development: to enhance the programming, coordination, and integration of developmental activities aimed at advancing the Canadian sport system through working with key partners.

c) Strategic Positioning of Sport: to advance the broader federal government objectives through sport; to position sport in the federal government agenda; and to promote the contribution of sport to Canadian society.

d) Access and Equity: to increase access and equity in sport for targeted under-represented groups.

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Partners

The program's partners include provincial, territorial and municipal governments, corporate sector sponsors, and other federal departments; Canadian major games franchise holders recognized by a sanctioning international federation; national sports federations that meet eligibility requirements of Government of Canada's "Sport Funding and Accountability Framework"; and host societies incorporated as not-for-profit corporations.

Hosting/Funding Decision Process

Processes differ according to the type, scope, cost and benefits associated with the event under consideration.

ISSE and IMSE

Project approvals under the International Single Sport Events (ISSE) and International Multisport Events (IMSE) require that National Sport Organizations (NSO) and/or Multisport Service Organizations (MSO) meet the full requirements of the Sport Funding and Accountability Framework (SFAF). The SFAF is the process used by Canadian Heritage to identify which National Sport Organizations (NSOs) are eligible for Sport Canada contribution programs, in what areas, at what level and under what conditions. The process includes four components: eligibility, assessment, funding and accountability. Decisions to provide funding to an organization are made upon completion of this process. Funding is based on a general funding range by category for amounts generally less than $50,000. Special conditions apply for amounts above $50,000. An agreement with the relevant Organizing Committee or National Sport Organization is prepared to specify the terms and conditions to federal involvement, particularly with regard to financial arrangements.

Strategic Focus Events

Strategic Focus Events, where not governed by a Federal-Provincial/Territorial Agreement, are reviewed on a case by case basis to determine if hosting the event will further the national sporting interest in a manner consistent with the Government of Canada's policy objectives for sport as well as their contribution to increased opportunities in sport for under-represented groups. Inter/Intra departmental meetings are held to determine other federal department and agency involvement. Negotiations follow with the Organizing Committee and other funding partners on the elements that will be contained in the multi-party agreement. Following the Minister's announcement, an agreement is developed with the appropriate Organizing Committee.

The Canada Games

Hosting of the Canada Games is based on a hosting cycle established by the federal, provincial and territorial governments. Following the creation of a host society, a multi-party agreement is negotiated and signed by the host society, the three levels of government and the Canada Games Council. Sport Canada reviews all host society plans, progress reports and financial statements to ensure that the host society's obligations are met. Federal funding to host societies is based on a financial framework agreed upon by the federal, provincial and territorial governments. The existing financial framework was established in 1989.

2.0   OBJECTIVES

The purpose of the audit was to provide senior management with assurance on the soundness of program processes; determine where the organization is most exposed to risk; and recommend remedial actions as appropriate. The audit specifically provided the following:

- assurance that the program's management control framework (including risk management processes, governance structure) were effective;

- assurance on the reliability of information used for decision making and reporting; and

- recommendations, as appropriate, to improve program management and enhance the program's success in meeting its objectives.

3.0   SCOPE

The audit of the Hosting Program was conducted pursuant to the approved Department of Canadian Heritage (PCH) Audit and Evaluation Plan for 2004-2005. The scope of the audit covered funding decisions for the 2002-2003 and 2003-2004 fiscal years. Audit fieldwork was conducted between June and September 2004 and included program activities in the Hosting Program headquarters in the National Capital Region and PCH Québec regional office in Montréal.

4.0   APPROACH AND METHODOLOGY

The audit was conducted in accordance with the standards set out in TB Policy on Internal Audit. These standards require that the audit is planned and performed in a manner that allows the audit team to provide assurance on the audit findings. 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 Treasury Board (TB) *Policy on Transfer Payments*. Detailed audit criteria are presented in Appendix A. Work performed included:

- conducting interviews with program management and officers at headquarters and in the Montreal regional office;

- conducting interviews with representatives from PCH Finance Branch and the PCH Grants and Contributions Center of Expertise;

- reviewing relevant program documentation and policies;

- conducting a detailed process mapping of program operations;

- conducting a risk assessment on key contribution program activities and processes;

- conducting detailed reviews of a representative sample of recipient files (the audit coverage achieved is outlined in Table 1 below); and

- reviewing the process surrounding how applications that did not meet the program criteria are addressed.

Table 1   Summary of Audit Coverage

Program	Total Program Funds Distributed	$ Recipient Files Audited	% of Audited files $	Total # of Recipient Files	# Audited Files	% Audited Files
Fiscal Year 2003-2004						
ISSE	$14,244,300	$13,531,800	95%	43	15	35%
IMSE	$1,976,450	$1,976,450	100%	2	2	100%
Strategic Focus Events	$500,000	$300,000	60%	4	2	50%
Canada Games	$8,550,000	$5,900,000	69%	2	1	50%
Total	**$25,270,750**	**$21,708,250**	**86%**	**51**	**20**	**39%**
Fiscal Year 2002-2003						
ISSE	$8,665,000	$7,825,000	90%	39	12	31%
IMSE	$100,000	$100,000	100%	1	1	100%
Strategic Focus Events	$1,680,000	$1,680,000	100%	1	1	100%
Canada Games	$5,475,666	$4,775,666	87%	3	2	67%
Total	**$15,920,666**	**$14,380,666**	**90%**	**44**	**16**	**36%**
Grand Total	**$41,191,416**	**$36,088,916**	**88%**	**95**	**36**	**38%**

5.0   CONCLUSIONS

The audit team's conclusions are based on the assessment of findings against the criteria defined in Appendix A. 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.

The audit team found that the Hosting Program is generally well managed. This is particularly the case for the ISSE Program component which has in place formal practices and controls to assess and approve applications.

The audit team identified that the following areas should be improved:

- Budget planning process;
- Coordinated strategic approach for prioritizing hosting sport events;
- Transfer of corporate memory;
- Application assessment process for IMSE and Strategic Focus Events;
- Due diligence on payments and recoveries;
- Information Management;
- Performance monitoring and reporting; and
- Risk management for recipient audits.

The audit report includes nine recommendations. Management agrees with all recommendations. According to the management responses, one recommendation has been implemented and the others will be addressed by 2006-2007.

Management Response Overview

The Sport Canada Branch of Canadian Heritage is pleased to note that the Hosting Program audit team found that the Hosting Program is generally well managed, particularly in the case of the International Single Sport Events component of the Program that has in place formal practices and controls to assess and approve applications.

While the overall conclusions of the audit are positive and supportive of the current direction of the Hosting Program, it is of great value to the program to receive the audit team's recommendations. Although some require more specific follow-up, for the most part the recommendations are consistent with work being prepared under the Umbrella RMAF and RBAF, both currently under development, and the proposed Strategic Hosting Framework for Hosting International Sport Events (Strategic Framework), which has been approved by the F-P/T Ministers Responsible for Sport and is pending federal approval. Once implemented, the proposed Strategic Framework will bring a coordinated approach to the processes of bidding and awarding bids to host international sport events in Canada. Not only will it provide an intergovernmental approach for the hosting planning process, but it will also provide a new decision-making methodology to the process.

Most pointedly, the audit confirmed the need to secure funding to adequately deliver the program; a key piece accompanying the proposed Strategic Framework.

The audit highlights some issues regarding documentation. The findings note that the Branch has more work to do in implementing systemized documentation of the funding application process, particularly in the case of rejected files, and in strengthening and formalizing its assessment and approval processes. PCH (Sport Canada) has already initiated several significant changes to the processes that have introduced systematic steps and the establishment of criteria for the application process; anticipated further developments include the documentation of processes and the establishment of a consistent approach to assessment analysis.

Many of the recommended areas of improvement, particularly around performance reporting and risk management, were known to management and have seen improvements over the past year. This is evidenced in the development of the Umbrella RMAF, the Umbrella RBAF and in the development of the Audit of Recipients Cycle planning document. Sport Canada will continue to work with Corporate Review Branch to effect improvements and mitigate risk in the management of the Hosting Program.

6.0   OBSERVATIONS AND RECOMMENDATIONS

6.1   Program Design

6.1.1 Program Funding

The Government of Canada through the Hosting Program provides a significant portion of funding for major games and international sport events by assisting sport organizations or organizing committees to host international sport events or the Canada Games in Canada. Program funding can vary considerably by event and by fiscal year. Contributions for individual events may reach a maximum of $10M.

As mentioned in the terms and conditions of the class contribution of PCH, Federal participation is not to exceed 35% of overall event cost and 50% of public sector contributions. TB's approval is to be obtained in all instances where federal participation (PCH and other federal departments) will exceed the maximum amount. Additional funding is sought from TB to meet funding requirements as a result of unplanned events being held and for events that exceed the maximum allowable federal government contribution of 35%.

During the 2003-04 fiscal year, contributions to recipients totaled $25.3M for sport hosting events. Given that program funding was established at $15.0M for the 2003-2004 fiscal year, a gap of $10.3M was identified to meet program commitments.

In order to meet all commitments, additional funding was obtained from the following sources: Reprofiling within Sport Canada, specifically between the Hosting Program and the Athlete Assistance Program; and at the departmental level, either from one or more programs lapsing funds a few months before the end of the fiscal year.

The audit team noted that this deficit appears to be recurring from year to year. The program has to repeatedly obtain funding from TB for specific sport events such as the Hamilton Commonwealth Games Bid and the Whitehorse Canada Games.

> **6.1.1.1** *Observation: The current budget planning process does not ensure adequate funding will be available to meet all program commitments.*
>
> **Recommendation**: That the Director General, Sport Canada review the budgetary planning process for the Hosting Program in order to determine allocations required to adequately deliver the Program and secure appropriate level of funding.

6.1.1.2 Management Response

Recommendation Accepted

PCH (Sport Canada) has identified, within the constraints of existing budget levels, specific funds to be strategically allocated to hosting opportunities. In addition, PCH (Sport Canada) has developed a proposed Strategic Framework to coordinate the bidding and hosting of events in Canada. The Strategic Framework allows for the strategic planning of event hosting and matching of funding requirements to those events.

Approval will be sought to implement the Strategic Framework and to secure corresponding program funding. Concurrent activities contributing to the implementation of the Strategic Framework are the operationalization of an expert group to coordinate the identification of events to host and the revision of the *Federal Policy for Hosting International Sport Events (2000)*.

The implementation of the Strategic Framework will be carried out during the 2006-07 fiscal year.

Timing: April 1, 2007

6.1.2 Strategic Approach for Hosting Sport Events

The Hosting Program is governed by a variety of policies and agreements, including: the *Federal Policy for Hosting International Sport Events* (Hosting Policy); the 1997 *Clear-Lake Resolution for the Canada Games*; and the *Canadian Sport Policy* (CSP). These policies and agreements were sanctioned by PCH.

The CSP presents a powerful vision for sport in Canada. Two years in the making, the CSP reflects the interests and concerns of 14 government jurisdictions, the Canadian sport community, and of other organizations and agencies that influence and benefit from sport in Canada. The CSP calls for a coordinated approach to maximize the benefits of hosting sport events.

The Hosting Policy is a key instrument in the federal government's overall approach to sport development in Canada. It is designed to work with other government initiatives essential to the vitality of the sport system.

A Strategic Framework on Hosting International Sport Events (Strategic Framework) was under development by PCH in 2003-04 to meet a series of objectives for hosting and financially supporting international sport events. For example, objectives include the hosting of two major IMSEs every ten years, the hosting of one large ISSE event every two years and 30+ ISSEs in Canada. At the time of the audit, implementation of the framework was pending final approvals.

The framework does not cover the following events: Strategic Focus Events and Canada Games.

For the Strategic Focus Events, a framework is currently being developed regarding the governance of North American Indigenous Games (NAIG) and will come into effect in 2008. *Les Jeux de la Francophonie* which have an important cultural content and achieve broader government purposes are determined by government objectives.

For the Canada Games and the travel for the Arctic Winter Games, they are governed by Federal/Provincial agreements.

> **6.1.2.1** *Observation: Frameworks are being developed or implemented for various events. However, a coordinated strategic approach for prioritizing hosting sport events has not been established for all categories of the Hosting Program. A risk exists that the benefits of hosting events may not be maximized without a clear approach or rationale for hosting international and national sport events.*
>
> **Recommendation**: That the Director General, Sport Canada establish a coordinated approach for prioritizing the hosting of sport events.

> **6.1.2.2 Management Response**
>
> **Recommendation Accepted**
>
> The *Federal Policy for Hosting International Sport Events (2000)* guides the PCH (Sport Canada) Hosting Program, which identifies the four components of the program, namely:
> 1) Canada Games;
> 2) International Single Sport Events (ISSE);
> 3) International Multisport Events (IMSE); and
> 4) Strategic Focus Events.

The proposed Strategic Framework, pending approval, will provide the means to implement a coordinated approach for funding for the ISSE and IMSE components that takes into consideration activities within all four program components. Once approval is received, this coordinated approach will be formalized through the program renewal process. A document explaining the coordination of the frameworks will also be developed.

PCH (Sport Canada) will consider the future inclusion of Strategic Focus Events as part of the Strategic Framework's coordinated approach to funding.

As the Canada Games are governed under a separate F-P/T accord (the *Clear Lake Agreement*), they are not subject to the Strategic Framework.

Timing: April 1, 2006

6.2   Management Control Framework

6.2.1 Roles and Responsibilities

In June 2003, the Major Games and Hosting Unit was given an independent structure within Sport Canada, as the Major Games and Hosting Division. At the time of the audit, the management team of the new organization consisted of an acting Director and two managers. The organization operates as a matrix, where program officers work on core business (primarily ongoing program management), or lead, manage or support projects that are typically games hosted in Canada or missions abroad.

The audit team noted that:

- The organization has been in transition for the past few years, with numerous changes and acting assignments at the manager and director levels. Presently, newly recruited program officers are generally trained by experienced officers and training is primarily provided and received on-the-job; and

- With the exception of the ISSE, procedures or training manuals have not been developed to guide new program officers.

    6.2.1.1 *Observation: In view of the restructuring of the unit to a division, and the complexity of the program process, there is a risk that corporate memory may not be adequately transferred. In addition, new employees may not have access to formal documentation to assist them, other than the knowledge passed on by experienced officers.*

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Recommendation: That the Director General, Sport Canada ensure that formal processes and procedures, including definition of responsibilities and training requirements of program officers, are developed, communicated and implemented.

6.2.1.2 Management Response

Recommendation Accepted

The Major Games and Hosting division has adopted a management approach that formalizes the process of knowledge transfer and promotes clear lines of reporting. As part of this process, a number of steps are taken upon the arrival of Sport Canada staff. Both Branch and Departmental orientation manuals are made available to provide an overview of the working environment. A Divisional manual has also been developed to provide more specific information relating to the division's activities and responsibilities. Additional opportunities for knowledge transfer include monitoring, evaluation, division retreats, staff training, and work plans based on structured portfolios.

Timing: **Underway, to be completed by April 1, 2006**

6.2.2 Assessment and Approval of Applications

The application assessment process is based on eligibility requirements which are clearly stipulated in three documents. The *Federal Policy for Hosting International Sport Events* apply to the ISSE, IMSE and Strategic Focus Event*,* the Sport Contribution guidelines applies to ISSE and the 1997 *Clear Lake Resolution* is addressed to the Canada Games.

To assist program officers in applying due diligence in the assessment of applications, contribution Guidelines have been developed for ISSE. Those guidelines provide sound guidance on events that are eligible to receive financial support based on the funding priorities. They also include elements to be considered by National Sport Organizations (NSOs) applying for support, instructions for funding application, guidelines for official languages, an implementation and application process and procedures, and a variety of forms and checklists. Among other things, the contribution guidelines require that the identification of significant management and economic risks that may impact the organization of the project be identified and that business plans for projects greater than $50,000 be included.

The audit team noted that the application assessment process in place for ISSE includes all elements required to properly assess the eligibility for funding hosting

events. A checklist is also being used by program officers indicating that the required steps have been completed.

The application processes for IMSE and Strategic Focus Events are not as rigorous and formal as the one for ISSE. Guidelines have not been developed and while proposals for each event under those program components are unique and assessed on a case by case basis, program officers do not use specific criteria to assess proposals. Without specific criteria, there may be a risk of perceived lack of transparency and fairness of access to funds by potential recipients.

The Canada Games are based on a multi-party agreement between the host society, the three levels of government and the Canada Games Council. Guidelines on host society plans, progress report and financial statements are reviewed to ensure that the host society obligations are met.

For all files reviewed for the four program components, the audit team found evidence that business plans were included and that required risk assessments were performed through feasibility studies.

For all four program components, a Recommendation for Approval Form (RAF) is used to record information on the end results of the applications assessment process. This document forms the basis for event funding approval.

The audit team noted that, for all four program components:

- RAFs were completed and evident on each of the files reviewed. However, the level of detail varied between program officers and was not always sufficient to properly support the decisions brought forward.

- While the RAF contains references for compliance with policies, there is no indication as to how the events intend to comply with its requirements; examples are with the Anti-doping and Tobacco policies.

- All RAF included a standard comment that the file was reviewed by the program manager and challenged by the program officer. However, there was no evidence indicating what the outcomes of the file review were.

- Similarly, the audit team was told by the Program that all application assessments, whether they are rejected or accepted, are reviewed by the Program Director. However, we noted that there was no audit trail on file to support this review.

- There was little evidence in all the files reviewed to indicate results of reviews of the financial statements.

   6.2.2.1 *Observation: The application assessment process for IMSE and Strategic Focus Events needs to be formalized to ensure due diligence is applied consistently across the four program components. What exists for ISSE could serve as a model. File documentation needs to be improved, more specifically at it relates to the RAF to ensure decisions made are properly supported.*

   Recommendation: That the Director General, Sport Canada:
   - formalize the application assessment process for the IMSE and Strategic Focus Events components of the program; and
   - establish standards for completing the RAF, analyzing financial statements and documenting decisions made to ensure consistency in the application assessment process for all program components.

   6.2.2.2 Management Response

   Recommendation Accepted

   PCH (Sport Canada), over the past year, has developed specific contribution guidelines for both International Single Sport Events and International Strategic Focus Events.   Related criteria have been developed for these two components for the 2005-06 fiscal year. The Strategic Framework (pending approval), as well as the expert coordination group being operationalized, will establish a formal process for International Multisport Events.

   Timing: Partially completed, to be completed by **April 1, 2006**

   PCH (Sport Canada) recognizes the importance of consistent management of applicant files. A set of requirements are in place for the completion of Recommendation for Approval Forms (RAF), monitored internally by Sport Canada's Management Services Division for consistency and completion. RAF files are to identify the location of the related file review, for audit-trail purposes and files are not to proceed through the process unless all steps for the RAF are completed.

   PCH (Sport Canada) will develop an approach to ensure that financial statements are analyzed in a thorough and consistent manner. To standardize the electronic file management, Management Services Division will work with departmental counterparts to identify possible software solutions for submitting a standardized format of descriptive

detail for electronic files.

PCH (Sport Canada) has put in place an application approval process checklist that entails a systematic series of steps. They include the provision of formal management direction, a challenge function, as well as a review and decision-making process for all events requesting funds.

Timing: Partially completed, to be completed by **April 1, 2006**

6.2.3 Contribution Agreements - Development and Monitoring

As required by the TB *Policy on Transfer Payments*, a Contribution Agreement must exist between the Hosting Program and the recipient before any payment related to a specific event is issued. Contribution agreements specify recipient obligations and the Terms and Conditions governing the agreement.

While significant improvements over the 2002-03 and 2003-04 fiscal years were made to the contribution agreement to address some of the key requirements of the TB *Policy on Transfer Payments*, some deficiencies still exist, mainly with respect to ensuring proper documents are received before releasing payments.

More specifically, the audit team noted that:

- Recipients are required to provide audited financial statements for project funding of $50,000 and above, or final financial statements for project funding below $50,000. These statements are to be reviewed by PCH financial analysts and by the Senior Branch Financial Officer or other senior official of Sport Canada and hold back payments are payable upon receipt of final activity reports and financial statements.

  Information on payment and activity was kept in two different files. The payment file was kept by the administration and the activity report file with the project officer. Conclusions were made based on the review of both files.

  For most of the 19 files reviewed, although activity reports and financial statements were located to support holdback payments, they were not readily available. Further, there was limited audit trail showing that those reports had been reviewed by the Program.

- Some agreements state that if the event or bid process has generated a surplus, recipients are required to reimburse the surplus of the contribution attributable to

the event or bid process within 120 days of the termination of the agreement. The recipient is fully responsible for any deficit.

For six files reviewed, for which surplus were identified, we noted recovery actions for one case. For five files, there was no evidence to support Program's decision to not recover the funds.

- The departmental *Grants and Contributions Approval and Payment Form* (APF), used to commit and approve payments, does not clearly and specifically identify authorization of Section 34 of the Financial Administration Act (FAA); however for all files reviewed, Section 34 was signed by the appropriate officer.

- A clause indicating the liability limitations of the federal government in cases 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, was not included in the contribution agreements.

- Multi-party agreements are required for all International Multi-Sports Events, Strategic Focus Events and Canada Games. File review indicated that such agreements were present in four of the five files reviewed. For the FINA World Championships, a strong bilateral agreement between Sport Canada and the Host Society, which included all important elements of the proposed multi-party agreement, was developed and accepted.

   6.2.3.1 *Observation: Due diligence on payments and recoveries needs to be strengthened. There are currently no controls in place to ensure that supporting documentation, as requested per the agreement, is received and analyzed before a payment is made and that systematic actions are taken for recovering surplus funds.*

   Recommendations: That the Director General:
   - strengthen the process to monitor compliance with the contribution agreement; more specifically regarding the timely submission of activity reports, payment upon receipt of required documentation, and, where applicable, recovery of funds; and
   - ensure that a process is in place to review and approve modifications to contribution agreements to ensure that all required clauses are present.

   6.2.3.2 **Management Response**

   Recommendation Accepted

   PCH (Sport Canada) is currently developing a strategy to improve controls

and monitoring of supporting documentation, as identified within contribution agreements, among all contribution recipients, beginning in the 2006-07 fiscal year.

Contribution agreements (CA) are crucial to identifying mutually agreed upon objectives for which funding recipients are accountable. The CA may vary depending on the size of the contribution and the magnitude of the risk; the CA enables PCH (Sport Canada) to manage and mitigate that risk. Current processes include a strong partnership with PCH legal services and the use of the standardized PCH contribution agreement template. This process will be enhanced to ensure that modifications to the standardized template continue to include all necessary clauses.

In order to ensure monitoring and compliance with the contribution agreement, liaison will be conducted with key PCH experts (e.g. CRB, legal, finance) as required, to ensure consistent reporting practices are in place. A clause will be included in all contribution agreements and multiparty agreements to identify the specific use of any legacy /surplus funds.

Timing : Partially completed, to be completed by **April 1, 2006**

6.2.4 Information Management

Three different information systems are used to collect information for the management of the G&C: the Grant and Contribution Information Management System (GCIMS), the Department financial and materiel management system (SAP) and the Sport Canada Contribution Program (SCCP).

GCIMS is the primary Financial Management Branch (FMB) and Knowledge Information Technology Services (KITS) application used to track grant and contribution program activities. SCCP is an in-house application used to supplement the GCIMS and SAP.

The Hosting Program, Management Services and the Financial Management Branch's Centre of Expertise, Grants and Contributions Division, each has responsibility for recording and/or reviewing event financial and non-financial information in GCIMS.

The audit team noted that:

- GCIMS does not have the capability to transfer data for synchronization to SAP, and SCCP, and there is no assurance that the information is reconciled between the three systems;

- GCIMS is used by the Hosting Program to assess projects, record approvals and initiate payments. It is not systematically used to record information on final payments and final project evaluation. Further, the audit team could not find evidence of GCIMS being used for periodic reporting against payments. SCCP is used for detailed project reporting.

- The supporting documentation is retained separately by the Program and the Centre of Expertise in G&C in various files and thus, a complete consolidated file for each event does not exist.

6.2.4.1 *Observation: The use of three different systems to manage the grants and contributions information of the Hosting Program leads to inefficiencies (duplicate data entry, no central repository of information) and increases the risk of errors (data integrity).*

Recommendations: That the Director General, Sport Canada:
- ensures that GCIMS is used to present complete, accurate and timely information on all projects and that the associated supplementary information is consolidated in one file; and
- In collaboration with the Director General, Financial Management Branch, identify program information requirements and how best the systems in place can meet the information requirements with minimal duplication of efforts.

6.2.4.2 Management Response

Recommendation Accepted

PCH (Sport Canada) will ensure that GCIMS is used to gather and maintain key information relevant to the branch and to the Department. The branch will work to maximize the degree that all information will be integrated into one file.

PCH (Sport Canada) will work together with the Financial Management Branch and other PCH branches, on an on-going basis, to identify the system requirements to maximize usability and minimize duplication.

Timing: On-going.

6.3   Monitoring and Reporting of Program Performance and Results

The recent summative evaluation report for the Sport Hosting Program dated February 2004, specifies that more precise measures are needed, outcomes for individual events need to be specified in greater detail, and long-term measures of program success need to be defined. It also states that recipients need more guidance in terms of reporting on expected outcomes.

An "Umbrella Results-based Management Accountability Framework/Risk-Based Audit Framework (RMAF/RBAF)" for the three programs Sport Canada manages is currently under development as part of the renewal of the Programs. The draft version of two RMAF components - the Logic Model and the Performance Measurement Strategy, were reviewed during the audit. Results of the review indicated that outcomes and

performance indicators were developed for assessing Sport Development. However, there were no outcomes and no performance indicators to assess economic benefits and impacts, social and cultural benefits; three factors specified in the Sport Hosting Policy.

The audit team also noted that there is no formal system to capture performance information, monitor and report on performance for the Hosting Program.

6.3.1   *Observation: There is a need to strengthen and formalize the process for monitoring and reporting on the Program performance.*

Recommendation: That the Director General, Sport Canada implement a formal performance tracking and reporting system and ensure that the RMAF currently being developed be expended to include outcomes and performance indicators to cover all factors specified in the Hosting Policy.

6.3.2 **Management Response**

Recommendation Accepted

PCH (Sport Canada) is currently developing an Umbrella RMAF and Umbrella RBAF that clearly delineate the organization's needs and plans for performance measurement. PCH (Sport Canada) has developed some tools to monitor and measure performance, consistent with the performance indicators identified within the new RMAF and RBAF. Some of these performance mechanisms will be in place as early as September 2005. Additional mechanisms include the pilot Event Data Checklist, prepared for the summer of 2005-06, a pilot Canada Games Checklist, for

the 2005 Canada Games and the evaluation assessment of the three funding programs.

Timing: Partially completed, to be completed by **April 1, 2006**

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 (RPP) 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 (DPR), evidence of results achieved related to results commitments and specific planned results as stated in their Reports on Plans and Priorities. These requirements apply to the Sport Hosting Program as it has transfers in excess of $ 5 million.

6.3.3   *Observation: The audit team found that the Departmental reporting on the Sport Hosting Program in the PCH 2002-2003 and 2003-2004 RPP and the DPR for the period ending March 31, 2003 does not comply with the above requirements. We understand that this external reporting of program performance and results is a departmental issue. External reporting is coordinated by the Corporate Planning and Management Branch with information provided by the programs.*

Recommendation: That the Director General, Sport Canada ensure that the 2005/2006 and future years performance reporting for the Hosting Program in the DPP and DPR conforms to the requirements of the TB Policy on Transfer Payment.

6.3.4 Management Response

Recommendation Accepted

PCH (Sport Canada) provides all necessary information regarding each of its contribution programs and works together with other branches to meet the requirements of the *Policy on Transfer Payments*, particularly with regard to the two Departmental reports identified. To meet these requirements, a mechanism is in place to coordinate the work between each of PCH (Sport Canada)'s program division, the Management Services Division and the Strategic Planning and Accountability Division.

Timing: Implemented

6.4   Risk Management

The Risk-based Audit Framework (RBAF) is the risk management tool required by TB for transfer payment programs. RBAFs must identify program risks (external risks linked to the achievement of outcomes, and internal risks linked to the operational cycle of transfer payments) and the related measures to mitigate those risks. The current RBAF for the Hosting Program was developed in 2001 and includes a list of potential operational risks for the whole cycle of activities; i.e., from the initial screening of applications to post-event management. However, there was no identification of external risks to the program. Further, the audit team found no evidence in the files reviewed to determine whether the proposed mitigation strategies were followed.

An Umbrella RBAF for the three programs under Sport Canada, including the Hosting Program, is currently being developed which should address these issues.

Audits of Recipients

Contribution Agreements include an audit clause that specifies the right of Sport Canada to audit the recipients' accounts and records on the recipients premises at any reasonable time. These recipient audits are intended to evaluate the recipients internal and project financial controls and to ensure that expenditures are eligible under the terms and conditions of the contribution agreement and Sport Canada's Contribution Guidelines.

Sport Canada's Management Services is responsible for the conduct of the recipient audits. The audit team was informed that they plan to audit each major organization (moderate and high amounts and/or organizations having access to more than one contribution under Sport Canada) once every five years. Major ISSE and IMSE are automatically selected for audits.

   6.4.1.1   *Observation: A formal audit plan, based on risk, has not yet been developed for the audit of recipients.*

   Recommendation: That the Director General, Sport Canada ensure that a formal risk-based approach is developed and implemented for selecting recipients to be audited.

   6.4.1.2 **Management Response**

   Recommendation Accepted

   In order to employ a risk management strategy, PCH (Sport Canada) developed an Audit of Recipients Cycle, including a protocol for the selection of recipients for audit, on a pilot basis, in preparation for the

2004-05 recipient spot audit. This process is expected to receive final approval in early 2005-06.

Timing: Partially completed, to be completed by **April 1, 2006**

AUDIT CRITERIA

The following criteria were established to address the audit objectives. Program design, the program management framework and processes in place are addressed.

Program Design

1.   The design of the Hosting Program is consistent with the TBS Policy on Transfer Payments.

2.   The objectives of the Hosting Program are linked with the strategic directions of the Department.

3.   There is appropriate authority for the Hosting Program.

4.   The design of the Hosting Program addresses risks to the Department and includes an RMAF and RBAF.

5.   Roles and responsibilities related to the management of the Hosting Program are well defined, clear and well communicated.

6.   The program mandate, objectives and expected results are clearly defined and understood by Departmental program officers.

7.   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 adequate financial management over funding provided to recipients.

8.   Indicators of program performance and results exist, are tracked and are linked to the program objectives and are reported on.

9.   Monitoring of contribution activities and processes is performed and is risk-based.

10.   Recipient audits are performed and are risk-based.

11.   There is a financial system that tracks and reports contribution related information that is relevant for management and decision making purposes.

Program Management Framework and Processes

1. Hosting Program information is well communicated to create awareness for all potential applicants.

2. Applicant guidelines and application forms for both the program eligibility and the annual application process are communicated in an open and transparent manner.

3. Program eligibility criteria for applicants for the Hosting 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 and 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 result reports are received from recipients on a timely basis and are reviewed by appropriate officials with the overall results reported in an appropriate manner to Departmental senior management.

8. Financial reports are received from recipients on a timely basis and are reviewed by departmental officials.

9. Monitoring processes are in place, and monitoring activities are carried out based on risk.

10. Recipient audit process is in place, including the development of an annual risk-based audit plan and reporting to management on results achieved.