



**AUDIT
OF
DEPARTMENTAL CONTRIBUTIONS
IN SUPPORT OF
THE INTERNATIONAL DRUG STRATEGY**

April 2000

Audit Division (SIV)

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Executive Summary

The Internal Audit Division (SIV) conducted an audit of Departmental contributions in support of the International Drug Strategy in the Fall of 1999. This audit was one in a series of audits on Departmental management of Grants and Contributions. As part of this audit, a preliminary survey was conducted to gain an understanding of how the strategy is managed so that audit and evaluation issues could be identified and assessed. Evaluation issues identified will be followed up separately by SIXE (Evaluation) and are not part of this report.

In 1999, contributions totalling \$2.1 million per year were made to the United Nation's International Drug Control Programme (\$1.5 million) and to the Organization of American State's International American Drug Abuse Control Commission (\$600,000). These contributions are voluntary and have been made in a single payment to each of the organizations each year.

Decisions related to the use of the contributions are made by the Inter-departmental Drug Issues Committee. DFAIT chairs this Committee. One position devoted to the coordination of international drug issues is found in the International Crime Division (AGC).

The audit found that improvements could be made in the management of the contributions from a cash management perspective and that clarifications should be sought from the Treasury Board Secretariat to ensure that the payment of contributions are made in accordance with Treasury Board cash management policies. The Planning, Program Analysis and Budgeting Division (SMP) should take the lead in this area.

The audit also found that AGC should be placing more emphasis on analyzing the financial and project evaluation reports that are presented to the Canadian government from the recipient organizations on the use of the contributions. To this end, AGC can ensure that funds are being used in the manner directed by the Inter-Departmental Drug Issues Committee and in a manner consistent with Treasury Board cash management policies.

A Brief History

The International Crime Division (AGC) within the Global and Human Issues Bureau (AGD) is responsible for coordinating DFAIT's International Drug Strategy. This new Division was created in August 1999. Prior to this, drug issues were dealt with by the Peacebuilding and Human Security Division (AGP). The one resource devoted full-time to this issue in the Department is the International Drug Issues Coordinator in AGC.

The focus of Canada's international activities to counter the threat of illicit drugs has been to work with multilateral organizations dedicated to anti-narcotics work. To this end, DFAIT makes financial contributions to the United Nations International Drug Control Programme (UNDCP) and to the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (known by its Spanish acronym, CICAD). Financial contributions are supported by regional and bilateral cooperation and by technical assistance provided by other government departments (i.e. RCMP, Revenue Canada, Justice and Health Canada). Contributions to UNDCP and CICAD are voluntary. Canada's approach to funding of the two multilateral organizations in the past was to divide its funds equally between projects aimed at supply reduction and those aimed at demand reduction.

Funding History

Under Canada's last International Drug Strategy (1990-1997), Treasury Board gave DFAIT budget authority to make contributions of up to \$3 million per year to UNDCP and CICAD. From 1992 to 1998, budget restraints forced DFAIT to make its contributions with reallocated funds (with the assistance of Health Canada in 1994/95 and 1998/99). This authority ended in 1995 and was subsequently extended to 1996.

On March 26, 1998, Treasury Board (TB) approved terms and conditions for contributions to UNDCP by DFAIT and Health Canada and to CICAD by DFAIT. Those terms and conditions were to lapse March 31, 1999 but they were extended by the Minister of Foreign Affairs and International Trade to allow a \$200,000 contribution to CICAD to support the development of a Multilateral Evaluation Mechanism (MEM).

An Inter-Departmental International Drug Issues Committee (IDC), consisting of representatives from DFAIT, the Department of the Solicitor General and the RCMP, Health Canada, Revenue Canada, Justice, Department of National Defence (DND), Canadian International Development Agency (CIDA), TB, Privy Council Office (PCO) and Citizenship and Immigration Canada (CIC), coordinates Canada's international drug activities. DFAIT chairs the IDC. The IDC prepared a comprehensive International Drug Strategy which included funding for CICAD and UNDCP. In May 1998 this strategy was given policy approval without funding approval. The

departments were requested to ask for funding again in the fall of 1998 during the regular priority-setting process. In the interim, supplemental funding was approved in August 1998 for three items in the strategy, one of which was \$200,000 for a one-time contribution to CICAD for the MEM.

The IDC presented a revised strategy and funding request in December 1998. Policy approval was received in April 1999 but again with no funding decision. Prior to this April decision, however, the February 1999 Federal Budget allocated \$2.1 million for contributions to CICAD and UNDCP under the International Drug Strategy.

AGC prepared a TB submission seeking approval for an annual contribution of up to \$1.5 million to UNDCP and up to \$600,000 per year to CICAD for the period 1999/2000 and ongoing years. The submission also sought TB approval for an increase of \$2.1 million in DFAIT's reference level. This submission was approved by TB in October 1999.

UNDCP

Since 1946, Canada has served almost continuously as a member of the Commission on Narcotics Drugs (CND), the governing body of the UNDCP, and its predecessor, the UN Fund for Drug Abuse Control. Canada is also a member of the Major Donors Group which is comprised of countries that donate a minimum of US\$500,000 per year. This group undertakes informal consultations with UNDCP on project direction. In 1998, Canada's contribution of \$1 million placed it 13th on the list of donors. UNDCP is responsible for coordination of all UN drug control activities, promoting the implementation of the relevant treaties and providing leadership in international drug control. UNDCP is the only organization that undertakes global narcotics projects. UNDCP is dependent on voluntary contributions for 90 percent of its budget with the remaining 10 percent coming from the UN General Fund. It is dependent on multiple donors to fund parts of a project, and this can make planning and execution of each project problematic. Canadian contributions made to UNDCP in 1995, 1996 and 1997 amounted to US\$500,000 per year and in 1998, the contribution rose to \$1 million. The 1998 contribution was funded half by DFAIT and half by Health Canada. The 1999 contribution was made by DFAIT after the October 1999 approval of the TB submission.

CICAD

Canada has supported CICAD since joining the OAS in 1991. CICAD is the hemispheric anti-drug body and is gradually assuming an important role in international anti-drug cooperation. Many of the drugs entering Canada originate or transit through countries in the hemisphere and Canada is trying to influence policies and action to halt that flow through the contribution to CICAD. CICAD depends on donors for approximately 80 percent of its funding. CICAD is in the process of implementing the MEM which will allow for evaluation of national and regional responses to the problems

posed by illicit drugs. Canada has taken a lead in the development of the MEM and indeed, the Chair of the Inter-Governmental Committee tasked with developing it, is the Deputy Solicitor General of Canada.

A contribution in the amount of \$290,000 was made to CICAD in 1995/96 and \$200,000 in 1997/98. A 1998/99 contribution of \$200,000 was directed at the costs of developing the MEM as per the TB decision of August 1998. While DFAIT contributions to CICAD have been uneven in past years, the Department of the Solicitor General has also contributed \$100,000 to CICAD each year during the same period. With the approval of the current TB submission, contributions will rise considerably to \$600,000 annually beginning in 1999/2000.

The Contribution Process

Contributions to both UNDCP and CICAD are divided between their general purpose funds which are used at the discretion of the organization for administration and other costs, and projects which are specifically selected by Canada. These projects are selected by the IDC. Projects which meet criteria identified by Canada, consistent with foreign policy objectives, are presented to the IDC by the organizations (UNDCP and CICAD).

The Inter-Departmental International Drug Issues Committee (IDC)

As mentioned earlier, the IDC is chaired by DFAIT. The Committee has met three times in 1999. The Committee met in late August 1999 to approve the allocation of funds to directed projects for the 1998 UNDCP contribution which was paid on March 31, 1998. The Coordinator said that this late allocation of the funds was an oversight although in the past allocations were not always made at the same time that the contributions were made. The Committee had not considered projects for 1999 prior to the 1999 contribution being made.

Contributions

From 1971 to 1998, Canada contributed US\$12 million to UNDCP and its predecessor, the UN Fund for Drug Abuse Control. This places Canada 13th on a list of 19 major donors with Canada's contributions representing 1.6% of the major donors contributions. Since 1993, Canada has contributed \$1.6m to CICAD which places it third on a list of seven major donors. Of the seven major donors, only three are member states (USA, Mexico and Canada). Canada's contribution puts it second, well behind the USA in contributions from member states.

Canada in the past designated 50 percent of contributions to the General-purpose fund of each organization with the other 50 percent directed to specific projects which were selected by the IDC. Canada is rarely the only donor on these projects.

Canada is a relatively small contributor to the overall UNDCP and CICAD budgets. In the TB submission, the IDC sought to maintain a 50/50 split between General-purpose and Special-purpose contributions for CICAD but to re-profile the split from 50/50 to 30/70 for UNDCP contributions.

The Audit Team observed that significant effort was expended by the IDC, and DFAIT as its chair, to allocate relatively small sums of money to specific projects and that it could be more efficient to simply allocate 100% contributions to the General Purpose funds. AGC however said that historically, the contributions to the multilateral drug

control agencies have been the only funds available to the International Drug strategy. Consequently, they have been used to further foreign policy objectives by allocating money to regions and issues of interest. As such, AGC's view is that depositing the funds in the general purpose fund would undermine their value.

Terms and Conditions

The Government's policy on transfer payments is outlined In Chapter 2-12 of the TB Manual on Comptrollership. Section 5 (Contributions) states that requirements for terms and conditions are be approved by TB and provides details as to what those terms and conditions should include. It also states that in addition to terms and conditions, a contribution agreement is required which describes the obligations of both parties and outlines the conditions under which payments will be made. Also, although contribution agreements may be as informal as an exchange of letters, it is preferable that they be formalized and signed by the department and the prospective recipient.

In February 1991, when TB gave authority for contributions for 1990/91 to 1994/95, the approval was contingent on the Department providing terms and conditions for the contributions for approval. TB requested the submission of a) revised terms and conditions for each of the contribution programs which clearly indicated the criteria to be used in selecting these projects; and, b) a clear indication of accountability for the administration and delivery of the contributions and the achievements of program objectives.

The Department's submission was provided to TB in November 1991. The revised terms and conditions, which were approved, contained clauses which detailed the following subjects:

1. Recipient
2. Purpose
3. Appropriateness of Contribution to Program Objectives
4. Foreign Policy Selection Criteria
5. Drug Program Selection Criteria
6. Accountability, Reporting and Evaluation
7. Delegation, Certification and Review
8. Maximum Amount of Contribution
9. Method of Payment
10. Overpayment
11. Audit Arrangements
12. Duration of Terms and Conditions

There are no signed contribution agreements for either the UNDCP or CICAD contributions. A letter does accompany each payment which refers to the terms and conditions in effect, but it does not further define them. These letters and the

contribution are usually acknowledged by the receiving organizations (UNDCP and CICAD).

Reporting

The Terms and Conditions for contributions to both organizations stipulate that they are to provide DFAIT with financial reports on the disposal of the funds as well as project reports on the directed contributions.

Financial statements for UNDCP covering the years 1991, 1992, 1995 and 1996/97 were reviewed. These statements provided detailed information on Canadian contributions as well as financial information on the UNDCP budget and spending. The statements are signed by the Chief of the Financial Control and Reporting Unit of UNDCP, certifying that the financial statements are correct and that the accounts are maintained in accordance with the financial regulations and rules applicable to the UNDCP. The Audit Team was also provided with a copy of the Financial Report and Audited Financial Statements for the Fund of the UNDCP prepared by the UN Board of Auditors covering the two year period ended December 31, 1997. It is expected that the report for the two year period ending December 31, 1999 will be issued in the fall of 2000.

Financial statements for CICAD covering 1993 to 1998 were also reviewed. These statements are issued by the Department of Financial Services of the OAS. Information was provided on CICAD budget and expenditures as well as on the Canadian contributions including the contributions from the Department of the Solicitor General. CICAD was audited by the Office of the Inspector General of the OAS in 1997 which confirmed that, in general terms, CICAD is complying with General Secretariat rules and regulations.

The Audit Team was provided with project evaluation reports on some of the projects that received funding from Canadian contributions to UNDCP. Similar reports from CICAD were not available.

Neither DFAIT nor the IDC scrutinize the financial and project evaluation reports provided by the recipient organizations. There is little value in receiving these reports if they are not being reviewed, shared with the IDC and commented on back to the organization.

1. Recommendation to AGC:

All financial statements and project evaluations provided by the organizations should be reviewed on a timely basis, by AGC, to ensure that

contributions are being used in a manner consistent with the direction of the IDC and in accordance with the contribution agreement.

AGC Response:

AGC will review all financial statements and project evaluations provided by the UNDCP and CICAD to ensure that contributions are being used in a manner consistent with the direction of the IDC and in accordance with the contribution agreement. This review will be carried out in consultation with the IDC.

Cash Management

Financial statements from UNDCP for the years 1991, 1992, 1995 and 1996/97 were reviewed. The statements show that Canadian contributions are not spent in the fiscal year in which the contribution is given. For example, the statement for the year ending December 31, 1997 (UNDCP operates on a calendar year basis) notes that the Canadian contribution to the special-purpose account of US\$500,000 was allocated to seven projects with a portion of the funds remaining "unprogrammed". As at the end of December 1997, only US\$192,447 had been expended. These funds were provided to the UNDCP in April 1996 against the previous fiscal year. In the same statement, it is estimated that a further US\$257,553 would be expended in 1998 leaving an estimated fund balance remaining at December 31, 1998 of US\$50,000.

The AGC Coordinator for International Drug Issues acknowledged that the UNDCP contribution for 1998, which was paid on March 31, 1998, was not allocated until 1999. The IDC had not met to determine the allocation of funds. Pending direction from Canada as to its use, UNDCP is holding this money in a trust account in Vienna. At the August 27, 1999 meeting of the IDC, the Committee allocated the 1998 funds and informed UNDCP. Due to UNDCP's changing project funding requirements, discussions on the final allocation of these funds are ongoing.

Financial statements provided by CICAD for the years 1993 to 1998 note that "carry-over funds for projects being executed with earlier Canadian contributions were approximately US\$71,700", and detail how these funds will be used. The statements also indicate that the 1998 Canadian Government contributions have been fully allocated to various projects with the exception of the funding of one particular project which will take place in 1999.

The TB Comptrollership Manual, Chapter 2-12, the Policy on Transfer Payments, Section 7 on Cash Management, states that contributions should not be paid to recipients in advance of need and should be timed to correspond as closely as practicable to recipients' cash flow requirements. It also states that funds advanced earlier than actually required result in an extra cost to the government through

additional interest on the public debt. The TB may direct that these added costs be charged to the program concerned or alternatively, could be accounted for by the recipient and reflected as part of the approved amount of the contribution.

In addition, the Audit Team found evidence that contributions have been charged inappropriately to previous fiscal year budgets. An example occurred in April 1996 when the South America Division (LSR) consulted the Departmental Advisor on Contracting and Contributions concerning a contribution for \$290,000 it wished to make to CICAD against 1995/96 funds. Despite being told by the Advisor that it was impossible to make the contribution from the previous fiscal year, since the funds could clearly not be spent within FY 1995/96, the Division proceeded with the payment as planned.

The Terms and Conditions included in DFAIT's approved TB submission state that overpayments, unexpended balances and/or disallowed expenses constitute a debt owed to the Crown and require repayment to the Receiver General for Canada.

In the current TB submission, a clause was added in the section on the Appropriateness of Contributions to Program Objectives which states that part of Canada's contributions will go to supporting multi-year projects which may require supporting contributions to be made in full at their commencement. SMP has undertaken to confirm with TB that this clause is sufficient to allow the Department to continue to use these funding mechanisms in this multilateral context. In addition, AGC discussed cash management issues with UNDCP during a visit to the UNDCP Headquarters in Vienna in November 1999.

These issues should be clarified in order to ensure that the Department respects government cash management regulations. If not, it may be necessary for AGC and IAM to make special arrangements with UNDCP and CICAD to provide more precise estimates of financial requirements for multi-year projects so that the contribution payments can be scheduled.

2. Recommendation to AGC:

Steps should be taken to ensure that the payments of contributions to CICAD and UNDCP are made in accordance with TB cash management policies.

AGC Response:

The preliminary recommendations of this audit were taken into account in preparing the contribution agreement for the 1999 contributions to CICAD and UNDCP. These agreements ensure that the payments of contributions are made in accordance with TB cash management policies.

3. Recommendation to SMP:

SMP should seek confirmation from TB that the addition of the above mentioned clause is sufficient to allow the Department to manage contributions to these multilateral organizations in this manner.

SMP Response:

SMP has sought confirmation from TB and has not yet received a formal response. SMP is following.

4. Recommendation to AGC:

AGC should ensure that UNDCP and CICAD be provided with specific direction on the use of the 50 percent of the Canadian contributions designated for the special-purpose accounts at the time the contribution payment is made.

AGC Response:

The contribution agreement for the 1999 contributions specify how the contribution will be utilized by the organisation. Approval of the agreement is not possible without complete information on the disposal of the funds.