

Audit of the Community Futures Program

Prepared for: [Western Economic Diversification Canada](#)

Prepared by: Grant Thornton, April 2003

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Executive Summary

Background

The objective of this audit was to evaluate the adequacy of WD's management control system relating to the CF program, including an assessment of the implementation of initiatives resulting from the 2001 Report of the Auditor General of Canada. The focus of the work was the relationship between WD and the CFDCs, and not the control systems of the CFDCs themselves.

The audit field work was completed at WD offices in Vancouver, Edmonton, Saskatoon and Winnipeg, and focused on the controls and monitoring practices at each regional office. Therefore, there were no visits to individual CFDCs as part of the audit, and there was no review of controls, processes or activities within any CFDC.

Findings: Compliance

The CFDC obligations are set out in the CF Contract, and include the filing of audited annual financial statements and certificate of compliance with contract terms, an annual operating plan, quarterly performance reports and interim financial statements. **Based on our review of 20 CFDC files, we found that the CFDCs were complying with the contract requirements, with the following exceptions:**

- 1 CFDC was missing the auditor's report on compliance for the year ended March 31, 2001.
- 11 instances where interim financial statements had not been filed (3 of 20 examined for September 30, 2000, 4 of 20 for September 30, 2001, and 4 of 20 for September 30, 2002). It was noted, however, that all of these exceptions took place in one jurisdiction where, as a regional practice, WD Staff did not actively require these statements.
- 1 instance where a quarterly report was not filed (of 200 quarters).

Findings: Monitoring and Control System

WD and Treasury Board policy outlines the monitoring practices that should be carried out as part of the monitoring of the CFDCs. These practices are based on the documents that are filed with WD by each CFDC, which are essentially the same in all jurisdictions. However, **there are regional differences in how these documents are utilized, and the extent of their examination.**

While the practices in each jurisdiction address all of the major control areas, some of the key practices are:

- Review of Financial Statements: all jurisdictions complete reviews of the annual financial statements filed by CFDCs. However, the depth and the documentation of the reviews vary between the jurisdictions. Similarly, the degree to which interim statements are utilized varies, with one jurisdiction requiring quarterly financial statements to be filed.
- Review of Annual Operating Plans: all regions were similar in that this review was largely the responsibility of the program officer, and that a formal review program was not utilized. In one jurisdiction, there is no formal indication of approval of the operating plan.
- Quarterly Reports: one jurisdiction is developing a formal process, where the others rely on an informal and largely undocumented review.
- Advance Payment: while uniform in that all payments require appropriate approval and authorization, payments in one jurisdiction are connected to the filing of quarterly financial statements and a formal claim of expenses incurred.
- CFDC Site Visits: practice across the regions varies again in relation to the frequency and type of visit (discussed further below).

Findings: Auditor General's Report and Recommendations

The 2001 Report of the Auditor General of Canada noted certain areas of possible improvement in regards to the monitoring and control of the CF Program. As a result of this report, WD commenced several initiatives to address the comments made in the report. A summary of the key initiatives and the status of their implementation follow:

- Risk Assessment of all CFDCs: all regions are completing risk assessments for the CFDCs. However, each is at a different stage, and there is some inconsistency of the risk assessment form being used. Thirteen of 20 files reviewed had completed risk assessments for the current year, and risk assessments had been done previously for most of the other 7 files. Manitoba is the only jurisdiction to have completed a “WD - CFDC / WEI / FEDO Annual Risk Assessment” for all of its CFDCs.
- Site visits: Based on the assessment of risk of each CFDC, site visits are to be carried out. How the site visits are completed again varies across the regions. In two regions site visits had been carried out to a lesser degree than the other regions, with resource constraints being cited as the main reason.
- QAR File Contents and Best Practices: designed to enhance file quality and completeness, the implementation of these checklists is inconsistent across the regions. Thirteen of 20 files reviewed had this checklist or a similar checklist on file (in various stages of completion) for the current year. In discussing the issue with WD Staff, all indicated they intended to complete this form during the current year, and utilize it going forward.
- Auditors' Reports on Compliance: it was noted in the 2001 Report that, although these reports provided by the CFDC's external auditor would “provide WD with good information on the overall lending activities of each CFDC”, these certificates were found on only half of the files reviewed. During the course of this audit, it was noted that only one compliance certificate was not on file, out of 40 instances (20 CFDCs for each of the fiscal years ending March 31, 2001 and March 31, 2002).

Recommendations

Despite these differences, the processes adopted in each province provide an adequate basis for monitoring the CFDCs. However, there are certain opportunities for improvement in the management and control system:

- **Consistency in approach across the regions should be improved.** We have identified certain “best practices” in each region, which we believe should be fundamental in all regions. These include:
 - Formal and documented financial statement review – currently B.C. and Alberta have formal review programs. While Saskatchewan and Manitoba do a review of financial statements, they appear to be less standardized and less documented.
 - Formal and documented operating plan review – all jurisdictions review the annual operating plans submitted by CFDCs. However, there is little documentation of the extent of the review, any issues that are raised, and the resolution of these issues.
 - Limited on-site monitoring of CFDCs – both Saskatchewan (through a detailed operational review of each CFDC) and Manitoba (through routine visits to all CFDCs) perform systematic on-site monitoring of CFDCs. A review of CFDC activities, especially in relation the CFDC lending activities, would address an area of potential risk of the CF Program.

- **The format and utilization of Auditor’s Compliance Reports should be revisited.** These reports are relied on, although there are potential areas of concern including:
 - The auditor may apply a level of materiality that differs from that of WD;
 - An auditor may be providing an opinion on compliance with the contract as a whole that may fall outside of the auditor’s expertise; and
 - It is the responsibility of WD Staff to determine whether or not there is compliance with the contracts. There is a risk that they may defer this responsibility unduly to the auditor.

We suggest the following two alternative formats to the one currently required:

- The auditor could be required to report on the results of specific procedures specified by WD. The report would be factual only, and contain no opinion of the auditor. WD Staff would then be able to utilize this information to making their own judgment as to the compliance of the CFDC; or
- The scope of the report could be limited to the areas of the auditor’s expertise. This would include the sections of the CF Contract relating to financial records and accounts, financial reporting and investment fund management.

- **The purpose of and the information contained in the Quarterly Performance reports should be revisited.** These reports appear to be underutilized for monitoring purposes, and many of the variables are not relevant. While these variables, however, may be relevant to reporting on the results of the CF Program, quarterly reporting on all of these variables may be too onerous on the CFDCs preparing them.

- **The four corporate policies required for each CFDC should be reviewed:** The CF Contract requires each CFDC to have corporate policies, satisfactory to the Minister, in four areas:
 - Investment Fund Management,
 - Human Resource Management,
 - Conflict of Interest, and
 - Confidentiality

None of the 20 CFDC files reviewed contained the four corporate policies. While there is no onus on WD to maintain copies of these policies on their own files, proof that the policies are in place, have been reviewed and are satisfactory may not be readily apparent without copies on file. Since the current CF Contracts end March 31, 2004, the existence and adequacy of these policies should be verified as part of any renewal of funding.

- **Documentation of informal monitoring:** Generally, a number of the monitoring procedures are informal and lack documentation, examples being telephone conversations, casual visits to CFDCs, and attendance at CFDC events. The placing of appropriate documentation on file supporting these informal monitoring procedures would benefit those performing subordinate work reviews and facilitate transition of new project officers assigned to monitor CFDC performance.

During the conduct of this audit, we were given exceptional support by WD Staff in each region, and express our appreciation for the time and effort they dedicated to ensuring we were able to obtain accurate and complete information.

Project Overview

Established in 1986 by Employment and Immigration Canada (now Human Resources Development Canada), the Community Futures Program (CFP) has been responsible for the establishment of 90 Community Futures Development Corporations (CFDCs) throughout rural Western Canada. In 1995, the CFP for Western Canada was transferred to Western Economic Diversification Canada (WD).

The purpose of the CFP was to create CFDCs that would diversify the Canadian rural economy by creating or maintaining jobs in new or existing businesses. The CFDCs are not-for-profit corporations responsible for a variety of community-focused activities that support economic development in designated rural areas. With core funding assistance provided by WD, they help communities to develop and diversify through the following activities:

- Strategic community planning - working with communities to assess local problems; establish objectives; plan and implement strategies to develop human, institutional, and physical infrastructures; and support entrepreneurialism, employment and the economy.
- Business services - delivering a range of business counseling and information services to small and medium sized enterprises.
- Access to capital - providing capital to assist existing businesses or to help entrepreneurs create new businesses.

In accordance with Treasury Board Decision 828143 of May 18, 2000, and as a result of observations made by the Office of the Auditor General (OAG) in her December 2001 Report, WD has committed to both an audit and evaluation of WD's CFDC program. The evaluation is the subject of a concurrently submitted report.

Objective and Scope of Audit

The audit of the CF Program had three main focuses:

- To evaluate the adequacy of WD's management control system relating to the CF program;
- To assess implementation of the responses to the 2001 Report of the Auditor General; and
- Where possible, make recommendations for areas of possible improvement.

The audit scope was limited to the structure of the relationship between the CFDCs and WD itself. This would include the nature of the reporting systems and requirements, the interaction of WD Staff with the CFDCs and the monitoring and control procedures undertaken by WD in regards to the objectives of the CF Program and the activities of the CFDCs.

Although the individual CFDCs are the entities carrying out the implementation of initiatives, it was determined in consultation with WD that the control procedures within the CFDCs themselves would be outside the scope of this engagement.

Approach

In commencing this assignment, Grant Thornton staff met with several WD officials to determine the scope and parameters of the engagement. In addition to these discussions, background information related to the CF Program was reviewed, including:

- 2001 Report of the Auditor General of Canada
- Treasury Board of Canada "Policy on Transfer Payments"
- CFDC, WEI and FEDO Contributions – WD Policy
- Audit / Financial Statement Guide for CFDCs

Grant Thornton's approach to this assignment included:

➤ Workshop and Sample Selection

As part of the consultation and planning process, discussions were held with WD staff to determine the general parameters for the assignment followed by a workshop with the Project Steering Committee in January, 2003. The session served to confirm the scope and approach of the Audit, as well as the selection of the CFDCs to be sampled.

Originally, in selecting the sample of CFDCs, “Project Risk Assessment” was to be the key criteria. On an annual basis, this risk assessment is done for each CFDC based on various criteria relating to the CFDC itself. (Please refer to Appendix A-9). However, a Risk Assessment was not available for all CFDCs at the time of selecting the sample. Therefore, it was determined that the sample of CFDCs would be the same representative sample selected for the Evaluation of the program. This allowed the Audit and Evaluation to be consistent and capitalize on any efficiencies. (See Appendix A-1 for listing of CFDCs selected).

➤ **Audit Objectives**

A key portion of WD’s system for managing their relationship with the CFDCs is based on the documents that the CF Contract requires the CFDCs to file with WD. These documents allow WD Staff to monitor the CFDCs’ activities, accomplishments and financial status, as well as the CFDCs’ compliance with the terms of the CF Contract. Also, as a result of the 2001 Report of the Auditor General of Canada, WD has implemented certain initiatives to improve the effectiveness of their management and control of the CF Program. Each region was assessed according to the following objectives:

- Whether or not each CFDC is complying with requirements under the CF Contract, such as filing required documents on a timely basis with WD, including financial documentation, policies, amendments, etc.;
- How, and to what extent, WD utilizes this information in the management of the CFDC relationships; and
- The status of the implementation of the changes indicated in the response to the Auditor General’s 2001 Report, such as QAR process and checklists, risk assessment process and performance monitoring and that the selected CFDC files contains documentation of the foregoing;

➤ **Site Visits**

With these objectives in mind, each WD regional office (Vancouver, Edmonton, Saskatoon and Winnipeg) was visited. The following audit procedures were performed at each location.

➤ **Audit Procedures**

In each region, a detailed file review program was completed. WD project files for the period April 1, 2000 through September 30, 2002 for each of the 20 CFDCs sampled was reviewed to assess whether:

- Current CF Contract was retained on file
- Annual operating plans had been filed
- Annual operating plans were approved
- Quarterly reports were filed
- Interim financial statements were filed
- Annual audited financial statements, and auditor's report on compliance had been filed
- WD Staff had completed "QAR File Contents and Best Practices" Checklist (see Appendix A-10)
- WD Staff had completed "WD Annual CFDC / WEI / FEDO Project Risk Assessment"
- Approval process relating to advance contribution payments was evidenced

➤ **Discussion with WD Officials**

In order to gain an understanding of the processes within WD involving the reporting and monitoring of CFDCs, discussions were held at WD regional offices with various levels of WD staff. These discussions were fairly informal as opposed to a detailed program of interviews, and focused largely on how the CF Program was administered in each office, and how WD Staff utilized the information provided by the CFDCs. These discussions not only resulted in gaining information regarding WD processes, but also were useful in determining whether or not the actual practice of WD staff follows the formal monitoring and control structure.

➤ **Data Compilation and Reporting**

The resulting information was compiled as follows:

- The results of the audit procedures were compiled with the exceptions noted (Refer to Appendix A-2).
- The discussions with WD Staff regarding their methods for monitoring the CFDC relationships were summarized (Appendices A-4 through A-7).

Based on the information gathered, it was possible to draw conclusions regarding WD practices for monitoring and control over the CF Program and make various recommendations.

Treasury Board and WD Policies

Monitoring and Control Requirements

Excerpts from the Treasury Board of Canada “Policy on Transfer Payments” provide the requirements of the monitoring and control system. The key points are paraphrased as follows:

Treasury Board Policy on Transfer Payments

7.1.1 Departments must establish policies and procedures to ensure that:

- effective financial and program controls are designed and implemented;
- due diligence is exercised in the selection and approval of recipients of transfer payments and in the management and administration of the programs;
- efficient and effective accounting and other procedures to ensure that payment requests meet the requirements of the policy on account verification;
- proper program and accounting records and other relevant documents are maintained to provide documentary evidence of decisions made and results achieved and to enable disclosure of the amounts paid to recipients of such payments;
- a results-based management and accountability framework is prepared which provides for appropriate measuring and reporting of results, as related to the purpose of providing resources through transfers;

7.6.3 The amount of each advance should be limited to the immediate cash requirements based on a monthly cash flow forecast from the recipient taking into account any outstanding advances.

7.8.6 Departments must establish policies and procedures to ensure that the recipients of repayable contributions are tracked to determine when conditions for repayment come into effect.

7.11.5 There must be a written agreement between the department and the recipient of a contribution which identifies the conditions of the contribution, the expected results to be achieved, the obligations of the parties involved and the conditions for payment.

Treasury Board Policy on Transfer Payments (continued)

7.11.6 Since the payment of a contribution is conditional on performance and achievement, the recipient of a contribution must meet and continue to meet the specific terms and conditions of the agreement prior to a payment being made. The recipient must also account for the use of the funds to meet eligible expenditures and report on the results actually achieved. Finally, the recipient must account for all funds received from all sources for a given project.

7.11.7 Contributions are subject to audit to ensure that all conditions, both financial and non-financial, have been met. The right of the department to undertake an audit must be clearly established in the contribution agreement, whether or not it is exercised.

8.3.1 Departments must develop policies and procedures for adequate monitoring of results achieved under contribution agreements and for obtaining suitable information from recipients and from third parties delivering programs to ensure departmental accountability.

8.3.2 Where a contribution is paid on the basis of achievement of performance objectives or the reimbursement of expenditures made, the recipient will provide an accounting statement and statement of progress against the achievement of performance objectives at the time of claiming for a payment. Contribution agreements should call for at least an interim and a final accounting of the use of funds and the results achieved.

8.3.3 To properly control advance payments, timely accounting must be obtained from recipients. Where practicable, an advance should be accounted before any further advances are issued. Where advances are issued monthly and accounting for them monthly is neither practical nor cost-effective, they may be accounted for bi-monthly or quarterly, provided that there is reasonable assurance that the funds are being spent for authorized purposes.

8.5.1 Departments are responsible for determining whether recipients have complied with the terms and conditions applicable to the contributions. This responsibility includes the audit of recipients when deemed necessary.

8.5.2 Departments must develop a risk-based audit framework for the audit of contributions including:

- determining which recipients are to be audited;
- selecting appropriate auditors or indicating the acceptability of auditors when retained by the recipient;
- determining whether the scope, frequency and scheduling of audits meet program requirements;
- coordinating audits with others involved in the audit of the same recipients; and determining follow-up action required on audit findings.

8.5.4 The department may choose to rely on an opinion from a recipient's external auditor regarding compliance to any or all terms and conditions of the contribution. Such an opinion should be supported by audited financial statements and/or a statement of disposition of federal contribution funds. The department should obtain agreement from audit agents that contribution audits will be conducted according to generally accepted auditing standards and in conformity with the provisions of this policy.

These points are further defined in relation to the CF Program itself in the “CFDC, WEI and FEDO Contributions – WD Policy”. The key points mirror the Treasury Board Policy as follows:

Funding Considerations

- a) A payment of a contribution is subject to performance conditions that are specified in the contribution agreements with the CFDCs, WEIs and FEDOs. CFDCs, WEIs and FEDOs must show that the performance conditions are being met and that costs being reimbursed were incurred and paid. All contribution payments to CFDCs, WEIs and FEDOs are subject to audit.
- b) It is a government policy that recipients of grants and contributions not receive funding from different government sources to reimburse the same costs.
- c) Wherever appropriate, to further departmental objectives, partnership opportunities with other levels of government or third parties should be explored. In this regard, care should be taken to avoid unproductive overlap with other levels of government, to the extent possible.
- d) The consideration of funding for such projects or activities is to take account of whether it is the most effective, including cost effective, means of supporting the specific program objectives identified.
- e) Funding for contributions should be structured to promote self-reliance and financing from third parties, wherever appropriate and consistent with program objectives. When reviewing audited financial statements judgment will be required to determine the matching of contributions to expenditures, particularly where other government departments, or other levels of government are involved. As WD provides funding to CFDCs, WEIs and FEDOs for core operations it is appropriate to consider WD contribution as first to be applied to costs incurred to deliver core services as defined in the contribution agreement.
- f) The amount of funds provided and the funding process are to be open and transparent to the public.
- g) All funding will be subject to regular departmental review for consistency with the principles, in the context of the departmental review process.

These policies set out the requirements of the system for monitoring and management of the CF Program.

CFDC Obligations

In addressing these requirements, the CF Contract sets out the obligations of each CFDC, including the CFDC's core objectives in relation to the funding, their performance targets and operational budgets and filing requirements. A standard CF contract is included in Appendix A-3 to this report.

The formal reporting structure outlined in the CF Contract is the basis for monitoring the CFDCs, and ensuring compliance with the Treasury Board and WD Policies, as well as ensuring that each CFDC's objectives and goals align with those of the CF Program (in relation to the core funding). The key reporting requirements are:

Section 4: Performance Reporting Requirements

- annual Operating Plan by January 31;
- quarterly reports within 20 days following the end of the quarter, due July 20, October 20, January 20, and April 20 pursuant to the Operating Plan; and,
- any other reasonable information as requested by the Minister.

Section 10: Financial Reporting

- a semi-annual financial report including income statement and balance sheet certified by an officer of the Corporation by October 30;
- audited annual financial statements prepared in accordance with Generally Accepted Accounting Principles for each year ending March 31, by July 31. The audit shall be performed by a professionally certified accountant, in accordance with the attached Financial Statement Guide as amended from time to time, and shall include a statement that the auditors are familiar with the terms and conditions of the Agreement and that no breach of such terms and conditions came to their attention in the course of their review of the records of the Corporation, except as set forth in their report; and,
- any other financial reports required by the Minister.

The CF Contract also sets out obligations of the CFDCs in terms of the Services (Section 2), Performance Targets (Section 3), Financial Records and Accounts (Section 9) and CFDC Corporate Policies (Section 11). Please refer to Appendix A-3 for more information.

WD Staff Responsibilities

The “CFDC, WEI and FEDO Contributions – WD Policy” also sets out the responsibilities of WD Staff in administering the CF Program, and the monitoring procedures to be completed, excerpted as follows:

Regional ADMs:

- *Approve the annual multi-year contract amendment for performance measures and cashflow.*

Program Managers:

- *Recommend approval of the multi-year annual contract amendment for performance measures and cashflow as per the annual operating plan.*
- *Approve payments in accordance with the annual operating plan as per Section 34 of the Financial Administration Act thus certifying that the payee is eligible or entitled to a payment for the contribution.*

Program Officers:

- *Work with CFDCs/WEIs/FEDOs to prepare the Operating Plan including determination of annual performance measures and cash flow requirements.*
- *Ensure that the Operating Plan, including the forecast for payments of the contribution, meet government transfer payment policy requirements. This includes ensuring:*
 - *that the Operating Plan is complete, and*
 - *that funding is at a minimum level to further the attainment of the stated objectives and expected results, and*
 - *advance payments are not forecast in advance of need, and*
 - *all other sources of government funding have been considered, and*
 - *performance targets are reasonable and meet acceptable targets.*
- *Prepare the annual contract amendment for approval.*

The policy also sets out monitoring procedures, which are stated as the responsibility of the Program Officers:

Monitoring Procedures:

- *Annual Project Risk Assessment Form completed.*
- *Update and review of CFDC/WEI/FEDO policies for:*
 - *Investment/loan fund/loan loss reserve management*
 - *Confidentiality assurance*
 - *Human resource management*
 - *Conflict of interest guidelines**Copies of these policies should be retained on WD files.*
- *Review of quarterly performance results and variance to forecast.*
- *Review for compliance to contract terms and conditions.*
- *Review of interim financial statements due October 30 of each year. The process should include a review of the following:*
 - *Material ineligible expenses.*
 - *Compliance with advance payment policies.*
 - *Funding from other government sources (stacking).*
 - *Other, as deemed necessary by the Project Officer.*
- *Monitor project cash flow through discussion with CFDC/WEI/FEDO staff. Initial cash flow forecasts may be modified/re-profiled as a result of these reviews through an amendment to the contract.*
- *Review of annually audited financial statements due July 31 of each year prepared in accordance with Generally Accepted Accounting Principles WD Financial Statement Guide where applicable. The process should include a review of the following:*
 - *Auditors report(s)*
 - *Material ineligible expenses*
 - *Contribution payments in excess of eligible expenditures.*
 - *Funding from other government sources (stacking).*
 - *Interfund transfers*
 - *Other, as deemed necessary by the Project Officer.*
- *Advise Financial Officers of a requirement to intervene in the scheduled payment process if required. This would include advising the Financial Officer that an overpayment situation has occurred.*

Additional monitoring procedures should be undertaken based on an annual risk assessment for the project. In accordance with WD policy on risk management, annual procedures should include a minimum of one site visit/board meeting/meeting with the corporation's manager. Other procedures may include:

- *Visits to CFDC/WEI/FEDO offices.*
- *Inspection of accounts and records.*
- *Review of board minutes.*
- *Compliance audits and/or program evaluations.*
- *Review of additional financial/performance reports or other information as required.*
- *Meetings with the corporation's auditors.*

It is this set of procedures and responsibilities which comprise the system for the management and monitoring structure for the CF Program, and against which the actual practices of the CFDC and WD Staff are measured.

Monitoring and Control System

Required Filings and Compliance

As stated in Section 3.2 above, the terms of the CF Contract require that each CFDC file certain documents with WD within certain time frames each year, including the annual operating plan, financial statements and performance reports. These documents form the foundation for WD to be able to monitor the activities of each CFDC. Therefore, in evaluating the effectiveness of the control structure, the first step is determining whether the CFDCs themselves are complying with the prescribed filing requirements.

Specified Procedures

Each WD regional office accumulates files on each CFDC, which include a record of the documents filed with WD. For each of the selected CFDCs, these files were reviewed in order to determine whether or not the CFDC was complying with the terms of the agreement. The results, broken down by year, are as follows (detailed results are included in Appendix A-2).

Key Monitoring Documents		Exceptions		
		2000-2001	2001-2002	2002-2003
Annual Operating Plan		0	0	0
Approval of Plan Documented	Note 1	0	0	0
Annual Audited Financial Statements		0	0	N/A
Annual Auditor's Compliance Certificate		1	0	N/A
Other Monitoring Documents				
Interim Financial Statements (September 30)	Note 2	3	4	4
Quarterly Reports:				
- 1 st Quarter, June 30		0	0	1
- 2 nd Quarter, September 30		0	0	0
- 3 rd Quarter, December 31		0	0	N/A
- 4 th Quarter, March 31		0	0	N/A

Note 1: In all provinces except Saskatchewan, the annual operating plan approval is evidenced by the incorporation of the performance targets and operating budget into the CF Contract (by way of an amendment to the contract). In Saskatchewan, however, these portions of the current operating plan are not included in the CF Contract, so there is no formal evidence of the approval of the plan itself.

Note 2: Saskatchewan requires that each CFDC file quarterly financial statements, which is not a requirement in any of the other regions. The quarterly advance payments are tied to the receipt of these financial statements in Saskatchewan, and there were only two exceptions where the quarterly financial statements had not been filed.

Conclusion: Compliance

Our conclusions in regards to whether or not the sample of CFDCs selected were in compliance with the CF Contract requirements are as follows:

1. The only significant exceptions in the sample of CFDCs reviewed related to interim financial statements. These exceptions were in one jurisdiction. In the review of the CFDC files in this jurisdiction, and discussion with WD Staff, it was indicated that these documents were given a low priority. As a regional practice, Staff did not actively pursue the filing of interim statements, and rather focused on other areas of higher priority.
2. The key documents which form the basis for assessing each CFDC's performance, activities, financial condition and compliance (annual operating plan, annual audited financial statements, annual auditor's report on compliance) were filed with only one exception. The exception related to a compliance report during the first year that these reports were required. For that CFDC, a compliance report was received for the subsequent year.
3. The filing of the quarterly performance reports was also strong. There was only one exception noted. However, it was noted that in one jurisdiction, certain of the reports could not be located on the CFDC files. This appears to be simply an administrative filing issue.

4. In completing this review, however, it was noted that several documents were filed late. Staff in the four regions indicated that, for the most part, CFDCs filed the information on a timely basis. However, 20-30% of the time, diligence was required on behalf of WD Staff in order to follow up the filings with the CFDCs. In particular:
 - Quarterly performance reports were often filed late. WD Staff indicated that, because the reports often required manually compiling data from various sources, CFDC staff may require additional time during busy periods.
 - Audited financial statements and compliance reports were occasionally filed late. Again, WD Staff indicated that, especially in smaller communities, the availability of the external auditor played a significant role in the timing and completion of an audit.

During the audit, it was noted that the implementation of the “QAR File Contents and Best Practices Checklist” was initiated during the last fiscal year. Once this process has been fully implemented, it should give WD Staff a tool to fully monitor CFDC filings and follow up on exceptions on a timely basis.

Findings: WD Monitoring System

In general, there are many similarities between the regions in terms of how the CFDCs are monitored, and how WD interacts with the CFDCs. For example, for the most part the interaction with the CFDCs in regards to their initiatives and programs are the responsibility of one group, while the review of financial statements and payment functions are the responsibility of another group.

The fact that there are many similarities between methods utilized by the regions to monitor the CFDCs is not surprising, since all are essentially using a process which is based on the various reporting requirements in the CF Contract. However, the manner and degree to which each of these tools is used in each region causes several differences between the regions.

The following chart summarizes the approach in each region. The major differences between regions have been shaded (although there are several more subtle differences which are too detailed to be summarized in the chart). Further commentary follows the chart.

	Manitoba	Saskatchewan	Alberta	B.C.
Review of Operating Plans	<p>Review Program: No standardized program (reviewed by Client Service Officers)</p> <p>Documentation: Undocumented (however, have template document to facilitate review process)</p> <p>Approval: Formal (incorporated into contract through amendment)</p>	<p>Review Program: No standardized program (reviewed by Client Service Officers)</p> <p>Documentation: Undocumented</p> <p>Approval: Informal (no contract amendment required)</p>	<p>Review Process: No standardized program (reviewed by Client Service Officers)</p> <p>Documentation: Undocumented</p> <p>Approval: Formal (incorporated into contract through amendment)</p>	<p>Review Process: No standardized program (reviewed by Client Service Officers)</p> <p>Documentation: Undocumented</p> <p>Approval: Formal (incorporated into contract through amendment)</p>
Review of Quarterly Reports	<p>Review Program: No standardized program</p> <p>Documentation: Undocumented</p> <p>Utilization of Reports: scanned for key items / anomalies, minimal use for monitoring or strategic decision-making. Mainly used as a tool for reporting regional results.</p>	<p>Review Program: No standardized program</p> <p>Documentation: Undocumented</p> <p>Utilization of Reports: scanned for key items, anomalies, minimal use for monitoring or strategic decision making. Mainly used as a tool for reporting regional results.</p>	<p>Review Program: No standardized program</p> <p>Documentation: Undocumented</p> <p>Utilization of Reports: screened by CSO admin. support for accuracy and completeness; also scanned by CSO. Mainly used as a tool for reporting regional results.</p>	<p>Review Program: Standardized program</p> <p>Documentation: Documented</p> <p>Utilization of Reports: on some key reporting items, used for monitoring / discussion. Otherwise, simply a reporting mechanism for the region.</p>
Review of Financial Statements	<p>Review Process: No standardized program (however, a checklist is used so that each is reviewed for specific items)</p> <p>Documentation: Undocumented</p>	<p>Review Process: No standardized program (however, each reviewed for specific items)</p> <p>Documentation: Undocumented</p>	<p>Review Process: Standardized program (started in 2002)</p> <p>Documentation: Documented</p>	<p>Review Process: Standardized program</p> <p>Documentation: Documented</p>
Approval of Payments	<p>Process: schedule is based on contract, each payment is recommended and approved</p> <p>Contingencies: payments can be withheld for major items, 4th quarter payment contingent upon F/S and certain review items on F/S review checklist</p>	<p>Process: schedule is based on contract, each payment is recommended and approved</p> <p>Contingencies: All payments contingent on quarterly F/S review and reconciliation</p>	<p>Process: schedule is based on contract, each payment is recommended and approved</p> <p>Contingencies: Payments can be withheld for major items</p>	<p>Process: schedule is based on contract, each payment is recommended and approved</p> <p>Contingencies: payments can be withheld for major items, 3rd and 4th quarter contingent on F/S review resolution</p>
Site Visits	<p>Frequency: based on risk assessment</p> <p>Type: board meetings, initiatives, planning retreats</p>	<p>Frequency: not systematic (except for detailed "audit")</p> <p>Type: board meetings, assistance with initiatives. However, also have a detailed "audit" of CFDC every 3 years.</p>	<p>Frequency: not systematic</p> <p>Type: board meetings (mainly the "zone" meetings), initiatives.</p>	<p>Frequency: not systematic</p> <p>Type: joint initiatives, board meetings</p>

British Columbia

Key Monitoring Processes:

Each CFDC is subject to an extremely vigorous financial statement review program, both at the time of filing interim financial statements and the year-end audited financial statements. The review is based on a standard program, and the results of the review are thoroughly detailed on the file. Advances for the 3rd and 4th quarters are tied to the satisfactory resolution of queries raised during these reviews (or at least that the CFDC is working in good faith with WD in resolving the queries).

Also, B.C. is the only region that has developed a systematic process for reviewing the quarterly performance reports. The process utilizes Microsoft Excel macros to extract information from the quarterly reports and project them for the fiscal year, allowing comparisons to the operating plan of the individual CFDC. The client services officer (“CSO”) can then select the key criteria to be reviewed, and discuss any questions or comments with the CFDC staff. While the Excel tool will calculate variances for all numerical data, this analysis is intended to be used as a starting point for discussion with the CFDC for any variances which appear to be large, or that require further explanation. It is not intended to be a report card measuring CFDC success or failure.

Additional Monitoring Processes:

Similar to the other jurisdictions, the annual operating plans are reviewed by the CSO. This review relies on the knowledge and experience of the CSO to raise and resolve with the CFDC any concerns of the CSO. The reviewed files contain little documentation of the review process or discussion between the CFDC and WD staff. Once the CSO recommends acceptance of the operating plan, it can be approved and the CF Contract is amended to include the current year’s performance targets and operating budget.

Over the past few years, a risk assessment has been done on each CFDC, which allows the CSOs to focus their effort on CFDCs that are higher risk. However, due to resource issues, site visits are not done on a systematic or methodical basis. The primary purposes for the CSOs’ visits include attendance at board meetings, participation in joint initiatives or presentations, not monitoring.

(For more a more detailed overview of the system in B.C., please refer to Appendix A-4).

Alberta

Key Monitoring Processes:

As with B.C., each CFDC is subject to a financial statement review. The review is carried out by the Monitoring and Payments group based on two review programs – one for the financial statements, and one for the investment fund. All of the findings from the financial statement and investment fund reviews are documented on file. This standardized review programs are a relatively new endeavour. The fiscal years ended March 31, 2001 and March 31, 2002 are currently under review for all of the CFDCs. In the future, it is planned that each CFDC will undergo this review on an annual basis.

The Alberta region is divided into three zones. In each zone, the CFDCs have quarterly meetings involving representation from the management and/or board of each CFDC. The CSOs in Alberta attend these meetings, which gives them the opportunity to interact face-to-face. WD Staff indicated that the resources to visit each CFDC with this amount of regularity are essentially not available, and while this is not a substitute for visits to each CFDC on an individual basis, it is considered an efficient compromise. The site visits that are made to the CFDCs, like B.C., are not done on a systematic or methodical basis, and usually would be along the lines of occasionally attending board meetings where WD presence is requested or to participate in presentations or initiatives.

Additional Monitoring Processes:

Responsibility for the review of the annual operating plans is with the CSOs. Similar to the practice in B.C., the review relies on the judgement of the client services officer. The reviewed files contain little documentation of the review process or discussion between the CFDC and WD staff. The CSOs, however, meet and discuss common issues and practices to ensure consistency among the group. The approval of the operating plan is evidenced through an amendment to the CF Contract to include the current year's performance targets and operating budget.

The quarterly performance reports filed by the CFDCs also go through a screening process. The reports are typically filed with the Program Assistant, who reviews for completeness and for errors. The reports also are sent to the CSOs for their review. The extent of the review is left to the discretion of the CSO. For the most part, the quarterly reports are compiled and used as a tool for reporting on performance of the entire region, and their use as tools to monitor the performance of individual CFDCs is limited. (For more a more detailed overview of the system in Alberta, please refer to Appendix A-5.)

Saskatchewan

Key Monitoring Processes:

Every quarter, each CFDCs files financial statements and a claim form for payment relating to that quarter's funding from WD. The statements and form are reviewed, and WD staff reconciles the funding received with expenses incurred, allowing WD staff to monitor spending and activity undertaken by the CFDC, and control the payments made. Saskatchewan is the only province to require that the CFDCs file quarterly unaudited financial statements (all other jurisdictions require only the interim unaudited financial statements for the 6 months ended September 30 each year).

Additionally, on a cycle of approximately 3 years, each CFDC is subject to a review on the premises of the CFDC. The review is broad, and encompasses an operational review of the CFDC including their policies and procedures, a detailed project file review and a financial systems review. In general, the review involves a group of two or three WD staff for a period of two to three days. This review not only gives WD Staff assurance regarding the practices of the CFDC, but also the opportunity to make constructive recommendations to the CFDC to improve its operation.

Additional Monitoring Processes:

Annual operating plans are reviewed by the CSOs. There is not a formal review program, and the client services officer is responsible for the review. The reviewed files contain little documentation of the review process or discussion between the CFDC and WD staff. Also, Saskatchewan is the only jurisdiction where the CF Contract does not include annual performance targets and operating budgets. Therefore, in the other jurisdictions the CF Contract is amended every year to included these items, which evidences the approval of the annual operating plan. In the case of Saskatchewan, the approval of the annual operating plan is not documented.

Client services officers also review quarterly reports, based on the own experience and judgement. There is no formal review program or variance analysis performed. Traditionally, it has been at the discretion of these individuals that these reports are reviewed, and they have been mainly used as a tool to report statistically on the entire region.

(For more a more detailed overview of the system in Saskatchewan, please refer to Appendix A-6.)

Manitoba

Key Monitoring Processes:

WD Staff in Manitoba have developed two important tools that they use to help monitor the CFDCs. The first is the “Accomplishments Template” which gives the CF Consultant a concise overview of the CFDC’s Goals, Actions and Measurement of Success. The CFDCs will be required to submit their 2003-2004 Operating Plans using this template, which will facilitate the review process. Once the Operating Plan has been reviewed, the approval of the plan is the amendment to the CF Contract to incorporate the current year’s performance targets and operating budget.

The second tool is a Financial Statement checklist. While it is not a comprehensive review program, the items on the checklist point the CF Consultant to the key areas of focus in reviewing the financial statements. The fourth quarter payment approval is also part of the checklist.

Manitoba also has implemented the risk assessment process leading to a systematic process of determining the frequency of site visits. These site visits include board meetings, planning retreats and joint initiatives with the CFDCs, and form an important part of the system for monitoring the CFDCs.

Additional Monitoring Procedures:

The quarterly performance reports are handled in a similar way to Alberta and Saskatchewan. The CF Consultants can review the reports based on their own judgement and experience, but there is not a set review program, and any review is largely undocumented. The reports are compiled, and statistics on the performance of the region as a whole is generated.

(For more a more detailed overview of the system in Manitoba, please refer to Appendix A-7).

Auditor General's Report and Recommendations

In response to comments made in the 2001 Report of the Auditor General of Canada, WD committed to implementing certain policies and practices. The Auditor General's comments in relation to the monitoring and control of the CF Program are summarized below, with the response of WD (the citations correspond to the paragraph numbers of the 2001 Report).

Auditor General's Comments:

- WD should consider conducting a program evaluation and an internal audit of the program. (5.283)
- WD should establish procedures to assess the accuracy and validity of information that CFDCs provide on their performance. (5.283)
- WD officials have informal ways of checking on CFDCs. In our view these practices are insufficient. They do not provide a systematic and objective overview of CFDC's lending activities to ensure that they are meeting the Program's terms and conditions. (5.290)
- Starting with years ended March 31, 2001, WD asked each CFDC to have its auditor provide an opinion on its compliance with the contribution agreement. This should provide WD with good information on the overall lending activities of each CFDC. However, we found these opinions on compliance in only half of the files we examined. (5.291)

WD Response:

- WD will initiate an evaluation, and an audit of the management control framework. (5.283)
- WD will strengthen procedures to assess the accuracy and validity of CFDC performance information. (5.283)
- WD implemented an effective monitoring system through a quality assurance review process that became effective July 1, 2001. WD is committed to implementation of this system, including improved file documentation and taking appropriate action on issues identified as a result of the monitoring procedures. (5.293)
- WD was in the process of following up with CFDCs that had not met the reporting standard for the reports of compliance. (5.291)

Audit and Evaluation

This audit, and the concurrent evaluation, which is also being completed by Grant Thornton, represents the fulfillment of the commitment of WD to complete an Audit and Evaluation of the CF Program. While the audit findings and recommendations are presented in this report, the Evaluation findings are the subject of a separate report.

Accuracy and Validity of the CFDC Performance Information

For the most part, assessing the accuracy and validity of the performance information reported by the CFDCs to WD was outside the scope of this audit. However, comments were raised in each of the regional offices regarding this subject, indicating WD staff also had some concerns over the information being reported on including:

- Some relevant information may not be captured
- Some irrelevant information may be captured
- Reporting may be inconsistent between the different CFDCs because of differing interpretations of what is required
- Reporting may be inconsistent over time within individual CFDCs

Again, while this subject is largely outside of the scope of this engagement, it was noted that at the time of this report, WD was organizing training across the entire region for staff of the CFDCs to improve the reporting process.

Quality Assurance Review and Improved File Documentation

In order to address concerns raised in the 2001 Report regarding the adequacy of file documentation and systematic review of CFDCs, WD commenced several initiatives. In terms of direct monitoring of the CFDCs, two of the key initiatives were the implementation of a risk assessment process for individual CFDCs (tied to a CFDC site visit program) and the implementation of a Quality Assurance Review Checklist for CFDC files.

- Risk Assessments: For each CFDC, a “WD Annual CFDC / WEI / FEDO Project Risk Assessment” form is to be completed based on 11 criteria including CFDC history, operations, experience and turnover of management, record of compliance and meeting of targets, etc. A numerical risk rating is computed. This rating drives the degree of monitoring that is required by WD. This Risk Assessment form is included as Appendix A-9. Prior to the implementation of this form, a more generic “WD Project Risk Assessment” form, which uses some of the same criteria, was available to be used by WD Staff.

- **Quality Assurance Review Checklists:** These forms are designed to track each CFDC's compliance with the terms of the CF Contract and the WD Staff's review of these documents. The documents listed are the same as discussed earlier in this report under "Monitoring and Control System" (Page 11). This checklist is included as Appendix A-10.

For the 20 CFDC files selected, these processes were reviewed for the 2002-2003 fiscal year. The results of this review are summarized below. Complete results are in Appendix A-2 to this report.

PROCESS	DEGREE OF IMPLEMENTATION	
Risk Assessment Process	“WD Annual CFDC Project Risk Assessment” was completed during 2002-2003	5 files, 25%
	“WD Project Risk Assessment” had been completed during 2002-2003	8 files, 40%
	No risk assessment had been completed during 2002-2003	7 files, 35%
QAR Checklist	QAR Checklist was on file for 2002-2003 (in various stages of completion)	7 files, 35%
	QAR Checklist not on file for 2002-2003. However, a similar checklist with largely the same fields was being used.	6 files, 30%
	No checklist on file for 2002-2003	7 files, 35%

It is important to note that these results tend to correspond to the different provinces, which appear to be in different stages of implementation of these practices.

British Columbia:

For the seven files reviewed in B.C., it was found that for the most part they did not contain the QAR Checklist or the CFDC Risk Assessment checklist. However, they were also equally consistent in that “WD Project Risk Assessment” forms had been completed for the current and past years, and that the files contained a checklist similar to the QAR Checklist. It appears that the staff is inconsistent in using the new forms – although these processes are in place.

Alberta:

The results for Alberta were very similar to B.C. In the current year, QAR Checklists were on file, although some did not appear to be up-to-date. While risk assessments were not done in the current year, all files reviewed did have risk assessments completed using the “WD Project Risk Assessment” form during the prior year. Staff indicated that the current year’s risk assessments would be done.

Saskatchewan:

It appeared as though Staff in Saskatchewan were just implementing these procedures. One of the three files reviewed had both a QAR Checklist and a risk assessment, while the other two files had neither. Since only three files were reviewed, it is difficult to speculate for the province as a whole. Staff indicated that these processes would be in place by the end of the current year.

Manitoba:

All of the four files reviewed in Manitoba contained completed risk assessments. Also, Staff were able to provide a copy of a summary of the risk assessments for all of the CFDCs in Manitoba. The checklists reviewed also evidenced site visits for two of the four files (one considered medium risk, one considered high). It appears as though Manitoba has fully implemented the risk assessment process. However, none of the four files contained QAR checklists. Similar to Saskatchewan, Staff indicated that these would be in place at the end of the current year.

The 2001 Report also indicated that, while the compliance certificates that would be provided by each CFDC's external auditors would provide good information on the overall lending activities of each CFDC, these certificates were found in only half of the files examined. Based on the review of files completed as part of this audit, it appears that the filing of compliance certificates has improved dramatically. For the year ended March 31, 2001, there was only 1 exception, and none for the year ended March 31, 2002. The filing deadline for compliance certificates for the year ended March 31, 2003 is July 31, 2003.

Conclusion & Recommendations: Monitoring System

Observations

Because of the regional differences in the control systems, it is difficult to give conclusions as if there was one common system. However, it is possible to make observations of practices that are specific to certain regions and common across regions as well.

Best Practices:

The differing approach taken in each of the regions has allowed WD Staff to innovate their own practices. Certain of these are highlighted below as best practices:

- Financial Statement Review and Reconciliation Program: employed in British Columbia and Alberta, which is done according to a detailed program and thoroughly documented in the files. (However, it should be noted that Saskatchewan and Manitoba also perform financial statement reviews for many of the same items).
- CFDC Operational Review: done only in Saskatchewan for each CFDC approximately every three years, the three day on-site review of the operations, loan files, policies and financial reporting gives a great deal of information about each CFDC and assurance to WD that the CFDC is in compliance with provisions of the CF Contract and properly furthering the objectives of the CF Program.
- Risk Assessments and Site Visits: While all regions appear are in the process of implementing these processes, Manitoba has implemented the systematic assessment of risk assessment and site visits to a greater extent than the other jurisdictions. The risk assessment program allows attention to be focused on CFDC's at greater risk (and therefore in need of greater monitoring); the routine and systematic site visits allow timely information regarding the operations of each CFDC.

Opportunities for Improvement:

Although the regions have developed their own approaches to address their control and monitoring responsibilities, across the regions there are several areas where improvement is possible:

- **Informal and Undocumented Monitoring:** while the use of informal means of monitoring CFDC activities (i.e. phone calls, casual visits) is of benefit, there is a lack of documentation of these activities. More importantly, the review of annual operating plans, which is a key factor in monitoring CFDC activities, is largely undocumented (or inconsistently documented). The 2001 Report of the Auditor General also raised concerns in relation to the level of file documentation.
- **Regional Inconsistency:** recognizing that each region will have its own areas of focus and priorities based on differences in the economic environments in each, there is a difference in the approach taken in each region. Given that the program objectives and structure is identical in each region, one would expect that the monitoring systems would be virtually identical as well. Differences in the jurisdictions may lead to weaknesses in certain areas in each region, inefficiencies in implementing new processes which may already be employed in other regions, and the perception of unequal treatments of CFDC's from different regions.

Conclusions

It is important to note that a long-term relationship exists between each of the CFDCs and WD. The CFDCs are funded on five-year contracts for their base funding on a continuing basis. In most cases, the CFDCs have been in existence for approximately 10 years, with the range of ages being between approximately 5 and 15 or more years (when the CF Program was administered by Human Resources and Development Canada).

The ongoing nature of the relationship is a double-edged sword. On one hand, this familiarity with CFDCs and their management gives WD Staff a broader base of knowledge regarding each CFDC, and reduces the risk of projects failing or funds being misappropriated. However, this same familiarity could lead to a degree of complacency in the monitoring of CFDC activities, and lack of diligence.

Similarly, as WD Staff work with CFDC management and boards over longer time frames, they are able to identify problem areas on a timely basis. While a very rigorous system of controls would be necessary if one-time projects were being funded, the nature of an ongoing multi-year program with strong relationships would lend itself to a less rigorous control structure. Therefore, although the 2001 Report of the Auditor General indicated that reliance on informal ways of checking on CFDCs was inadequate, these informal means nevertheless form a valuable part of the control structure, in concert with more formal monitoring.

It is therefore important that, while the program officers who directly monitor the CFDCs may utilize informal means and their past experience as tools, proper diligence and discipline to this process should be imposed within the control system. It is also the responsibility of senior WD Staff to ensure that this is the case.

The practical aspects of a control system must also be considered. An extremely thorough process could be envisioned which incorporates the best practices of each jurisdiction plus stringent controls and penalties in relation to filings. However, such a process would be extremely onerous not only on the CFDCs, but on WD Staff as well.

In summary, the monitoring procedures set out in the “CFDC, WEI and FEDO Contributions – WD Policy” provide an adequate system of monitoring the CFDCs.

The actual performance of WD in relation to the key aspects of this policy is summarized as follows:

- Annual Project Risk Assessment Form completed
 - Degree of implementation varies in each jurisdiction, but all jurisdictions are assessing risk as part of the monitoring process.

- Update and review of CFDC policies (Investment Fund Policy, Confidentiality, Human Resource Management, Conflict of Interest) and retain copies on WD files
 - None of the 20 CFDC files reviewed contained copies of the CFDC policies in these four areas. Staff indicated that the policies would have been reviewed during the initial application.

- Review of quarterly performance results and variance to forecast
 - All quarterly reports are reviewed. However the extent and focus of the review is for the most part at the discretion of the Client Services Officer. These reports are discussed in greater detail in the next section of the report.

- Review for compliance to contract terms and conditions
 - As part of the annual financial statement review, all jurisdictions were performing some review to determine compliance. Also, compliance certificates provided by each CFDC's external auditor were relied upon as evidence of compliance as well, and were received with only on exception for the CFDC files reviewed. These compliance certificates are discussed in greater detail as well in a later section of the report.

- Review of interim financial statements and annual audited financial statements, including a review of auditor's report, ineligible expenses, contribution payments in excess of eligible expenditures, other government funding, and interfund transfers
 - All jurisdictions are performing a review of financial statements, with varying degrees of formality. The key areas indicated above are the focus of WD Staff's review.

- Additional monitoring procedures should be undertaken based on an annual risk assessment, including a minimum of one site visit, with additional procedures including additional site visits, review of accounts, review of board minutes, compliance audits / program evaluations, review of other information and meeting with CFDCs auditors
 - Implementation of site visits based on risk assessment varies between jurisdictions. The availability of resources needed to complete these visits has been raised as a concern.

Overall, the two significant areas of concern with the administration of the program are the inconsistency in the systems used in each jurisdiction and the lack of formal documentation in relations to certain key processes and informal monitoring practices.

Recommendations

A. Consistency Across Jurisdictions

Although regional differences exist, the basic framework for monitoring the CFDCs is the same, and the approach to monitoring the CFDCs should also be consistent. **A common approach should be implemented in respect to key control items**, which would follow the monitoring procedures already outlined in WD policy and address the concern of file documentation as well. These key control items are:

1. **Formal and documented financial statement reviews should be implemented across all jurisdictions:** This would be based on a standardized program with any issues raised and method of resolution recorded as part of the program.

- 2. Formal and documented operating plan review should be implemented across all jurisdictions:** A standard program may not be appropriate for each of 90 CFDCs, so the review process would likely still depend on the experience and judgement of the program officers. However, a checklist of key items as well as documentation of queries and responses (whether in the form of letters, emails, faxes) would provide support that the operating plan has been reviewed and that further funding is appropriate.

- 3. Site visits to each CFDC for the control and monitoring purposes should be completed (and based on completed CFDC risk assessments):** The current process ties site visits to the risk assessment process. However, the practice across the regions regarding carrying out these visits varies widely, presumably because of lack of resources to complete these visits. Also, many of these visits are for purposes other than a monitoring function. However, the CFDC management of their loan portfolios is a risk area for the program, and the assessment of individual CFDC's lending practices should be undertaken on a routine and systematic basis. Since WD resources are limited, one alternative would be to perform a detailed review of CFDC operations on a rotating basis (similar to the approach taken in Saskatchewan).

For the most part, the current practices of the regional offices cover all the areas noted above. Certain jurisdictions have developed their own practices covering the above points, and a coordinated means of sharing practices between the regions would reduce any implementation inefficiencies.

B. Auditor's Compliance Reports

A financial statement audit requires the auditors to satisfy themselves that the enterprise being audited is in compliance with contracts material to the financial statements. In the case of the CFDCs, this would clearly apply to the CF Contract. Therefore, it would seem that the additional step of having an external auditor provide WD with a certificate of compliance would be an efficient way for WD to gain assurance regarding CFDC compliance. However, there are problems with this approach:

- **Materiality:** Financial statements are completed with the concept of materiality. The level of assurance required by an auditor to assess compliance in the context of a financial statement audit may be significantly less than the level of assurance required to provide the compliance certificate. Therefore, the CFDC may incur additional costs that take away from the funds available to complete their mandate.

- **Expertise:** The CF Contract contains many aspects that may be outside the expertise of a financial auditor. An auditor may only be qualified to give an opinion on the financial aspects of the contract.
- **Substitute Judgement:** While the auditor may give an opinion that a CFDC is in compliance, it is ultimately the responsibility of WD to make this assessment. WD may be relying on an assessment that would differ from their own.

We recommend that the utilization of compliance statements should be revisited in order to address the above issues. One alternative would be to limit the scope of the auditor's compliance report to cover only the financial aspects of the CF Contract. Another alternative would be to determine specific procedures for the auditor to perform, and report the results. WD would then be in the position to make the determination regarding compliance themselves. The latter alternative would reduce costs to the CFDC since the procedures would be predefined for the auditor, and would eliminate the issues of "Expertise" and "Substitute Judgement" noted above.

C. Quarterly Performance Reports

Several comments arose in relation to the quarterly reports filed by the CFDCs from both WD Staff and the CFDCs themselves (certain comments arising as part of the Evaluation of the CF Program). The following summarizes these, some of which were noted earlier:

- Preparation of the reports is onerous on the CFDCs, who receive little feedback on the reports themselves.
- Some relevant information may not be captured.
- Some irrelevant information may be captured (i.e. there are too many variables being reported).
- Reporting may be inconsistent between the different CFDCs because of differing interpretations of what is required.
- Reporting may be inconsistent over time within individual CFDCs.

Also, based on the findings of this audit, it appears that the reports are used largely as a tool for reporting on the results of the program itself, and utilization of the reports as a tool for monitoring the CFDC activities is minimal.

Therefore, the purpose and content of these reports should be revisited. For example, as a tool for monitoring the CFDCs, quarterly reporting may be necessary. However, all of the variables being reported on may not be needed. Similarly, the data necessary to report on the performance and results of the CF Program on a quarterly basis may not require as great of detail as annual reporting, such that the quarterly burden on CFDCs could be reduced.

If the reports are still to have the dual purposes of being tools for monitoring individual CFDCs as well as tools for reporting on program results, the fields being reported on should be revisited and the reports streamlined to the greatest extent possible.

British Columbia has developed an automated tool for performing a variance analysis using the quarterly reports, which best utilizes WD Staff's time in reviewing the variances and using them as discussion points with the CFDCs rather than spending time manually doing calculations. Also, Manitoba has developed a tool for the CFDCs to report goals, activities and results on an annual basis in a concise format. In keeping with the earlier recommendation for the regions to achieve greater harmonization of practices, these tools may be utilized in revisiting the quarterly reporting process.

D. CFDC Policies

The terms of the CF Contract require each CFDC to have corporate policies in four key areas:

1. Investment Fund Management
2. Confidentiality Assurance
3. Human Resource Management
4. Conflict of Interest Guidelines

However, none of the 20 CFDC files reviewed contained copies of these policies. Staff indicated that the policies would have been reviewed as part of the initial approval process for the CFDC. However, there was no indication that these policies would have been reviewed in the subsequent period, or if there had been changes to them.

WD has been working with the CF Association to develop standard policies in these areas. **Given that all of the CF Contracts end as of March 31, 2004, the CFDC policies should be revisited for each CFDC as part of the renewal process.** The standard policies could be used as either a basis for comparison to existing policies, or as templates by which each CFDC could draft new policies.

E. *Improved File Documentation*

As noted earlier, a number of the monitoring procedures are informal. These informal practices may include:

- telephone conversations with CFDC directors or management,
- casual visits to CFDCs,
- attendance at CFDC events, and/or
- discussions with CFDC staff regarding possible initiatives.

WD Staff indicated that they were in frequent contact with CFDCs as a matter of routine. However, this contact is not well documented. While it would not be practical to document every telephone call or conversation, this is essential if important issues are discussed, such as CFDC initiatives, performance or loans. Improved file documentation would allow those with oversight responsibility to monitor work of subordinates and to facilitate transition if new project officers are assigned to monitor the CFDCs.

Appendices

- A-1: SUMMARY OF CFDCs REVIEWED**
- A-2: AUDITOR'S REPORT ON SPECIFIED PROCEDURES**
- A-3: STANDARD CF CONTRACT**
- A-4: B.C. SYSTEM NOTES**
- A-5: ALBERTA SYSTEM NOTES**
- A-6: SASKATCHEWAN SYSTEM NOTES**
- A-7: MANITOBA SYSTEM NOTES**
- A-8: CFDC PERFORMANCE REPORT**
- A-9: WD ANNUAL CFDC / WEI / FEDO PROJECT RISK ASSESSMENT**
- A-10: QAR FILE CONTENTS AND BEST PRACTICES REVIEW CHECKLIST**
- A-11: SAMPLE AUDITOR'S REPORT ON COMPLIANCE**

A-1: Summary of CFDC's Reviewed

JURISDICTION	SELECTED CFDC	NOTES
British Columbia	<ol style="list-style-type: none"> 1. Pacific Northwest 2. Fraser Fort George 3. Central Interior First Nations 4. North Fraser 5. Central Kootenay 6. 16/37 7. Central Island 	<ol style="list-style-type: none"> 1. Remote and smaller service area (Prince Rupert) 2. Northern and mid-sized urban location and service area with significant total revenues across all funds (Prince George) 3. Small population base and First Nations CFDC (Kamloops) 4. Smaller service area located close to urban centers and with significant total revenues across all funds (Mission) 5. Remote with mid-sized service area and population (Nelson) 6. Remote and mid-sized service area with mixed Aboriginal and non-Aboriginal programming (Terrace) 7. Diverse and large population base with medium-sized service area and significant total revenues across all funds (Nanaimo)
Alberta	<ol style="list-style-type: none"> 1. Lakeland 2. Lesser Slave Lake 3. Southwest 4. Entre Corp 5. West Yellowhead 6. Mackenzie 	<ol style="list-style-type: none"> 1. Smaller and more remote service area (Bonnyville) 2. Central and Northern location with mid-size service area and Aboriginal programming (Slave Lake) 3. Mid-size service area with Treaty 7 settlements (Pincher Creek) 4. Mid-size service area with southern location and large population (Medicine Hat) 5. Mid-size service area with western location with medium population (Hinton) 6. Northern with small population base and large service area (High Level)
Manitoba	<ol style="list-style-type: none"> 1. Kitayan 2. Wheatbelt 3. Neicom 4. North Central 	<ol style="list-style-type: none"> 1. Larger and northern service area (main office located in Winnipeg – but remote communities and Board representatives) with small population base and Aboriginal programming 2. Southwest location and mid-size service area with large population base (Brandon) 3. Smaller service area with more central location and mid-sized population base (Riverton) 4. Large service area with Northern location (Thompson)
Saskatchewan	<ol style="list-style-type: none"> 1. Visions North 2. Prince Albert 3. Sage Hill 	<ol style="list-style-type: none"> 1. Large service area with Northern location, small population base, largest total operating budget and Aboriginal programming (LaRonge) 2. Central and mid-size city location with smaller service area (Prince Albert) 3. Central location with mid-size service area (Bruno)

**Audit of the Community Futures Program
Western Economic Diversification Canada**

A-2: Auditor's Report on Specified Procedures

**Audit of CF Program
CFDC File Review
April 1, 2000 to
September 30, 2002**

Notes:

- 1 - indicates approval for the year's operating plan is evidenced by the contract for that year
- 2 - quarterly report on WD system, and therefore CFDC filed and was in compliance. However, printed copy not on file.
- 3 - contracts structured in Saskatchewan as to not include the performance information and operational budget. Therefore, contracts need not be amended each year.
There is not a formal indication of approval of the operating plan each year, therefore.
- 4 - the file reviewed did not go back to these dates. Although it was possible to review earlier volumes, it was not deemed necessary due to time constraints and the compliance demonstrated during the subsequent periods.

**Audit of CF Program
QAR and Risk Assessment
April 1, 2000 to
September 30, 2002**

	British Columbia							Alberta						Saskatchewan			Manitoba			
	16-37	Central Int. First Nations	Central Island	Central Kootenay	Fraser Fort George	North Fraser	Pacific Northwest	Entre-Corp.	Lakeland	Lesser Slave Lake	Mackenzie	Southwest	West Yellowhead	Prince Albert	Sage Hill	Visions North	Kitayan	Neicom	North Central	Wheatbelt
2002-2003																				
QAR Checklist on File	4	3	3	3	3	3	3	4	no	4	4	4	4	4	no	no	no	no	no	no
Risk Assessment on File	1,2	2	2	2	1,2	2	2	no	no	2	no	no	no	yes	no	no	yes	yes	yes	yes
2000-2001, 2001-2002***																				
*** Note: 2002-2003 was the first year that the "QAR File Contents and Best Practices Checklist" and the "WD Annual CFDC Project Risk Assessment" forms were to be implemented. The prior years are shown as a comparative context to indicate what practices were in place prior to the 2002-2003 year.																				
QAR Checklist on File	On several files, a similar form was on file, with many of the same checklist items. In some cases, for 2001-2002, the QAR Checklist and been placed on file and was partially or fully completed.							On some of the files, a similar form was on file, with many of the same checklist items.						No similar checklists appeared to be on file for these years.			No similar checklists appeared to be on file for these years.			
Risk Assessment on File	Similar to the QAR checklist, most files included a "WD Project Risk Assessment" or the "WD Annual CFDC Project Risk Assessment" checklists. Use of one form or the other was inconsistent, however.							On all files, a "WD Project Risk Assessment" form was on file, completed during the 2001-2002 fiscal year.						No risk assessments were noted on file for these years.			No risk assessments were noted on file for these years.			

Notes:

1. Risk Assessment on file, not yet completed.
2. "WD Project Risk Assessment" on file, and completed
3. Checklist on file, similar to QAR checklist, partially completed for current year.
4. QAR Checklist on file, either blank or partially completed for current year.

**Audit of the Community Futures Program
Western Economic Diversification Canada**

A-3: Standard CF Contract

This Contribution Agreement entered into the ____ day of _____ 2001, effective as of the 1st day of April, 1999.

BETWEEN:

Government of Canada
as represented by the
Minister of Western Economic Diversification
("the Minister")

AND

Name of CFDC
("the Corporation")

PURPOSE AND SCOPE OF COMMUNITY FUTURES PROGRAM

Whereas, the Community Futures Program is well established in western Canada and provides community economic development support to rural western Canada.

Whereas, the Community Futures Program has achieved success and the CFDCs have traditionally delivered the program as flexible community based organizations and are agreeable to provide the services they have traditionally provided.

Whereas, CFDCs, operate as independent non-profit corporations and deliver this program in western Canada.

Whereas, certain funds have been and are to be provided by the Minister to CFDCs in western Canada to deliver the Community Futures Program and as a consequence the Minister requires accountability for use of the funds as described in this Agreement.

Whereas, the purpose of the Community Futures Program, implemented by the Minister is to: support community economic development; diversify the economy; support the creation and the expansion of small and medium-sized enterprises; maintain and create new employment; and, maintain the Minister's capacity to deliver business services to rural communities in western Canada.

Whereas, according to the Community Futures Program, the Minister provides financial support to CFDCs in western Canada for:

- a) community economic development and strategic planning;
- b) business advisory services including business planning, business information, and entrepreneurship training to small and medium sized enterprises;
- c) access to financial assistance to assist existing businesses or to help entrepreneurs to create new businesses; and,
- d) delivery of special economic adjustment programs.

THE MINISTER AND THE CORPORATION AGREE AS FOLLOWS:

DEFINITIONS

1. In this Agreement:

“Agreement” means this Contribution Agreement and all Schedules attached hereto; as amended in writing between the parties from time to time.

“Assets of the Investment Fund” means all monies, securities and other assets held in the Investment Fund of the Corporation, including:

- a) all amounts credited to Conditionally Repayable Investment Funds under sections 5 and 9 of this Agreement;
- b) all amounts credited to Conditionally Repayable Investment Funds from all previous Conditionally Repayable Contributions made by Western Economic Diversification;
- c) all amounts credited to the Investment Fund from all previous grants or non-repayable contributions made by the Government of Canada to the Corporation prior to the transfer of the Community Futures Program to Western Economic Diversification. These include amounts transferred as grants or non-repayable contributions under any previous similar program conducted by the Government of Canada including all amounts credited to the Investment Fund of a Business Development Centre that received non-repayable funding from the Government of Canada, that have been transferred to the Corporation by the Business Development Centre and credited to the Corporation’s Investment Fund; and,
- d) less any losses incurred through operation of the Investment Fund pursuant to Schedule 2 Investment Fund Terms and Conditions and any amounts transferred from the Investment Fund to the Operating Fund as permitted by Section 9.3 to this Agreement.

“Business Development Centre” means the organizations, formerly established by the department of Human Resource Development Canada, to deliver business development services.

“Capitalization Costs” means monies required by the Corporation as a reserve for loan, loan guarantee and equity investment commitments made by the Corporation.

“Community” means the geographic area, region, municipality or municipalities served by the Community Futures Development Corporation.

“Community Futures Development Corporation” (CFDC) means a community based non-profit organization established for the purpose of delivering a wide range of community economic development programs and services including the Community Futures Program.

“Community Futures Program” means the program, implemented by the Minister for the purposes and scope set out in the preamble to this Agreement.

“Conditionally Repayable Contribution” means funds provided by WD that are repayable as per Schedule 2 of this Agreement, for the purpose of establishing Conditionally Repayable Investment Funds.

“Conditionally Repayable Investment Funds” means the portion of the Investment Fund established with WD Conditionally Repayable Contributions.

“Contribution” means the amounts to be paid by the Minister to the Corporation pursuant to Section 5 of this Agreement.

“Eligible Expenditures” are all reasonable and direct costs related to delivery of the Community Futures Program, which are not defined as ineligible expenditures.

“Financial Statement Guide” means the guide attached as Schedule 5 of this Agreement, to be used to prepare audited financial statements. The Minister, upon notice to the Corporation, may amend the Financial Statement Guide from time to time.

“Ineligible Expenditures” are expenditures which are contrary to the public purpose of the program and include: entertainment; club memberships; director’s fees/honorariums; amortization; depreciation; expenditures on travel, meals, and accommodation exceeding Treasury Board guidelines; fines and penalties; and, the portion of the expenditure for which the Corporation is eligible for GST credit. The costs to purchase land, buildings and motor vehicles are Ineligible Expenditures, unless authorized in writing by the Minister.

“Investment Fund” means the fund established by the Corporation to provide access to capital for small and medium sized businesses and includes all Assets of the Investment Fund.

“Operating Costs” means those Eligible Expenditures incurred by the Corporation, which are reimbursed by the Minister in accordance with this Agreement.

“Operating Plan” means the plan prepared annually in a format prescribed by the Minister. Sections [H] Performance Targets and [I] Operational Funding form Schedule 1 to this Agreement, as approved annually by the Minister.

“Western Economic Diversification”, “WED”, “WD” mean the federal government Minister and department of Western Economic Diversification authorized to carry out activities including the administration of the Community Futures Program pursuant to the **Western Economic Diversification Act**, R.S., 1985, ch.11.

DELIVERABLES

Services

2. The Corporation will provide the following Services:
 - a) Community Economic Development
 - b) Business Services
 - I) Technical and Advisory Services (including Business Planning)
 - II) Lending
 - III) Information Services
 - IV) Training and Skills Development
 - c) Marketing/ Visibility
 - I) Promotion of Small Business
 - II) Federal Contribution
 - d) Administration of the Corporation
 - I) Management
 - II) Governance
 - e) Other services as agreed to by the parties

in accordance with: Schedule 1 Operating Plan; the terms and conditions set out in this Agreement; and, any limitations in a particular community as agreed to by the parties.

Performance Targets

3. The Corporation will be required to:
- a) establish performance targets against items set out in Schedule 1 Operating Plan, Section [H] Performance Targets; and,
 - b) monitor performance in accordance with targets.

Performance Reporting Requirements

4. The Corporation will be required to submit the following reports to the Minister:
- a) annual Operating Plan by January 31;
 - b) quarterly reports within 20 days following the end of the quarter, due July 20, October 20, January 20, and April 20 pursuant to the Operating Plan; and,
 - c) any other reasonable information as requested by the Minister.

CONTRIBUTION**Basis of Payment**

5. Subject to an annual appropriation from Parliament for the purpose, the Minister will make a Contribution to the Corporation to provide the Services set out in Section 2, in accordance with this Agreement, to an amount not exceeding:

- (a) \$_____ for the period commencing April 1, 1999 and ending March 31, 2004, which includes an annual amount of:

\$_____ for 1999 - 2000

\$_____ for 2000 - 2001

\$_____ for 2001 - 2002

\$_____ for 2002 - 2003

\$_____ for 2003 - 2004

according to the amounts set out for each fiscal year beside each of the categories in Table 1 and based on the cash flow requirements in the Schedule 1 Operating Plan: Section [I] Operational Funding.

TABLE 1- AMOUNT OF PAYMENT

	99/00	00/01	01/02	02/03	03/04	Total
Operations	\$	\$	\$	\$	\$	\$
Contributions to Investment Funds						
➤ Conditionally Repayable Regular Investment Fund	\$	\$	\$	\$	\$	\$
➤ Conditionally Repayable Disabled Entrepreneur Investment Fund	\$	\$	\$	\$	\$	\$
Total Contribution	\$	\$	\$	\$	\$	\$

6.1 As part of the total Contribution set out in Section 5, the Minister may provide:

- a) a Contribution to reimburse the Corporation's Eligible Expenditures in accordance with this Agreement and Schedule 1 Operating Plan: Section [I] Operational Funding;
- b) a Conditionally Repayable Contribution towards Investment Funds to be used to improve access to capital for small and medium sized business in the community. The Investment Fund will be administered by the Corporation in accordance with Schedule 2 Investment Fund Terms and Conditions.

6.2 The Corporation acknowledges the receipt of total Conditionally Repayable Investment Funding of \$_____ and Conditionally Repayable Disabled Entrepreneur Investment Funding of \$_____.

6.3 The Corporation shall repay the Contribution to the Conditionally Repayable Investment Funds pursuant to Schedule 2, Investment Fund Terms and Conditions – Conditionally Repayable Investment Funds.

Method of Payment

7. The Minister:

- a) may release funds in advance based on the monthly cash-flow forecast in Schedule 1 Operating Plan: Section [I] Operational Funding, to cover Eligible Costs to be incurred by the Corporation for the period;
- b) will not make any payments for expenditures incurred prior to the program commencement date or after the termination date for each program as set out in the schedules;

- c) may make payments, upon receipt and approval of any reports required by the Minister; and,
- d) may, upon notice by the Minister, deduct any unexpended balances plus interest from the next year's contribution amount.

Reimbursement

8. The Minister may, upon 30 days written notice, require the CFDC to repay the amount of:
- a) the Contribution arising from payments above Eligible Expenditures;
 - b) the Contribution arising for items deemed to be Ineligible Expenditures; and,
 - c) the Conditionally Repayable Contribution towards Conditionally Repayable Investment Funds in excess of Capitalization Cost requirements,
- which are debts due to the Crown and are due and payable upon notice, and may be set off against future payments. Interest may be applied at 3% above the Bank of Canada rate on repayments from the date they become due.

Financial Records and Accounts

- 9.1 Contribution funds advanced to the Corporation in respect of Operating Costs and the Investment Fund shall be deposited and maintained in two separate accounts.
- 9.2 All revenues from loans and other Investment Fund activities, all revenues from investments out of the Investment Fund and all repayments on account of principal in respect of Investment Fund activities shall also be credited to the Investment Fund.
- 9.3 Funds required to be credited to the Investment Fund under Section 9.2 shall not be used for purposes other than Investment Fund activities without the prior written approval of the Minister. Notwithstanding the foregoing, an amount specifically approved in Schedule 1 Operating Plan: Section [I] Operational Funding, may be transferred from the Investment Fund to the Operating Fund.
- 9.4 The Corporation agrees to inform the Minister promptly and in writing of any reduction in Operating Costs or of any additional federal, provincial or municipal assistance to be received towards Operating Costs. The Minister shall have the right to adjust the amount of the Contribution towards Operating Costs to take into account the amount of any such assistance that is to be received, or to recover forthwith the additional assistance up to the total of the contribution disbursed as a debt due the Crown.
- 9.5 The Corporation declares that it has provided the Minister with a list of all overdue amounts owing to the federal government under legislation or contribution agreements and recognizes that the amount due to the Corporation under this Agreement may be set off against amounts owing to the government by the Corporation.

9.6 The Corporation shall retain books and records for seven years.

Financial Reporting

10. The Corporation will submit to the Minister each year:
- a) a semi-annual financial report including income statement and balance sheet certified by an officer of the Corporation by October 30;
 - b) audited annual financial statements prepared in accordance with Generally Accepted Accounting Principles for each year ending March 31, by July 31. The audit shall be performed by a professionally certified accountant, in accordance with the attached Financial Statement Guide as amended from time to time, and shall include a statement that the auditors are familiar with the terms and conditions of the Agreement and that no breach of such terms and conditions came to their attention in the course of their review of the records of the Corporation, except as set forth in their report; and,
 - c) any other financial reports required by the Minister.

CORPORATION OBLIGATIONS

CFDC Corporate Policies

11. The Corporation will be required to develop and comply with corporate policies, satisfactory to the Minister, including policies for:
- a) Investment Fund management, in accordance with Schedule 2;
 - b) confidentiality assurance;
 - c) human resource management;
 - d) conflict of interest guidelines based on those set out in Section 28; and,

The Corporation will notify the Minister in writing prior to implementation of any changes to these policies.

Warranties

12. Throughout the duration of this Agreement, the Corporation will:
- a) maintain its status as a non-profit corporation;
 - b) ensure the Board of Directors is representative of the Community;
 - c) maintain its capacity to deliver the Services as required by this Agreement; and,
 - d) ensure that upon dissolution of the Corporation, any assets to which the Minister contributed, remaining after payment of debts and liabilities, and any records necessary to deliver the Community Futures Program, can be transferred to another Community Futures Development Corporation, or organization with similar objectives, as approved by the Minister.

Notification

13. The Corporation will immediately notify the Minister of any:
- a) significant change or proposed changes to its operations;
 - b) changes in articles of incorporation, board membership, and corporate policies;
 - c) any legal suits or actions against the Corporation; and,
 - d) an environmental issue or concern pursuant to applicable laws in force.

Indemnity and Insurance

14. The Corporation shall:
- a) indemnify the Minister against all claims, losses, debts, actions and suits arising out of or attributable to this Agreement other than those caused directly by Canada or its servants. This indemnification will survive termination of this Agreement; and,
 - b) at its own expense, obtain and at all times maintain sufficient public liability, property damage, third party and directors liability insurance to reimburse against claims for personal injury, death, damage to property or losses arising out of this Agreement.

MINISTER'S RIGHTS

15. The Minister or an authorized representative may, upon request:
- a) meet with the board of directors of the Corporation;
 - b) obtain notice of the time and place of the Corporation's annual, special, and board meetings, and a copy of board minutes;
 - c) and with prior notice to the Board Chair, meet with the Corporation's auditor;
 - d) visit the corporate office, inspect accounts and records, and make copies;
 - e) conduct periodic compliance audits and program evaluations; and,
 - f) require the Corporation to provide other information or reports to give effect to this Agreement.

TERM**Termination**

- 16.1 This Agreement commences on the first day of April 1999 and shall continue in force

until terminated:

- a) by the Minister on thirty (30) days written notice to the Corporation;
- b) by mutual consent of the parties; or,
- c) immediately by either party for cause.

- 16.2 If the Minister terminates this Agreement pursuant to Section 16.1(a), the Corporation shall be entitled to be paid costs reasonably and properly incurred to perform this Agreement, not yet paid or reimbursed by the Minister, including the unliquidated portion of any advance payments for:
- a) capital expenditures actually incurred specifically to perform this Agreement, including amounts for outstanding leases of real property or equipment;
 - b) costs incidental to and arising from the termination of this Agreement, including cost of cancellation of obligations, of taking inventory, preparing necessary accounts and statements with respect to the Services to the effective date of termination, including reasonable severance payments or damages and wages required to be paid by law to employees terminated as a direct result of the termination of this Agreement.
- 16.3 Notwithstanding anything in this section, the total amount due and payable under this Agreement shall not exceed the amounts payable under Section 5 of this Agreement.
- 16.4 The Corporation shall enter into agreements including lease and employment agreements, and make purchases on terms that reflect the terms of this Agreement.
- 16.5 The Corporation shall have no claim for damages, compensation, allowance or otherwise by reason of any action taken or termination notice given by the Minister under this Section, except as expressly provided.

Termination for Default

- 17.1 The Minister may notify the Corporation that it is in default of this Agreement if the Corporation:
- a) has submitted false or misleading information;
 - b) ceases operations;
 - c) becomes bankrupt or insolvent, goes into receivership, or takes the benefit of any statute relating to bankrupt or insolvent debtors;
 - d) has an order made against it for winding up, dissolution or liquidation; or,
 - e) is in breach of any term or condition of this Agreement.
- 17.2 Upon notification of default the Minister may immediately terminate this Agreement and may request the Corporation to repay all or part of the Contribution to Eligible Expenditures and Conditionally Repayable Investment Funds in accordance with Schedule 2.

REMEDICATION AND DISPUTE RESOLUTION

Remediation

18. If, in the sole discretion of the Minister, the Corporation fails to meet any obligation of this Agreement, or there are concerns about the governance or management of the Corporation, then the Minister may require the Corporation, and if necessary, both the Corporation with the Minister, to develop and implement a remedial plan to remedy the default or concern, to the satisfaction of the Minister.

Dispute Resolution

19. In the event of a dispute between the parties arising out of this Agreement, other than an issue governed by specific legislation, the parties agree to use the following procedure prior to pursuing any other legal remedy:
- a) At the request of either party, the parties shall hold a meeting, attended by senior individuals with decision-making authority, to attempt in good faith to negotiate a resolution; and,
 - b) If, within thirty (30) days, the parties fail to resolve the dispute they agree to submit the dispute to mediation. The parties will jointly select a mediator. The parties agree to participate in good faith in the mediation process for a period of 30 days or a mutually agreed period of time.

ADMINISTRATION OF THE AGREEMENT

Notice

20. Notice required under the Agreement will be provided by regular mail, registered mail or facsimile.

Notice to the Minister will be addressed to:

Manager, Program Development
Community Futures Program
Western Economic Diversification
Suite 1500, Canada Place
9700 Jasper Avenue
Edmonton, Alberta T5J 4H7

FAX #: (780) 495-4557

Notice to the Corporation will be addressed to:

CFDC NAME AND ADDRESS

Interpretation

21. The Agreement will be governed by and interpreted in accordance with laws in force in the province in which the Corporation is resident.

Independent Contractor

22. This Agreement is an agreement for contributions only. It does not create a partnership, agency, joint venture, or employer/employee relationship between the parties.

Invalid Provisions

23. If a provision in this Agreement is deemed invalid, the remainder of the Agreement continues in force provided that the invalid provision does not frustrate the intentions of the original agreement.

Amendments

24. No amendment to this Agreement is valid unless mutually agreed to in writing by both parties.

Assignment

25. The Corporation shall not assign or transfer this Agreement or any rights or benefits from the Corporation without the prior written consent of the Minister.

Official Languages

26. The Corporation shall make all notices, advertisements, publications and Services, to be provided to the public in the Community, available in both official languages pursuant to the Official Languages Act if there is or is likely to be a significant demand therefore.

Public Announcements and Communications

- 27.1. The Corporation:
- a) agrees to participate jointly with the Minister and, if requested, other contributors, in public announcements in the form of news releases, news conferences, stories, ceremonies or other activities to promote their participation in and contributions to the Community Futures Program;
 - b) consents to such public announcements by or on behalf of WD or the Minister;
 - c) may, in its publications, news releases and other communications to the public, with written approval of the Minister, indicate the participation of and contribution from the Minister in its program.
- 27.2 The Corporation shall prominently display a Canadian flag provided to it by WD. In addition, they shall display a sign that acknowledges their financial support from WD in the form of the Canada wordmark.
- 27.3 All publications and promotional activity of the Corporation shall acknowledge that the Corporation receives financial assistance from WD and shall include the Canada wordmark.
- 27.4 All recipients of loans from the WD Investment Fund will be informed in writing that the Corporation receives financial assistance from the federal government through WD.

Conflict of Interest

- 28.1 No director, officer or employee of the Corporation shall enter into any transaction, including acceptance of a loan, loan guarantee or share capital and/or granting of a loan, loan guarantee and/or share capital to a immediately related party, either directly or indirectly, except as specifically provided for in this Agreement.
- 28.2 Immediately related parties include the spouse and child of any of these, and any entities in which the director, officer or employee or any related person has a significant interest, substantial investment or control.

-
- 28.3 Transactions for the purpose of granting loans, loan guarantees or share capital to other related parties may be permitted provided that:
- a) The decision is made by the board of directors, irrespective of the existing delegation of lending authority, and
 - b) The conflict of interest is declared by the director and recorded in the minutes of the board of directors; and
 - c) The director does not participate in the decision and refrains from attempting to influence, lobby or persuade the board of directors.
- 28.4 Other related parties include the grandchild, sibling, parent or spouse of any of these, and any entity in which the director, officer or employee or any other related party has a significant interest, substantial investment or control.
- 28.5. Notwithstanding the provisions of 28.1 and 28.3 goods and services contracts between the Corporation and a director, officer or employee of the Corporation, or an immediately related party are permitted provided that:
- a) The decision is made by the board of directors, irrespective of the existing contracting authorities; and,
 - b) The conflict of interest is declared by the director and recorded in the minutes of the board of directors; and,
 - c) The director does not participate in the decision and refrains from attempting to influence, lobby or persuade the board of directors; and,
 - d) A minimum of three competitive bids is obtained where possible; and,
 - e) The contract offering the lowest cost or best value is selected.
- 28.6 Each director, officer and employee must act in the best interest of the Corporation and disclose the material facts regarding his or her interest in a proposed transaction should it potentially give rise to a conflict of interest.
- 28.7 It is an express condition of the Agreement that no current or former public office holder or public servant who is not in compliance with the Conflict of Interest and Post-employment Code for Public Office holders or the Conflict of Interest and Post-employment Code for the Public Service shall derive a direct benefit from this Agreement.
- 28.8 Notwithstanding the provisions of 28.7 it is an express condition of the Agreement that no member of the House of Commons shall be admitted to any share or part of this

Agreement or to any benefit arising there from.

- 28.9 The Corporation declares that any person who has been lobbying on behalf of the Corporation to obtain the contribution that is the subject of this Agreement and who is required to be registered pursuant to the Lobbyists Registration Act was registered pursuant to that Act at the time the lobbying occurred.

Entire Agreement

29. This Contribution Agreement, including:

- Schedule 1 Operating Plan: Sections [H] Performance Targets and [I] Operational Funding,
- Schedule 2 Investment Fund Terms and Conditions,
- Schedule 3 Community Economic Development Internship Program,
- Schedule 4 Entrepreneurs with Disabilities Program
- Schedule 5 Financial Statement Guide

constitutes the entire agreement between the Minister and the Corporation with respect to the subject matter, and replaces all previous negotiations and documents related to it unless specifically incorporated by reference.

30. This Agreement supersedes and replaces all previous agreements relating to the Community Futures Program.

Signed by the authorized representative of each of the parties and effective on the date first set out above.

CANADA for the
Minister of Western Economic Diversification

The Corporation as represented by the Director

SCHEDULE 1 OPERATING PLAN

SECTIONS: [H] PERFORMANCE TARGETS AND [I] OPERATIONAL FUNDING

SCHEDULE 2 INVESTMENT FUND TERMS AND CONDITIONS

INVESTMENT FUND POLICY

The Corporation will assist small business to access capital through use of its Investment Fund and other activities. In administering its Investment Funds the Corporation will adhere to the following:

1. The Investment Fund must be used to develop and diversify the economy by assisting entrepreneurs to create new businesses or to stabilize or expand existing businesses.
2. Financial assistance will only be provided by a CFDC to businesses:
 - a) in which the principals have or will have a financial involvement to a degree that the Corporation deems reasonable in relation to the principals' own wealth and to the funding requirements of the venture;
 - b) that will predominantly create or maintain local jobs;
 - c) that, in the judgment of the Corporation will have a reasonable expectation of economic viability.
3. The responsibility for assessing and approving investment applications will rest with the Corporation Board of Directors.
4. The total amount of financial assistance that may be provided in respect of any business at any time shall not exceed \$125,000.
5. Assistance to businesses will be provided from the Investment Fund in the form of loans, loan guarantees or share capital.
6. Assistance in the form of equity participation will only be provided from the Investment Fund to incorporated businesses and the Corporation must enter into a written agreement with the shareholders and the corporation which sets out the terms and conditions of the transaction, including, for example, the price paid for the shares and any buy-back requirement or any restriction on the subsequent sale of the shares by the Corporation to a third party.
7. No grants, contributions or forgivable loans will be made from the Investment Fund.
8. No financial assistance will be provided to any applicant unless the Corporation has verified that the applicant has explored all other avenues reasonably available to obtain financial assistance and provided evidence that the applicant has been unable to obtain such assistance.
9. The minimum rate of interest charged on any loan from the Investment Fund will not normally be less than the prime rate plus two percent.
10. Investment Funds may be established and administered on a collaborative basis between the Corporation or in conjunction with private sector lending institutions with the approval of the Minister.

CONDITIONALLY REPAYABLE INVESTMENT FUNDS

- 1.1. In the event that any of the following conditions occur, the Minister is entitled to take the steps described in any or all of Sections 1.2, 1.3 or 1.4:
 - i. The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this Agreement; or
 - ii. Based on reviews and evaluations of the operations and the Conditionally Repayable Investment Fund of the Corporation, the Conditionally Repayable Investment Fund is not providing a satisfactory level of benefits in terms of employment creation, the development of Community-owned or controlled businesses, and strengthening of the western Canadian economy; or
 - iii. In the opinion of the Minister, the Conditionally Repayable Investment Fund is no longer necessary or relevant to the development of the western Canadian economy; or
 - iv. The Agreement is Terminated as described in Section 16; or
 - v. An event of default occurs, as described in Section 17 of the Agreement; or
 - vi. The Minister does not approve terms and conditions to extend the project beyond March 31, 2005.
- 1.2. Upon Notice by the Minister, the Corporation agrees to immediately repay the lesser of:
 - i. The uncommitted cash balance of the Conditionally Repayable Investment Fund, and
 - ii. The amount of the Conditionally Repayable Contribution paid by WD to the Corporation.
- 1.3. Upon notice by the Minister, the Corporation agrees to immediately give possession to the Minister all documentation evidencing investments made by the Corporation with the Conditionally Repayable Investment Fund and take immediate steps to assign all of its interest in all debts owing to it to the Minister.
- 1.4. Upon notice by the Minister, the Corporation agrees to liquidate all debts owing to it via sale to a third party satisfactory to the Minister, or via other means satisfactory to the Minister, and to remit the proceeds of liquidation to the Minister.

CONDITIONALLY REPAYABLE DISABLED ENTREPRENEUR INVESTMENT FUND

Purpose: The purpose of the Repayable Disabled Entrepreneur Investment Fund is to help the disabled overcome barriers to self-employment and entrepreneurship. The fund provides financial assistance to disabled entrepreneurs in Western Canada.

Eligibility: Disabled entrepreneurs who are disabled due to physical or mental impairment are eligible. Partnership or corporations owned or controlled by disabled individuals are also eligible. The Corporation may develop more flexible investment criteria for clients with disabilities, within the scope of the Conflict of Interest requirements of this Agreement.

Maximum Assistance: The maximum amount of financial assistance to any one business is limited to \$125,000.

SCHEDULE 3 COMMUNITY ECONOMIC DEVELOPMENT INTERNSHIP PROGRAM

Purpose: Western Economic Diversification will provide assistance to the Corporation to hire recent post-secondary graduates to assist the Corporation with economic development and diversification of their communities. The graduate will provide support to the Western Youth Entrepreneurship Program.

Eligibility: The Corporation must submit a project workplan, acceptable to the Minister demonstrating objectives, milestones and activities in support of youth in their community.

The employees who are hired under the program must have graduated within the previous three years from a post-secondary program. They must be unemployed, underemployed or working in an area unrelated to their field of study, and be legally entitled to work in Canada. The employee must have an arms length relationship with the Corporation.

Term: This program will end no later than March 31, 2002.

Amount: Western Economic Diversification will contribute up to 100% of assisted project costs to a maximum of \$30,000 for 1999/2000, \$15,000 for 2000/2001 and \$15,000 for 2001/2002. Assisted project costs are wages, mandatory employee benefits, and travel costs.

Reporting: The Corporation will submit the following reports:

- a quarterly performance report to the Minister within 20 days following the end of the quarter, due July 20, October 20, January 20 and April 20. The report will provide statistics on the number of Information, Technical and Advisory, and Training and Skills Development Services provided to entrepreneurs as a result of the program.
- a progress report outlining progress of the project in meeting the objectives and milestones as set out in the project workplan. This report will be prepared each year for the period ending September 30 and be submitted by October 20.

SCHEDULE 4 ENTREPRENEURS WITH DISABILITIES PROGRAM

Purpose: To support the implementation of the Entrepreneurs with Disabilities Program.

Eligibility: The Corporation must submit a project workplan, acceptable to the Minister demonstrating objectives, milestones and activities in support of disabled entrepreneurs. Upon approval of the workplan assistance will be provided by the Minister to the Corporation for:

- staff and/or board training related to the provision of services to the disabled, and/or
- hiring or contracting for additional resources to deliver the Entrepreneurs with Disabilities Program including wages, mandatory employment benefits, travel, computer equipment or other adaptive equipment for persons with disabilities, and marketing.

Term: The term of this program will be twelve months ending not later than March 31, 2000.

Amount: Western Economic Diversification will contribute 100% of assisted project costs up to a maximum of \$0. Assisted project costs are wages up to \$0 including mandatory employee benefits, and other costs incurred in support of the workplan approved by the Minister.

Reporting: The Corporation will submit the following reports:

- a quarterly performance report to the Minister within 20 days following the end of the quarter, due July 20, 1999, October 20, 1999, January 20, 2000, and April 20, 2000. The report will provide statistics on the number of Information, Technical and Advisory, and Training and Skills Development Services provided to entrepreneurs as a result of the program.
- a progress report outlining progress of the project in meeting the objectives and milestones as set out in the project workplan. This report will be prepared for the period ending September 30, 1999, and be submitted by October 20, 1999.

SCHEDULE 5 - FINANCIAL STATEMENT GUIDE

A-4: B.C. System Notes

Overview:

The office generally has two areas - one called “Monitoring and Payments” (Brian Williams, Manager, Program Delivery and group of ~6 people) and one called “Client Services and Network” (Garth Stiller, Manager Client Service and Network and 6 Client Service Officers). Generally, M&P people handle payments and financial statement review, and the Network group reviews operations, service delivery, etc.

a) Review of annual operating plans

“Network Management” – reviews reports with CFDCs, Client Service Officers then make recommendation for approval. Approval is evidenced through an amendment to the contract. The quarterly report variance analysis (see below) is utilized by the Client Service Officers to assess the reasonableness of the targets for the upcoming operating year.

b) Review of quarterly reports and reporting of results

Quarterly reports are filed on a Lotus Notes platform and are compiled and rolled up into a statistical summary for the entire region. This region has implemented a system where the reports are also transferred (currently it is a manual transfer, but will happen automatically through Excel for the next year) into a variance analysis spreadsheet where the numbers are projected for the current quarter to the year-end, and compared to the operating plan. The information is then made available to the Client Service Officers to review. The variances indicated can be used as a basis for discussing the operational results with the CFDCs. Per WD staff, the quarterly reports were generally filed on time, with a few exceptions, and the variance analysis could be done during the next quarter.

c) Review of semi-annual and annual financial statements

There is currently one WD staff member, Angela Polak, Payment Officer, dedicated to this function. The review process includes two reviews per year – an interim review, less detailed, and a review of year-end financial statements. The detailed review includes comparing and reconciling all of the CFDC’s funding from WD to the CFDC’s financial statements. Recoveries can be and are made if the funds have not been used as intended, or if funding has been received from other government sources which may cause WD’s contribution to be reduced. The review also includes reviewing for transfers of interest from the investment account to operations (which requires WD approval) and a general review of the financial statements.

The CFDC may be queried for more information and detail than their financial statements provide, and there is a great deal of communication between WD and the CFDC during the process. In all the review is very comprehensive.

d) Approval of payments

For each payment, an “Advance Calculation” form is completed. On it, the current funding is shown, and the amount due to be paid is calculated. The form is reviewed and approved by a file reviewer – Angela Polak (Payment Officer). Any deficiencies in the CFDC’s filings are noted. An M&P officer also recommends the payment, and the Manager, Program Delivery will also certify that the payment is in compliance with the TB policy on transfer payments.

In general, once an operating plan has been approved for the current year, the first two quarters will be advanced unless significant issues come to light. However, the 3rd and 4th quarter advances are tied to the satisfactory resolution of any queries resulting from the companies year end financial statements, and the filing of the interim statements as well.

e) Risk assessment

Risk assessments appear to be done frequently, in general following each fiscal year to give them a basis for the next year. In prior years, the “WD Project Risk Assessment” form was used.

f) Site visits

The M&P officers complete the risk assessments. However, staff indicated that due to limited resources, they have not been doing site visits. There were no site visits documented by anyone in the files selected for review.

The Manager of Client Service and Network indicated the Client Service Officers will visit the CFDCs from time to time. However, it is not a methodical process, and the main purpose of the visit is not to monitor the CFDC. For example, they will visit when they are doing some sort of joint presentation with the CFDC, or if they are in the area, and can arrange a meeting.

A-5: Alberta System Notes

Overview

There are 27 CFDC's in Alberta. The "youngest" were created in 1997 (2) and prior to that in 1993 (2). The province is divided into three regions: Northwest, Northeast and South. For each region, there is one client services officer (Business Officer) who handles, for the most part, the CFDC's in that region. These individuals handle the services / program delivery aspects of the file. The responsibility for the financial statement review is with the Monitoring and Payment group.

a) Review of annual operating plans

The annual operating plans are typically filed with Program Assistant or Business Officer for the CFDC. The officer is responsible for the review of the ops plan, and will review for such things as: past results (in matching with goals); accomplishments; financial accuracy and stability; transfers of interests from Investment Fund; goals and objectives going forward. There is not a formal checklist or program used to review the ops plans. (However, one of the senior Business Officers who has been with the program many years, has recently led discussions / training with the other officers to help ensure consistency.)

After the initial review by the officer, a meeting is held to discuss any common issues or anomalies within the plans, which includes the officers, Jim Ireland (Senior Business Officer, who coordinates this process administratively and oversees the officers) and Barry Lake (Manager, Entrepreneurship, Partnership and Program Services). Once any issues are resolved, the officer recommends acceptance of the plan, and the plan is accepted and incorporated into the contract through an amendment letter. Through this amendment, the cash flows and operational performance targets are established, giving the basis for the advance payment structure (in terms of cash flow) and measurement criteria (in terms of performance targets).

b) Review of quarterly reports and reporting of results

Historically, most of the quarterly reports have been filed through the Program Assistant, Peggy McGonigal who does an initial screening. She assesses completeness, and may identify errors. The reports are also given to the officers for the region (with any issues that Peggy identified but could not resolve herself) for review. The 3rd Quarter report tends to be more vigorously reviewed because it is during this time period that the next year's operating plans are being filed, and therefore it may be a good barometer regarding the next year's objectives. To date, the reports have been viewed more on a compliance basis (i.e.

they are filed and complete), rather than being used as a tool for monitoring the CFDC, or for making strategic decisions.

c) Review of semi-annual and annual financial statements

The Monitoring and Payments group is responsible for the F/S reviews. Predominantly, the reviews are carried out by the Manager, M&P, Jim Rogers. This is a relatively new undertaking, as formal reviews had not been done in the past. The Alberta regional office is currently undertaking to review all CFDC financial statements for the 2001 and 2002 year-ends. In the future, each CFDC F/S would be reviewed annually. The focus of the financial statement review is to reconcile WD funding to the CFDC expenses, with a view to determining whether the funds were actually expended (and on eligible expenses) and that there was no 'doubling up' on government funding. Some other important areas of review are: the auditor's compliance report; interfund transfers (and verification of WD approval); CFDC's other debt obligations; viability. There is a separate review program for the CFDC's investment fund, to review for compliance with policies, security, write-offs, interfund transfers, etc.

d) Approval of payments

Payments made in accordance to contract terms, either on a quarterly or monthly basis. As noted above, the amendment to the CF Contract sets up the payment structure. A schedule is made up for each CFDC outlining the payments to be made. This schedule is certified compliant with S. 34 of the Financial Administration Act and signed by the Business Officer as well. In each month / quarter (depending on the CFDC), the batch of payments to be made is given to the Manager, Entrepreneurship, Partnership and Program Services for approval. If there are any outstanding issues of concern regarding the CFDC (for example, lack of compliance with reporting requirements), the Manager is informed. Assuming there are no issues, he will approve the batch of payments to be made. The form then goes to the Finance and Corporate Services for payment.

e) Risk assessment

The annual risk assessment for each CFDC is being implemented currently. It was noted during the file review that risk assessments had been completed in the last fiscal year as well, using the "WD Project Risk Assessment Form". For the current year assessments, which were to be completed, staff indicated that the CFDC / WEI Risk Assessment form would be used.

f) Site visits

As stated above, there are three zones in Alberta. For each, an officer is designated to attend meetings and visit CFDC's periodically. Recent staff turnover reduced the resources to carry out these site visits, and therefore they had not been done. In general, site visits to the CFDC's has not been done on a systematic basis. However, CFDC's that require more attention (a subjective assessment of the CFDC's operations) will be visited, or if the CFDC asks for WD assistance in developing or delivering a particular program.

As an alternative, however, each of the three zones has a group comprised of the CFDC Chairs and Managers, which meet quarterly. The officer assigned to each zone generally attends these meetings (in the future, this will be a requirement). This allows the officer to interact with representatives of each CFDC on a face-to-face basis, and the opportunity to discuss any issues.

A-6: Saskatchewan System Notes

Overview

There are 13 CFDCs in Saskatchewan. Of that, 4 began receiving funding in 1997 (these are the “youngest” CFDCs). The rest had been in existence prior. There are four Monitoring and Payments people (including the Manager, Program Delivery) who administer the CFDC’s. However, they are not dedicated strictly to the CF program (i.e. also involved with monitoring other WD programs and initiatives).

a) Review of annual operating plans

Operating plans are reviewed and the CFDC’s work with the M&P individuals noted above. Again, as with the other provinces, it is their judgement that is the basis of the review, and there is not substantial documentation on the file in regards to this process. In Saskatchewan, the CF Contracts do not include the performance targets and operating budgets as part of the contract. Therefore, unlike the other provinces, there is not the need to complete a contract amendment each year to incorporate these aspects of each year’s operating plan into the contract. There is no formal documentation of the approval of the operating plan, therefore.

b) Review of quarterly reports and reporting of results

Similar to the review of the operating plans, the quarterly reports are reviewed by the M&P group. The review process is not documented, and again at the discretion of the reviewer. For the most part, these reports are compiled in order to report on the region as a whole. Staff indicated that, for the most part, the CFDCs file these reports on a consistent, reliable and timely basis. Additional support and diligence is required for the other CFDCs.

c) Review of semi-annual and annual financial statements

Unlike the other provinces, in Saskatchewan the CFDCs are required to file quarterly statements. In general, these quarterly statements are reviewed to determine if CFDC spending funds appropriately, and to verify expenses compared to the funding. Also, the cash situation, expenses and loans are reviewed. As detailed below, the quarterly advance payments are tied to these filings.

The Y/E financial statements are reviewed on the same basis, with additional focus on the note disclosure and to verify that the CFDC has received a clean audit report and compliance report. There is not a formal “review program” done to the financial statements on an annual basis, and the review that is completed is largely not documents, with the exception of quarterly reconciliation’s of funding to expenses.

d) Approval of payments

A schedule of quarterly payments is based on the CF Contract. At the beginning of each quarter, an advance payment of 25% of the total annual funding for the CFDC is made. The CFDC will also receive funding for the prior quarter if the expenses for that quarter exceed the advance that was advanced. Therefore, the payments are triggered based on quarterly financial statements and to a quarterly reconciliation of payments to date versus eligible costs. In the last quarter and at the year-end, the total amounts paid are reconciled to the contract and to the approved costs.

Each quarter, a Payment Approval Form is recommended by the Program Delivery Officer and also certified by the Manager of Program Delivery for compliance with the Financial Administration Act before a payment is made.

e) Risk assessment

Out of the three detailed file reviews completed in Saskatchewan, one file reviewed had the risk assessment checklist completed. Staff indicated that Saskatchewan was in the process of implementing this system, and that a risk assessment for each of the CFDC’s would be completed on an annual basis.

f) Site visits

In general, there is not a systematic process for determining the nature and frequency of visits to each of the CFDCs. While they are made on an occasionally basis, they are generally not visits for the primary purpose of monitoring, but rather to assist with CFDC initiatives, or attendance at meetings. The available resources limits the ability to complete numerous site visits.

However, a detailed CFDC review is done systematically (every CFDC subject to this detailed review every 3 years). Approximately 4 CFDCs are reviewed each year. This review is substantial, and is far broader than a financial statement review. Each review takes 2-3 WD staff members a total of 2-3 days at the CFDC premises, and includes discussion about the CFDCs structure and policies, and a detailed review their files. Most of the CFDC’s loan files are reviewed, including review of lending policies, documentation on file,

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collection and monitoring. Other areas covered include general operations, Board reporting, and financial systems. Queries, comments and recommendations are identified and the CFDC is sent a draft copy of a WD's findings (in the form of a letter). The CFDC responds to the points raised in the letter, and a final letter is sent to the CFDC. This process serves not only as a means to monitor the operations of the CFDC, but also to give positive feedback and constructive recommendations to assist the CFDC.

No site visits were documented on any of the three files reviewed, except for the detailed "audit" completed at each of them during the fiscal years ending March 31, 2001 and March 31, 2002.

A-7: Manitoba System Notes

Overview

Of the sixteen Manitoba CFDCs, the “youngest” CFDCs were created in 1994. Others have been in existence longer, many going back into the mid-1980’s. There are three “CF Consultants” which work with the CFDC’s from the perspective of program delivery.

a) Review of annual operating plans

Historically, the CFDCs have filed annual operating plans in the form prescribed by WD. However, it was noted by WD staff that there were sometimes difficulties in matching the goals set out in the operating plans to their activities and accomplishments. Therefore, WD staff in Manitoba have developed template in which the CFDC breaks out “Priority Areas” – “Goals” – “Actions” – “Measurement”. This facilitates identification of how the CFDC’s activities relate to the objectives that they have set out for themselves. The form is filed on a historical basis (what they accomplished in the last period) and on a prospective basis (Goals and Actions outlined, with the Measurement area reported on at the end of the period). For 2003-2004, all of the CFDC’s are being asked to file there operating plan with these templates.

Similar to the other regions, the CF Consultants work with the CFDCs and the review of the operating plans. While there is no formal documentation of the review process or standard review program, final approval of the operating plan is evidenced by a contract amendment to incorporate the current year’s performance targets and operating budget into the current CF Contract.

b) Review of quarterly reports and reporting of results

There is no template or standard program for the review of these reports. The statistics in the reports are captured in the Lotus Notes platform, and compiled for reporting results on a regional basis. There is generally a quick review of the information, in order to assess that it is reasonable. This process is the responsibility of the CF Consultant, and the review is at the discretion (similar to Alberta and Saskatchewan).

c) Review of semi-annual and annual financial statements

The year-end financial statements for each CFDC are reviewed, based on a checklist that WD Staff have developed. The focus areas include:

- ⇒ Matching of funding to expenses;
- ⇒ Reconcile CFDC revenues with any other funding;
- ⇒ Note disclosure (loans, commitment to repay funds); and
- ⇒ Compliance with financial policies outlined in CF Contract

The semi-annual financial statements are reviewed on a much more limited basis to determine if the CFDC is approximately on pace to utilize their funding. The extent of review of interim statements is also limited by the fact that these statements tend to be presented in a much simpler format, with no note disclosure, for example.

d) Approval of payments

In general, payments for the first three quarters are made on a routine basis, unless there are exceptional circumstances for a CFDC. A batch including all of the CFDCs' payments is prepared for each quarter. Prior to the fourth quarter payment, WD Staff completes a checklist (the same checklist is used for the financial statement review) to ensure that the CFDC is meeting all of the required filings and that any outstanding issues are identified.

Similar to the other regions, all payments require multiple signatures: the payments are recommended (typically by the CF Consultant), then approved, the batch is "verified correct", and approved under s. 33 (Financial Administration Act).

e) Risk assessment

Risk assessments done by the CF consultants. All CFDCs have been assessed, and the results have been summarized in a table that is on each CFDC file. Based on this, Staff has determined the required the site visits.

f) Site visits

As stated above, the site visits are being completed based on the completed risk assessment for each CFDC. The site visits generally consist of attendance and meetings, participation in CFDC initiatives and participation in planning retreats. While all of these visits give opportunity for WD staff to interact with the CF, the planning retreats are important in that they give a chance for WD staff to keep the CFDC informed of WD objectives.

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A-8: CFDC Performance Report

CFDC PERFORMANCE REPORT (revised November 20, 2001)

1. ADMINISTRATION/MANAGEMENT

For the Quarter ending _____

Name of CFDC _____

Number of full-time equivalent employees _____ (WD-funded)

_____ (Other)

Number of board members* _____

**Provide an updated list of board members, if any changes have occurred since last quarter.*

2. COMMUNITY ECONOMIC DEVELOPMENT

Number of volunteers (including board members) _____

Number of volunteer hours (including board member hours) _____

Number of long-term CED projects initiated this quarter _____

Number of short-term CED events held this quarter _____

Please provide a brief **description of key CED activities**, below (project/event, desired outcome, progress/results). Feel free to attach additional information on key CED projects and events.

Name of CFDC _____

3. BUSINESS SERVICES				
	Information Services	Technical & Advisory Services (includes business plan assistance)	Training & Skills Development	Total
Aboriginal Clients				
Clients with Disabilities				
Other Clients				
Total # of Services				
<p>Total number of hours of training & skills development _____</p> <p>Number of jobs created through business services _____</p> <p>Number of jobs maintained through business services _____</p> <p>Leveraged dollars through business services \$ _____</p>				

4. LEVERAGE THROUGH LENDING ACTIVITY					
	Non-Repayable Regular Investment Fund	Repayable Regular Investment Fund	Repayable EDP Investment Fund	Other Partnership Investment Funds	TOTAL LEVERAGE
Financial Institutions	\$	\$	\$	\$	
Other Government	\$	\$	\$	\$	
Other Sources	\$	\$	\$	\$	
Owner Equity	\$	\$	\$	\$	

5. INVESTMENT FUNDS							
	(1) Non-Repayable Regular Investment Fund	(2) Repayable Regular Investment Fund	(3) Repayable EDP Investment Fund	(4) Other Partnership Investment Funds	Total Investment Funds (Total of Columns 1-4)	(5) Aboriginal Loan Funds *	(6) Youth Loan Funds**
Number of loans to new business and other investments approved where initial disbursement made							
Number of loans to existing business and other investments approved where initial disbursement made							
Value of all loans and other investments approved where initial disbursement made	\$	\$	\$	\$	\$	\$	\$
Number of jobs created							
Number of jobs maintained							

Name of CFDC _____

Total Investment Fund Assets at end of quarter	\$	\$	\$	\$	\$	\$	N/A
Cash on hand (before commitments)	\$	\$	\$	\$	\$	\$	N/A
Loan commitments	\$	\$	\$	\$	\$	\$	N/A
Net cash (\$)	\$	\$	\$	\$	\$	\$	N/A
Net cash (% of Assets)	%	%	%	%	%	%	N/A

* These statistics should be included in the totals for columns (1) – (4), above. This column allows you to provide a breakdown of those services to Non-status, First Nation, Métis and Inuit clients who self-identify.

** These statistics should be included in the totals for columns (1) – (4), above. This column allows you to provide a breakdown of those services to Youth (ages 18 – 29).

6. MARKETING/VISIBILITY				
	Major Events	Trade Shows	Other Marketing Activities	Total
Number of marketing activities held				
Number of clients contacted through these activities				
<p>Please provide a brief description of key marketing/visibility activities, below (event/trade show/etc., objectives, results). Feel free to attach additional information on marketing/visibility activities held.</p>				

7. ANNUAL STATISTICS - complete for March 31 statistical report only	
Total number of clients assisted	_____

Name of CFDC _____

8. INVESTMENT FUND LOSSES - complete for June 30 statistical report only					
	Non Repayable (to WD) Investment Fund	Repayable (to WD) Investment Fund	Repayable (to WD) Entrepreneurs with Disabilities Investment Fund	Other Partnership Investment Funds	TOTAL *
Loans receivable at year end	\$	\$	\$		\$
Allowance for Doubtful Accounts at year end	\$	\$	\$		\$
Bad Debt expense for fiscal year	\$	\$	\$		\$

*As reflected on your year end Balance Sheet and Income Statement

A-9: WD Annual CFDC / WEI / FEDO Project Risk Assessment

WD ANNUAL CFDC/WEI/FEDO PROJECT RISK ASSESSMENT

Organization Name: _____ **Project Officer Name:** _____
Project Number: _____ **M&P Officer Name:** _____

	Low - 1	Medium - 2	High - 3	Score - 1,2 or 3
History	In existence 5+ years	2 - 5 years	Less than 2 years	
Complexity of Operations	Simple	Moderately complex	Very complex	
Board/staff Turnover	10% or less	11% to 49%	50% or more	
WD Interventions/ Corrective Actions Previous Year	None/minor	Moderate	Major*	
Previous experience (annual financial adjustments)	No material adjustments	Moderate adjustments	Material adjustments*	
Management experience	3 or more years	1 - 3 years	Less than 1 year	
Performance Targets	Minor variances to targets	Moderate variances to targets	Major variances to targets*	
Reporting Timeliness	Acceptable	Some deviation	Frequent Deviation	
Financial Statements	No audit observations	Minor audit observations	Significant audit observations*	
Compliance Issues	None/minor	Moderate	Major*	
Loan Loss Rates	Less than 10%	10% to 20%	Greater than 20%	
Total				

*Any one or more of these designates the organization as high risk. The final score is to be used as a guideline with officer judgment used to determine the overall risk rating with explanation provided in the comments section below.

Overall Risk Rating	Total Score	Minimum Monitoring Requirements
Low	15 or less	1 field visit and/or attendance at board meeting and/or meeting with manager.
Medium	16 - 25	2 site visits and/or attendance at 2 or more board meetings. Development of a remedial plan if necessary.
High	25 or more	Development of a remedial plan. 2 or more site visits, inspection of accounts and records including compliance audit where deemed necessary, and/or attendance at 2 or more board meetings, and/or review of board minutes, and meeting with the external auditors where necessary. Other procedures as necessary (please document).

Completed by/date: _____

Monitoring Plan/Comments

Carried out by:

Site Visits Date/Done By	Attendance at Board Meetings Date/Done By	Other Procedures Date/Done By

A-10: QAR File Contents and Best Practices Review Checklist

QAR File Contents and Best Practices Checklist
Community Futures Development Corporations (CFDC) / Women's Enterprise (WEI) /
Francophone Economic Development Organizations (FEDO)
Annual Project Monitoring Requirements – Operating Funds/Investment Funds

Name of Organization:	Project Officer: M&P Officer: Fiscal Year:
-----------------------	--

Required to ensure due diligence: Review, document, and approve annual contribution agreement amendments in a complete and appropriate manner, and provide persuasive written assessments based on relevant documentation to support decisions to approval assistance.

	On File	Reviewed by/Date	N/A (explain)	Comments/File Reference
Annual Operating Plan: CFDC, WEI, FEDO				
Corporate Policies as per WD Contribution Agreement (CFDC, WEI, FEDO): <ul style="list-style-type: none"> • Investment Fund Mgt. • Confidentiality Assurance • Human Resource Management • Conflict of Interest • Revisions to corporate policies 				
Signed Contribution Agreement: Signed Amendment(s): <ul style="list-style-type: none"> • . • . • . 				
Required to Measure and Report on Performance: <ul style="list-style-type: none"> • To ensure monitoring of the annual operating and investment funding effort and to ensure that funding is used for the purposes agreed: CFDC, WEI, FEDO. • To ensure that performance objectives are met. 				
Project Risk Assessment				
Quarterly Progress Reports: <ul style="list-style-type: none"> • July 20 • October 20 • January 20 • April 20 				
Quarterly Report Variance Analysis: <ul style="list-style-type: none"> • July 20 • October 20 • January 20 • April 20 				
Other monitoring reports as required				

Required to Ensure Responsible Fund Management: To ensure that resources are used efficiently and effectively and that payments occur in a timely manner.

Annual Audited Financial Statements by July 31 (e.g., CF Audit Guide)				
External Auditor Compliance Certificate for CF (Appendix B of F/S Guide) by July 31				
Interim Financial Statements by October 30				
Prepayment Cashflow Form				

A-11: Sample Auditor's Report on Compliance

**AUDITOR'S REPORT
ON COMPLIANCE WITH AGREEMENT**

To Western Economic Diversification

I have audited the Community Futures Development Corporation's compliance as at March 31, 2002 with the criteria established in the Contribution Agreement between Western Economic Diversification and the CFDC dated and the interpretation of the Agreement as set out in note 1 attached. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Board of Directors of the CFDC. My responsibility is to express an opinion on this compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the CFDC complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In my opinion, the CFDC is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

City
Date

(signed).....
PROFESSIONALLY CERTIFIED ACCOUNTANT