Contribution Funds for Non-governmental Organizations - a Handbook

TABLE OF CONTENTS

1.0 Introduction

The proper management of government funds is an important aspect of **grant** and **contribution** funding. Canadians want to know that public funds are being managed soundly. There are already several federal laws, policies, standards and rules that help define good management practices. These include the *Financial Administration Act*, the Treasury Board's Policy on Transfer Payments and its Travel Directive, management and accountability frameworks, modern comptrollership function, the particular funding program's terms and conditions, and each department's own policies and procedures.

The Department of Justice Canada has several programs to provide funding to non-governmental organizations (NGOs), which in turn provide important services to the community. By definition, an NGO is an organization that is independent from any government. NGOs can be not-for-profit organizations, associations, and groups, or even for-profit organizations.

Some NGOs working with the Department of Justice Canada for the first time have little knowledge of the financial requirements associated with the programs and contribution agreements the Department uses. Furthermore, many NGOs do not have specialized resources in accounting or financial management, which can make it difficult for them to fully understand and comply with all the financial terms and conditions included in the agreements.

This booklet has been designed as a reference tool to help you better understand and comply with the financial requirements described in our contribution agreements. Please note, however, that it by no means replaces the terms and conditions included in the actual contribution agreements. In any case of apparent contradiction between the information in this booklet and the agreement itself, the contribution agreement always prevails.

It is always a good practice for an organization to set up its own internal policies with respect to the procedures outlined in this booklet. However, any discrepancies between your internal policies and the procedures described within this booklet should be discussed with Department of Justice Canada program officials during negotiation of the agreement.

This booklet has several objectives:

- To help NGOs build their capacity to manage contribution agreements.
- To help NGOs comply with the financial requirements of the agreements, including all reporting requirements.
- To improve **internal control** systems and procedures in order to reduce financial risks.
- To explain the audit process and help NGOs better prepare for project audits that might occur during the lifetime of the project or upon completion of the project.

2.0 Financial management requirements

2.1 ACCOUNTING SYSTEM

NGOs that receive funding from the Department of Justice Canada must have a complete and reliable accounting system in order to keep track of all transactions related to the contribution agreement. The accounting system should be computerized, and should meet the standards used in Canada: that is, a double-entry system, with balance sheet and income statements. Some commonly used accounting packages are ACCPAC, Oracle, and Simply Accounting.

All financial accounts related to a project should be identified by a specific code (e.g. responsibility centre), and each account within a category should be given a unique identification number. Specific **coding** for each responsibility centre segregates the transactions related to the project from all other transactions, which allows the information to be regrouped in project-specific reports.

The accounting system should be able to generate **trial balances** and **standard financial statements** at any point in the year. It should also be able to generate specific reports on revenues and expenses and other reports related to the project – or at least it should be able to easily generate all the information needed to complete those reports. The system should also allow for printouts of financial information related to previous periods.

Access to the accounting system should be limited to authorized personnel and controlled with passwords, user names, and possibly other access-control devices, such as an automatic locking mechanism for when a computer remains unused for a period of time. The person responsible for making the entries in the system should not be the same person who is responsible for approving and **coding** the expenses.

2.2 INTERNAL CONTROL PRACTICES

Good **internal control** starts with precise definitions of the roles and responsibilities of each person involved in the expense approval process and in the payment process, in relation to the project. Each employee should know his or her role and authority in relation to the treatment of the financial information. All **delegations of authority** (permanent or temporary) should be documented.

For sound **internal control**, it is important that there be a segregation of duties between individuals involved in a given process. This avoids the risk of someone controlling the process from beginning to end.

Usually, the following tasks should not be done by the same individual:

- approving expenses
- issuing cheques for payment
- recording transactions in the accounting system

Small NGOs with limited staff should implement a double-checking procedure. This ensures that each step is properly done and that no errors occur in the process.

A specific bank account should be opened for the project. Transfers between bank accounts should be strictly limited and always documented (including the reason for the transfer and who requested it). Advances to this account from the organization's other bank accounts should be made only when necessary and reimbursed as soon as possible. A **bank reconciliation** of the project bank account with the corresponding **general ledger** (GL) account should be completed on a monthly basis. This reconciliation will provide the auditor with valuable information about the total number of transactions and also make it easier to select transactions for testing if there should be an audit.

There are several measures an NGO can take to assure good control over the expenses. All invoices should bear the date of receipt and be reviewed and approved formally for payment. Calculations on the invoices should be verified, and the **coding** of the expense should be put on the invoice or the supporting documentation, as well as the date the information was entered in the accounting system. The most common way of making sure this information is included on every invoice is by using a stamp on which this information is entered and dated, and which the rightful authority can approve afterwards.

Each employee should keep **time sheets**, to be reviewed and approved by the supervisor, along with any sick leave and overtime claims. It is imperative that **time sheets** capture the number of hours dedicated to the project versus time spent on other unrelated activities.

Travel expense claims should be backed up by a **travel authorization** issued before the trip is made. Thereafter, a travel claim form must be completed (see Appendix D for a sample form).

Standard procurement procedures include research and documentation of the best value for price; completion and approval of **purchase orders** (P.O.); inspection of the goods received against the P.O. (e.g. quality and quantity); keeping of the delivery bill with the P.O.; proper identification of the goods and entry in the inventory list (when applicable, e.g. as assets); and recording of the purchase in the accounting system.

The basic control over payments calls for two signatures on each cheque, preferably by persons not related hierarchically. Whenever possible, a third signatory should be identified to replace one of the two regular ones in case of leave, vacation or travel. All payments should be made by cheque or bank transfers. Cash payments should be exceptional and limited to small amounts for unexpected transactions that require immediate payment (see section on petty cash, below). The signatories should be clearly aware of their responsibilities before they are granted that authority, and a sample of each signature should be kept on file.

Other good **internal control** practices include safekeeping of all assets such as supplies, equipment, furniture, and, of course, cash. This would include proper identification of all items in inventory and controlled access to computers, supplies, and equipment that is not in use. Credit card management can also be an **internal control** issue.

Petty cash management is another aspect of **internal control** that should always be considered, even though the amounts involved are often small, since the level of risk associated with cash transactions is usually high. Petty cash should be sufficient to cover the emergency cash payments required for about a month of operations. Usually, $100 or $200 is sufficient, since cash payments should be exceptional. Petty cash should be managed to last the duration of a month, and each payment should not exceed a predetermined maximum.

One person should be designated keeper of the petty cash and given clearly stated responsibilities for making payments. Access to the petty cash box should be strictly limited to that person. The people receiving the cash should fill out and sign pre-numbered **cash requisitions**, and these should be kept in the petty cash box. It is good practice for a supervisor to verify frequently that the petty cash box actually contains the exact amount of cash that is supposed to be there.

Once a month, or whenever the petty cash box is almost empty, the petty cash can be replenished by writing a cheque to bring it back up to its original level. All the pre-numbered **cash requisitions**, together with the supporting documents provided by the recipient, are then listed and accounted for through a **journal entry**, and approved by the petty cash keeper's supervisor.

2.3 DOCUMENTATION REQUIREMENTS

Documents related to transactions represent the financial history of an organization. In the event of an audit, the auditor will examine the documents that support the expenses claimed. It is therefore crucial that all supporting documents be kept on file at the recipient's address and be easily accessible. The Department of Justice Canada's agreements include a clause stating how long the project documentation should be kept by the recipient.

The documents kept on file must always be the originals. In the event of an audit, photocopies will not be considered valid supporting documents. If printouts from a computer or faxed documents are kept as sole supporting documents, they should bear the original signature of an authorized representative of the supplier.

The basic rule is that the recipient should keep on file any document that can provide information supporting a transaction, the relevance of the cost to the project, the amount, the date the expense was incurred, and all authorizations related to the expense. Expenses entered in the system on the basis of **journal entries** should refer to working papers that identify the calculations that resulted in those amounts, and each expense listed in the working papers should be traceable to the original invoices and supporting documents.

Also, any correspondence related to approvals by the Department of Justice Canada of costs not specifically covered by the agreement or of any variance from a clause of the agreement should be kept on file. This would include all the Department's approvals of budget increases higher than the level permitted by the agreement for any given category of expense.

2.4 INITIAL SITE VISITS

Whenever the amount of the contribution agreement justifies it, or whenever the Department of Justice Canada thinks it would be useful, a Department program analyst and/or financial analyst could make an initial site visit to the recipient. In some instances, the initial site visit might include an auditor. Initial site visits are mostly recommended for recipients who are entering into a contribution agreement with the Department for the first time and those who have never been audited by the Department before.

The main objectives of an initial site visit are to assess the recipient's capacity to comply with all of the financial and reporting requirements of the agreement and to assess the quality of the **internal controls** within the organization.

At this time, specific financial clauses of the contribution agreement could be discussed to ensure a better understanding of the terms and conditions. Such a visit can also help an organization to improve its financial controls and accounting practices and to prepare for a potential audit at a later date.

This procedure may be done shortly after the signing of the agreement or after the first interim financial report has been received. It consists mainly of an interview with the recipient and project staff to discuss policies and procedures related to **internal control**, and an examination of the audit trail, filing system, and documentation kept on file to support transactions.

The initial site visit can also be an opportunity to assess the quality and the reliability of the recipient's accounting system and its capacity to record and track the project financial information and to generate the financial reports required by the agreement.

Any other topic related to the contribution agreement could also be discussed during the visit. In some cases, recommendations may be made following the visit to improve certain aspects of the recipient's management environment or of its financial or control procedures.

3.0 Costs eligibility

General rules: To be claimed, costs must be reasonable, directly and clearly related to the project, and approved in the agreement's budget. If the recipient is managing a number of projects, the name of the project to which the expense is related (or an identification number) should appear on the invoice to facilitate identification and to ensure that expenses related to the project are kept separate from the others.

As a rule, expenses must have been incurred during the period covered by the agreement in order to be claimed. The date an expense is incurred (which is usually not also the date the invoice is paid) refers to the date the good was purchased or, for a service, the date the work was actually done. Expenses incurred prior to the **effective date** of the contribution agreement but paid for during the period covered by it are not considered eligible unless the agreement specifically states otherwise.

Similarly, deposit payments or **advance payments** made to suppliers for work to be done after the end of the period covered by the contribution agreement will not be considered eligible expenses.

Only the days worked from the beginning of the period covered by the agreement to the last day of that period will be considered eligible for salary expenses and consultant fees.

In all situations where the recipient believes that such costs should be eligible, the recipient must obtain the Department of Justice Canada's written consent or the cost may be disallowed.

Salary and benefit expenses: When approved in the agreement's budget, salary and benefit expenses must be reasonable and correspond to actual salaries and benefits paid. Salaries should be supported by a valid contract with each employee, and there should be a timekeeping system to ensure that the time charged to the project corresponds to the time the employee actually worked on it. **Time sheets** should be signed by the employees and approved by their supervisor. Any overtime worked should be documented and approved as well by the employee's supervisor.

Subcontracts: When a project calls for subcontracting, and subcontracting costs are claimed, these costs must be supported by a valid contract signed by both parties and stating the nature of the work to be done, the results expected, the time frame that applies, the applicable rates, the payment structure, and the total amount of the contract. Any invoices flowing from this contract should show the nature of the work done in detail, the time (or the portion related to the project) charged to the recipient, the period during which the work was performed, and the amount charged.

The selection process of the subcontractor, including any **calls for tender**, should also be documented. In all cases, the amounts charged by the subcontractor must be reasonable and correspond to the market price for similar services. Comparative data showing the research done to obtain the best value for price should therefore be kept on file.

Travel costs: When included in the budget, travel costs must respect Treasury Board standards and rates. The recipient should always verify the current rates on **Treasury Board's Internet site**, where they are updated regularly. Flights must be supported by tickets and boarding passes. Each trip should be authorized by the proper authority, and a detailed expense report should be produced, signed and approved. Expense reports should also be supported by receipts or invoices and kept on file for future reference.

Administration costs: All administration and other **indirect expenses** charged to the project must be supported not only by invoices and original documents but also by details of the methodology used to allocate common costs to the project. The **allocation base** used should be discussed with the Department of Justice Canada at the outset of the project to ensure acceptance and to reduce the risk of costs being identified as ineligible at the end of the project. Full documentation of the **allocation base** makes it possible to determine whether the portion of the cost charged to the project was reasonable. Administration costs claimed should correspond to actual costs incurred and paid for.

In-kind expenses: Claims for **in-kind expenses** must be documented. The evaluation methodology used to put a dollar value to those expenses or **contributions** must be sound, and should be provided to the Department of Justice Canada at the outset of the contribution agreement.

4.0 Financial reporting

Each contribution agreement describes the particular financial reporting requirements that apply, but there are some general rules that should always be followed by the recipient when reporting:

- Whether standard forms provided by the Department of Justice Canada (called PA forms – see Appendices) or other forms are used, the reports should always be signed by an authorized representative of the recipient, and they should always be dated. The period covered by the report should be included in the heading.

- Where reporting dates and frequency are specified in the agreement, the recipient must comply with them.

- Where a due date or a frequency is not specified in the agreement, recipients should never wait until the funds are entirely spent to make a formal request for a **progress payment**, as there is likely to be a delay between the time the request is received by the Department of Justice Canada and the time the recipient gets the payment. The payment request must be assessed and approved by the Department prior to issuing a payment. Prudent financial planning should take this time delay into consideration.

- Whether the standard forms provided by the Department of Justice Canada (PA forms –see Appendices) or other forms are used to report, the amounts included on the forms should come from the recipient's accounting system and be traceable to the GL. Whenever amounts from different GL accounts are grouped together to determine the amount claimed on one given budget line, or whenever the financial information from the GL is rearranged to fit the different budget lines, any calculations made and GL accounts used should be documented on file. In other words, before submitting financial information to the Department, the amounts claimed and GL accounts should be reconciled and that reconciliation kept on file for future reference.

- When the agreement states that **audited financial statements** (AFS) can be used for financial reporting purposes, but the expense lines used in the AFS do not match the budget lines from the agreement, the recipient must document all calculations made to translate financial information from the AFS format to the different budget lines and submit it to the Department of Justice Canada with the final claim.

- Financial reports submitted must include revenues from all sources specific to the project, unless the agreement states otherwise. This means that all revenues related to the project should be tracked throughout the year and kept separate from all other revenues of the organization. The reports should clearly identify the different sources of funds and the amount corresponding to each source, and provide information on any in-kind revenues. Interest earned or received from any source related to the project during the period covered by the agreement should be declared and presented as revenue in the financial reports. Any project revenues earned or received during the period of the agreement but not initially expected should be reported immediately to the Department of Justice Canada and included in all subsequent financial reports.

5.0 Budget compliance and follow-up

Financial reports required for interim payments (PA-4 forms – Request for Interim Payment – see Appendix B) should show comparative data for budgeted revenues and expenses as outlined in the contribution agreement budget and actual ones. This comparison should be shown for each budget line. These reports should also include figures of forecasted revenues and expenses when there is a request for an **advance payment**. Please note that the budgeted amounts are expected costs for the full length of the agreement, while actuals are those costs incurred to date. The comparative data allows both the recipient and the Department of Justice Canada to track actual expenses against the original budgeted amounts and can alert the organization to areas where costs might be either overestimated or underestimated.

In some cases, it may become clear that the budgeted amount will not be sufficient to cover expenses incurred for a given budget line (that is, cumulative actual costs plus forecasted expenses exceed the budgeted amount). The recipient should advise the Department of Justice Canada of the situation and propose a reallocation of funds from budget lines where the budgeted amount is likely to exceed the expenses.

The recipient is allowed to reallocate sums between budget lines with the exception of administration costs, as long as this reallocation does not exceed the maximum percentage stated in the contribution agreement. Any amount that exceeds the stated limit noted in the contribution agreement should be brought to the Department of Justice Canada's attention as soon as possible for its' acceptance, but no later than the time when the final claim is submitted. This permission, if granted, should be documented and kept on file.

The total budgeted amount can never be exceeded, as it represents the maximum amount of the agreement. Should the recipient realize that the total amount of the budget is not sufficient to cover the total actual costs, the recipient should inform the Department of Justice Canada immediately. It should be noted, however that the maximum budgeted amount detailed in the contribution agreement does not necessarily correspond to the amount the recipient will get, as the payments made by the Department depend on the actual costs incurred and approved by the Department, as well as on the other revenues earned or received by the recipient. For example, if the project costs are less than originally budgeted, then the amount paid by the Department will be less than the maximum amount available.

6.0 Payments

6.1 PROGRESS PAYMENTS

Progress payments are made in accordance with the agreement's schedule of payments, when there is one. Otherwise, **progress payments** are made upon receipt and acceptance of an interim financial report or a PA-4 form – Request for Interim Payment (see Appendix B) and, in some cases, activity reports. All expenditures and revenues, including **in-kind**, should be reported on this Request for Interim Payment. In some cases, **advance payments** may be made to the recipient, as detailed in the agreement, and those payments would then be based on **cash flow** requirements.

Progress payments can be made by the Department of Justice Canada up to the total amount of the **project deficit**, while not exceeding the maximum amount of the **contribution**, and at the same time respecting the **holdback** condition in the contribution agreement. All contribution agreements specify a percentage of **holdback** that the Department retains until it can verify that the recipient has fulfilled all of the financial and non financial reporting requirements of the agreement.

6.2 FINAL PAYMENT

Final payments are based on the final claim and are released after the recipient has met all conditions stated in the agreement. Conditions include the submission of all reports required by the agreement and acceptance of these reports by the Department of Justice Canada.

The final claim is usually submitted on a standard form (See sample PA-1 – Final Claim in Appendix A). It must include all revenues and expenses, including in-kind, stated in the budget and incurred for the project during the period covered by the agreement. The claim should be signed and dated, and all budget variances greater than what is permitted in the agreement should be explained.

The final claim is usually accompanied by an **audited financial statement** of revenues and expenses that corresponds with the items set out in the budget of the project, or by a Statement of Disposition of Federal Contribution funds (PA-5 – See Appendix C) certified by an independent professional accountant (a C.A., C.M.A., or C.G.A). The recipient should refer to the agreement for the date this final claim must be submitted to the Department of Justice Canada.

7.0 Compliance audits

According to Treasury Board's Policy on Transfer Payments, the Government may audit any **contribution** to ensure that public funds have been used in accordance with the agreement signed between the Crown and the recipient. As a result, the Department of Justice Canada's agreements include a clause stating that it has the right to audit the recipient's accounts and records to ensure compliance with the terms and conditions of the agreement.

7.1 AUDIT OBJECTIVES

Accountants in Canada can do several types of audit, but most contribution agreements are audited through compliance audits. These audits are usually conducted to assess the extent to which the recipient has complied with the different clauses of the agreement, to certify that the costs incurred by the recipient are eligible according to the agreement and that they have respected Treasury Board standards.

Compliance audits usually put an emphasis on the financial clauses of the agreement and on the assessment of the eligibility and accuracy of the costs claimed during the period covered by the agreement. These audits also include project revenues whenever they are included in the agreement.

7.2 PREPARING FOR AN AUDIT

Planning for the audit is always important. As a first step, the recipient will be contacted and asked to provide the auditor with information on the organization, its personnel, its accounting system, **internal controls**, and any other useful information that will assist the auditor. A date will be set for the audit, in consultation with the recipient, and an estimate of the duration of the on-site audit will be provided.

Before the audit, it is helpful to gather all the documents that the auditor will likely need to see. The following is a non-exhaustive list of documents that should be made available to the auditor working on a compliance audit:

- **audited financial statements** (if any)
- **interim statements of revenues and expenditures** (if any)
- **chart of accounts**
- **general ledger** accounts printout
- **trial balances**
- bank statements (and cancelled cheques when available)
- previous audit reports (if any)
- original invoices
- **purchase orders**
- purchasing contracts
- **subcontracts**
- employee contracts
- **time sheets** for employees
- payroll register
- copies of e-mails (especially those sent from and received by the Department of Justice Canada)
- **bank reconciliations**
- minutes of meetings of the board or advisory committees
- supporting documents for the selection of subcontractors or suppliers in case of important purchases
- invoices to clients
- inventory lists (if any)

7.3 INITIAL MEETING

Before the audit begins, there is usually an initial meeting of representatives of the Department of Justice Canada, the recipient, and the auditors. The person responsible for the NGO should be present at the meeting, together with the accountant and/or whoever is in charge of the financial management of the agreement.

During that meeting, the auditor explains the objectives of the audit, and inquires about the most effective way to access the necessary documents. The participants establish procedures for retrieving the documents the auditors will need as the audit progresses, and they also discuss access to files and photocopiers.

At this meeting, the responsibilities of the recipient’s staff with regard to financial matters would also be discussed, and the auditors introduced formally to them, to facilitate interaction during the audit.

In some cases, a pre-audit visit by a Department of Justice Canada Financial Officer and Auditor may take place several weeks prior to the audit to review the scope of the audit and **internal control** procedures, to select samples in advance, and to ensure that all documents will be available when the audit begins.

7.4 AUDIT PROCEDURES

Audits are usually conducted by independent qualified professional accountants, and are done in accordance with Canada's generally accepted auditing standards (GAAS), as defined by the Canadian Institute of Chartered Accountants (CICA). The Department of Justice Canada may decide to have its own personnel do the audit.

The purpose of an audit is to issue an opinion on the eligibility, the accuracy, and the reasonableness of the amounts claimed against the agreement, and to determine whether the recipient has complied with the terms and conditions of that agreement. Audit procedures usually include interviews, reviews of documents and files, an assessment of the accounting system, an assessment of the quality of the **internal controls**, and tests on a sample of transactions. Cheques issued in payment of the project expenses may also be examined.

The auditor may assess the quality of management and control processes related to such issues as purchases, invoice review and approval, subcontracting, payments, payroll management, billing, account **coding**, and data entry. The auditor will note any recommendations in the audit report.

In order to conduct an audit, the auditor will have to rely on the **internal control** measures implemented by the recipient. Therefore, the auditor will usually begin by asking the recipient questions about the organization's **internal control** mechanisms, which can help reduce the risk of errors.

The auditor's goal is to provide an opinion on the accuracy of the costs claimed and on the degree of compliance with the financial clauses of the agreement. The more reliable the system and its **internal controls***, the easier it will be for the auditor to do so with confidence. Audit tests can be done at random or in accordance with criteria chosen by the auditor. In all cases, the auditor will provide the recipient with a list of transactions to be tested, and will request original documents that support those transactions.

7.5 AUDIT TRAIL

For the auditor to be able to conduct an audit that will lead to an opinion on the amounts claimed by the recipient, there must be an audit trail. The audit trail should make it possible for the auditor to trace the information from the financial reports back to the original supporting documents. It should link the information from the financial reports to the organization's accounting system (GL accounts), and from the GL accounts to the original supporting documentation. This is usually done through reference numbers or codes accompanying each transaction entered in the system.

The recipient should also periodically do "reconciliations" to make sure the amounts reported in the claims balance with the GL accounts, and those reconciliations should be kept on file.

The filing system of an organization is another element that has a direct impact on the quality of the audit trail, and hence on the auditor's capacity to follow this trail. The better the filing system is (and the easier it is to understand), the clearer the audit trail is and the faster the information can be found and retrieved during the audit.

A good filing system should have the following characteristics:

- Documents in the files should be kept in chronological order and the files themselves in alphabetical or numerical order.
- Files should be kept in one place.
- Documents should be protected from deterioration, loss and theft.
- Only one person should be responsible for maintaining the filing system.
- There should be a system to track documents taken from files.

If documents pertaining to a project have already been archived before the audit, they should be retrieved from the archives by the recipient and made readily available to the auditors. All elements from the audit trail leading to those documents should be kept intact.

7.6 ASSISTANCE FROM THE RECIPIENT

Usually, the auditor will require the assistance of members of the recipient's personnel to help locate and retrieve any specific documents and to make photocopies whenever needed. Personnel should therefore plan to be available during the audit. Also, the auditors will need space to work, preferably a room that can be locked at night to guarantee the security and confidentiality of the documents.

During an audit, some staff members will be interviewed to inquire about their duties, controls applied, systems, methodology and other topics. It is therefore important that staff members be made aware of the audit and know they may be required to contribute.

7.7 DEBRIEFING WITH THE RECIPIENT

Once the audit is complete, there is usually a debriefing with the recipient's representatives to present the audit's general findings verbally and to provide a list of pending questions or documents that were requested but not yet provided by the recipient. The purpose of the debriefing is merely to inform the organization of the overall findings before they receive the draft audit report.

Generally accepted auditing standards in Canada require that the audited party receive a draft copy of the audit report and indicate that they concur with the audit results, and to provide comments in writing.

8.0 Conclusion

This booklet is not intended to change or replace the contribution agreement but rather to provide additional information on financial clauses of the agreement to help increase recipients' understanding and to facilitate financial reporting and therefore compliance with the terms and conditions of the agreement.

The basic financial management and **internal control** principles that are briefly presented in this guide should help to reduce the risks typically associated with **contributions** management, and the information on audit requirements should facilitate compliance audits in the future.

We hope this guide is easy to understand and helps your organization to better understand the Department of Justice Canada's **contribution** funding practices and procedures.

The following references provide more information on how public funds should be managed and on what constitutes good **internal control** practices and sound financial management:

- The Financial Administration Act
- Report of the Senior Committee on the Review of the Financial Management Framework of the Government of Canada
    a. http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/gapr-pcrg/framework-cadre/framework-cadre10-eng.asp
    b. http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/gapr-pcrg/framework-cadre/framework-cadre12-eng.asp
    c. http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/gapr-pcrg/framework-cadre/framework-cadre14-eng.asp
- Federal Government Spending: A Priori and a Posteriori Control Mechanisms
- Policy on Transfer Payments
- Policy on Management, Resources and Results Structures

Terminology

The following are brief definitions of all the words in the booklet in bold type followed by an asterisk.

Advance payment: a payment under the terms of a contribution agreement that is made before the performance of that part of the contribution agreement for which the payment is being made. An advance payment is limited to the immediate cash requirements, based on a monthly cash-flow forecast from the recipient and taking into account any outstanding advances.

Allocation base: the base or rationale used for allocating common costs to specific projects or cost centres (hours worked, square feet occupied, units produced, etc.).

Audited financial statement: any statement or report that independent auditors have audited and on which they have issued an opinion.

Bank reconciliation: a statement accounting for the differences between the balance shown on the bank statement and the balance shown in the corresponding general ledger bank account at a given date.

Call for tender: a formal invitation for potential suppliers or consultants to bid on a job or a project.

Cash flow: the cash position for a given period of time (historical or prospective), identifying cash surpluses or needs.

Cash requisitions: a form that must be filled in each time an individual requests cash from petty cash. It must be signed by the individual receiving the money and must explain why the cash is required.

Chart of accounts: a list of all account names and financial coding that are part of an organization's accounting system.

Coding: the identification of each account of the general ledger by a specific number or code, or the act of entering a transaction into the accounting system using specific codes to identify each account involved.

Contributions: funds provided to a recipient for a specific reason with conditions that must be complied with by the recipient.

Delegation of authority: a formal authorization given to an employee to sign or act for somebody else (usually his or her supervisor), either permanently or for a limited period of time.

Effective date: the start date of the duration of the signed agreement.

General ledger: a ledger comprising all asset, liability, proprietorship, revenue and expense accounts in which all transactions have been recorded and from which details on each transaction can be found.

Grants: funds attributed to a recipient for a specific reason and usually not limited by restrictive conditions.

Holdback: a percentage of the maximum contribution that is not payable until all the financial and reporting requirements have been met.

Indirect expense: an expense that relates to the overall management of an organization and not directly to a specific project (e.g. telephone, fax, utilities, insurance, rent, postage, office supplies, office maintenance, and indirect salaries for those involved in the administration of the organization as a whole, such as human resources staff).

In-kind expense: an expense incurred in a form other than cash (such as donations of goods or services provided, time spent, or space allowed).

Interim statements of revenues and expenditures: a report or statement prepared as at any date or for a period ending on any date within the regular fiscal year.

Internal control: all methods and measures adopted by an organization to safeguard its assets, ensure the accuracy and reliability of the accounting data, promote operational efficiency and maintain adherence to prescribed policies.

Journal entry: any entry made in the accounting system through the use of a journal (general journal, sales journal, payroll journal, purchase journal, etc.).

Progress payment: a payment made to a recipient throughout the project based on a Request for Interim Payment (Appendix B) or interim financial report. The payment is based on the total amount of the project deficit less any advance payments (if applicable) and on the holdback limit specified in the agreement.

Project deficit: the result when project expenses, including in-kind, exceed project revenues.

Purchase order: a form used to place an order for goods or services with a supplier.

Standard financial statements: financial statements that usually comprise a balance sheet and an income statement for all activities of an organization.

Subcontracts: contracts entered into by a recipient with a contractor of his own to carry out part or all of the objectives or activities listed in the agreement.

Time sheet: a time-keeping recording report for an employee, that can be produced either manually or electronically, showing details of hours worked on different projects for each day of the week.

Travel authorization: a form granting authorization to an employee to travel, prior to the trip. Travel authorization forms usually include the employee's name, the date of the trip, the destination and duration of the trip, the reason for the trip, and the signatures of both employee and supervisor.

Trial balance: a list of all balances from the general ledger accounts on a specific date (e.g. year-end) and presented in two columns (debit and credit balances).