



Canadian
Heritage

Patrimoine
canadien

Canada



Follow-up Audit

Lieutenant Governors' Program

Office of the Chief Audit and Evaluation Executive
Audit and Assurance Services Directorate

October 2011



Cette publication est également disponible en français.

This publication is available upon request in alternative formats.

This publication is available in PDF and HTML formats on the Internet at <http://www.pch.gc.ca>

© Her Majesty the Queen in Right of Canada, 2011.
Catalogue No. CH6-3/2011E-PDF
ISBN: 978-1-100-18615-3

Table of Contents

Introduction.....	1
Objective	1
Scope and Methodology.....	1
Assessment	2
Conclusion	2
Appendix A – Recommendations and Observations.....	4

Introduction

In the Canadian constitutional monarchy, lieutenant governors are representatives of The Queen and have all the prerogative powers of the Crown in their respective provinces. In this capacity, they give Royal Assent to laws passed in the provincial legislative assembly and ratify orders-in-council of the provincial government, including those for elections and the appointment of judges and ministers.

The Department of Canadian Heritage, through the Major Events and Celebrations Branch, has the legal administrative responsibility for funding the salaries and superannuation of all the lieutenant governors.

While the source of financial support for the offices of lieutenant-governors is primarily the provincial government, the federal government pays an annual named grant, through Canadian Heritage, to the lieutenant governors to help them defray certain costs incurred in the exercise of their official duties.

In 2007, both the Office of the Auditor General of Canada and the Auditor General of Quebec reported on the *Use of Public Funds by the Former Lieutenant Governor of Quebec*. Their audit reports covered a 10 year period (1997 to 2007) in which the former Lieutenant Governor of Quebec received funding from both the Government of Quebec and the Federal Government. Of the \$1.7M the federal government provided the former Lieutenant Governor to cover expenses incurred as part of her official duties, the Office of the Auditor General was able to determine that \$1M was spent on official duties but was unable to determine whether the remaining \$700,000 was spent on official duties.

Objective

The objective of this audit was to conduct a follow-up of the management actions in response to the recommendations included in the *2007 June Report of the Auditor General of Canada - Report to the Minister of Canadian Heritage on the Use of Public Funds by the Former Lieutenant-Governor of Quebec* and ensure that the recommendations have been implemented.

Scope and Methodology

The scope of this audit consists of the review of the management actions in response to one of the two recommendations included in the *2007 June Report of the Auditor General of Canada - Report to the Minister of Canadian Heritage on the Use of Public Funds by the Former Lieutenant-Governor of Quebec*. The recommendation “Canadian Heritage should initiate discussions with the former Lieutenant-Governor of Quebec, to identify expenses that were ineligible for the grant, and which should be reimbursed to the Department” is covered by a claim for repayment that has already been made by the federal government in the event the former Lieutenant-Governor of Quebec is convicted of the criminal charges that were laid against her on September 25, 2009.

In order to audit each of the actions planned, the fieldwork included review of documentation, interviews and an analysis of the information gathered.

Assessment

In responding to the four items of the audit recommendation, management committed to implementing additional controls (included in the management responses) that were assessed through this audit.

Throughout the audit fieldwork, the audit team observed improvements made by the Program in fully implementing the four items of the audit recommendation and in implementing their management responses to these items. The following are some noted examples:

- The Program has clarified the categories of eligible expenses;
- The Program has updated the Briefing Book and has added additional clarifications which were communicated to the Lieutenant Governors (e.g. support for social and charitable causes, the funding campaigns, gifts given and received and the tax treatment); and
- The Program has implemented the voluntary proactive disclosure and has publicly made available the spending of federal designated grants.

The audit team also identified areas where management could improve on the implementation of the management responses to two of the four items of the audit recommendation. The Executive Director, Major Events and Celebrations should continue implementing the management response to the audit recommendation by:

- obtaining confirmation from the Lieutenant Governors whether the bank account used for direct deposit is an office account and whether the bank account is separate from the provincial financing; and
- respecting timelines in accounting publicly for the use of funds provided to the Lieutenant Governors.

Conclusion

Overall, based on the results of the work described, the audit team concluded that Management has implemented the four items of the recommendation. Limited work, which represents minor risk, remains to fully implement outstanding items of the management response of the recommendation of the *2007 June Report of the Auditor General of Canada - Report to the Minister of Canadian Heritage on the Use of Public Funds by the Former Lieutenant-Governor of Quebec*. The table provided in the Appendix A to this report

summarizes the results of the follow-up audit work completed and provides audit conclusions and observations for each of the management action addressing the recommendations raised in the 2007 audit.

Richard Willan, CGA
Chief Audit and Evaluation Executive
Department of Canadian Heritage

Audit Team Members
Maria Lapointe-Savoie, Director
Isabelle Barrette, CMA
Joelle Huneault
Joanna Chorabik

Appendix A – Recommendations and Observations

	Original Audit Recommendation	Management Response	Conclusions and Observations
2a.	Canadian Heritage should review its conditions for grant eligibility, including the application form and the guidelines for issuing cheques.	<p>A more formal and elaborate grant agreement is being considered (with the goal of replacing the current simple exchange of letters).</p> <p>The agreement will stipulate which expenses are allowable for the official duties of a lieutenant-governor, and will also stipulate accountability obligations. This approach will allow the Department to provide clearer accounting for the categories of expenses prescribed in the Main Estimates.</p> <p>In accordance with the nature of the corporation sole, in which the holder of the office and the office itself are one and the same thing, the rules for issuing cheques have a limited influence on the use of these funds. However, the Department of Canadian Heritage will require grant recipients to establish a bank account that is separate from their personal activities and from provincial financing. This will make it possible to administrate the designated grant separately.</p>	<p>Audit recommendation implemented. Management response substantially implemented.</p> <p>FINDINGS</p> <p><u>Formal Grant Agreement</u> Management considered a more formal grant agreement however, after consultations, decided to continue with the existing exchange of letters process. The existing process requires four letters to be exchanged: Funding Request, Grant Approval, Interim Report and Final Report.</p> <p><u>Grant Eligibility</u> While all of the letters clearly lay out the categories of eligible expenses for official duties under the Department of Canadian Heritage grant, the Funding Request, Interim Report and Final Report letters do not specify that only “expenses not covered by provincial funding are eligible”. This eligibility requirement is stated in the Briefing Book and the Grant Approval letter: “the financial support provided through the named grant can only be used for expenses incurred while carrying out official duties that are not covered by the provincial government”.</p> <p><u>Issuing Payments</u> Funds are issued to the Lieutenant Governors through direct deposit. The Department of Canadian Heritage requires that the direct deposit bank account to be an office account. During the file review, the audit team found confirmations from three Lieutenant Governors stating that the bank account in question is indeed an office account. The Program was not able to confirm</p>

			the remaining seven nor were they able to confirm whether all ten bank accounts were separate from provincial financing.
2b.	Canadian Heritage should establish, with the directors of the offices of lieutenant-governors, the policies governing personal spending and expenses incurred as part of the duties of a lieutenant governor.	<p>A thorough revision of the Briefing Book is underway. The new material will guide the orientation of the new Lieutenant-Governor of Quebec.</p> <p>The new content will cover allowable expenses for the designated grant in detail. It will also cover in detail the creation of foundations in the name of a lieutenant governor, support for social and charitable causes, the funding campaigns, and gifts given and received. Discussions with the Canada Revenue Agency have begun, with the goal of clarifying the tax treatment of the designated grant, and of including this information in the administrative manual.</p> <p>Since January 2007, the Department of Canadian Heritage has been implementing concrete methods to enhance the administrative capacity of lieutenant-governors' private secretaries (administrators). These efforts are already resulting in improved sharing of best practices, administrative tools, and knowledge.</p>	<p>Audit recommendation implemented. Management response implemented.</p> <p>FINDINGS</p> <p><u>Personal Spending</u> The Briefing Book includes reference governing personal spending and expenses incurred as part of the duties of a lieutenant governor. For example, it is indicated that "Personal expenses are ineligible and must not, under any circumstances, be paid from funds provided through the annual grant".</p> <p><u>Expenses Incurred as Part of Duties</u> The Briefing book also covers the creation of foundations in the name of a lieutenant governor, support for social and charitable causes, the funding campaigns, gifts given and received and the tax treatment of the designated grant.</p> <p>Methods to enhance the administrative capacity of lieutenant-governors' private secretaries included consulting the offices of the Lieutenant Governors' on the new content related to eligibility of expenditures under the named grant.</p>
2c.	Canadian Heritage should update the Lieutenant-Governor Briefing Book, adding a section on financial management and tax treatment of grants, and providing lieutenant governors and their offices with training on this topic.	The Department of Canadian Heritage will develop teaching modules for lieutenant-governors and their private secretaries. These modules will guide the orientation sessions that will be held during regular meetings between Canadian Heritage and the private secretaries, or alongside the annual conference of the lieutenant-governors.	<p>Audit recommendation implemented. Management response implemented</p> <p>FINDINGS</p> <p><u>Update the Briefing Book</u> The Briefing Book was updated following the 2007 Audit. It was last updated April 2010.</p>

		<p>Among the priority topics are the development of a module covering general ethical principles and conflicts of interest for the federal government. With the Canada Revenue Agency, the Department of Canadian Heritage is also developing a module on the tax treatment of the designated grant.</p>	<p>The Briefing Book contains financial management guidance as part of the “Taxation of Financial Support” section. It suggests Lieutenant Governor have separate bank accounts and keep financial records and substantive documents and explains the procedures for carrying over the residual balance. There is also a section on Conflict of Interest which describes the ethical principles that apply to the Lieutenant Governors.</p> <p><u>Training</u> The Program uses the Briefing Book to relay information. There are annual meetings and teleconferences with the Lieutenant Governors to convey information such as the tax treatment of grants.</p>
2d.	<p>Canadian Heritage should ensure that lieutenant governors’ account for the use of the funds provided to them, publicly and in a timely manner.</p>	<p>Treasury Board of Canada policies on the implementation of designated grants describe transfer payments as being exempt from audits and accountability. However, since the 2004-05 fiscal year, the Department of Canadian Heritage has required lieutenant governors to maintain an accounting framework for producing annual financial statements. The Department is currently exploring the possibility of asking lieutenant-governors to develop a policy of voluntary proactive disclosure.</p> <p>The Department of Canadian Heritage will also produce an annual report on lieutenant-governors' spending of federal designated grants. This report will be published on the website of the Department of Canadian Heritage. The format of the report will be developed in collaboration with the offices of lieutenant-governors, and will be made available at the latest by 1 June following the end of the fiscal year constituting the object of the report.</p>	<p>Audit recommendation implemented. Management response substantially implemented.</p> <p>FINDINGS</p> <p><u>Accounting Framework</u> By signing the Funding Request Letter, the Lieutenant Governors consent to “continue to ensure an accountability framework remains in place and is executed in conformity with accepted accounting practices.”</p> <p><u>Publicly Account for the Funds</u> The Lieutenant Governors account for the use of the federal funds provided to them. The Department of Canadian Heritage produces an annual report on lieutenant-governors' spending of federal designated grants which are published on the website of the Department of Canadian Heritage.</p>

			<p>The Department of Canadian Heritage makes available the report however it is not posted by June 1 following the end of the fiscal year as some final reports are not submitted by this date. For example, in fiscal year 2009-2010, five out of ten Lieutenant Governors provided their final reports before June 1. The Lieutenant Governors audited financial statements are produced by their respective government. Some governments are not able to meet the June 1 deadline as they produce the audited financial statements in the following weeks. Therefore, the reports will now be available before September 30th.</p>
--	--	--	---