

Chapter

# 6

Management of Voted Grants  
and Contributions

*All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

# Table of Contents

<b>Main Points</b>	181
<b>Introduction</b>	183
Key findings in 2001	183
Important changes since 2001	184
Focus of the audit	185
<b>Observations and Recommendations</b>	186
<b>The role of the Treasury Board Secretariat</b>	186
The policy and guidance on transfer payments provide a basis for effective control	186
The current Policy on Transfer Payments requires refinements to meet departmental needs	186
A risk-based approach to reviewing terms and conditions is needed	188
The Treasury Board Secretariat needs to facilitate the sharing of best practices	188
The Treasury Board Secretariat needs to monitor the Task Force on Community Investment	189
<b>The role of departments and agencies</b>	190
The design of departmental management control frameworks to manage grants and contributions is reasonable	191
Overall department performance was satisfactory	191
All departments have developed a results-based management and accountability framework	195
Recipients have raised concerns about administrative burdens	195
Some departments have taken constructive steps in response to recipients' concerns	198
<b>Conclusion</b>	199
<b>About the Audit</b>	200
<b>Appendix</b>	
List of recommendations	202





# Management of Voted Grants and Contributions

---

## Main Points

### What we examined

We assessed the extent to which the government has ensured effective government-wide management and control over the spending of public money through voted grants and contributions. We last reported on this issue in 2001. This time, we looked at a sample of grant and contribution programs and assessed the adequacy of their management and control by the departments administering them (Canadian Heritage, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Public Health Agency of Canada, and Social Sciences and Humanities Research Council of Canada). To assess the application of the Policy on Transfer Payments, we included both departments that were part of our previous audit and some that were not.

We also assessed the completeness and clarity of the policy framework and guidance issued by the Treasury Board.

### Why it's important

The government currently spends about \$17.5 billion a year on voted grants and contributions. It uses them as financial incentives for a recipient individual or organization to carry out an activity that helps to further government policy and a department's objectives. Properly planned and managed, grant and contribution programs give recipients a reasonable chance of success in the funded activities without contributing more public money than the recipient needs for the activity.

### What we found

- Overall, the government has made satisfactory progress since 2001 in the management of grants and contributions. Four of the departments we audited had satisfactory controls over the management of grant and contribution programs: they have adopted risk-based approaches to monitoring the funded activities of grant and contribution recipients, prepared clear documentation on their assessment of applications, developed grant and contribution management systems, and established training for officials of grant and contribution programs. At Indian and Northern Affairs Canada we found weaknesses in each of those areas.

- The Policy on Transfer Payments and the guidance on applying it provide a basis for effective control over the use of grants and contributions. However, the available types of transfer payments do not meet departmental needs.
- Recipients of grants and contributions have told a parliamentary committee their concerns about the way departments apply the Treasury Board's Policy on Transfer Payments. They said that meeting various requirements including multiple audits, demonstrating eligibility for funding, and reporting on recipients' results—can impose a heavy financial and administrative burden. Our audit confirmed that departments have yet to streamline their management of grants and contributions in a way that would resolve those concerns.

**The Treasury Board Secretariat and the departments have responded.** The Treasury Board Secretariat and the departments agree with all of our recommendations. In their responses, the Secretariat and the departments describe the actions they will take to address our recommendations.

## Introduction

**Transfer payments** are payments for which no goods or services are directly received, but which may require the recipient to provide reports and be subject to audit.

**Grants** are unconditional transfer payments made to individuals or organizations that have met established eligibility requirements. Recipients of grants are not subject to audit.

**Contributions** are conditional transfer payments made to individuals or organizations that are based on a contribution agreement and are subject to audit and reporting requirements.

**6.1** The government pursues public policy through legislation and regulation; tax measures; transfer payments to individuals, organizations, and other levels of government; and by providing services, information, and advice. **Transfer payments** to individuals and organizations are generally **grants** or **contributions**. While the government does benefit directly when it pays for goods or services through a procurement contract, it does not when it awards a grant or contribution.

**6.2** Some spending through grants and contributions is statutory, which because it has continuing authority by an act of Parliament does not require Parliament's approval every year. Statutory expenditures include old age security payments and guaranteed income supplement payments. In contrast, voted grants and contributions must receive parliamentary approval through an annual appropriation act. All references to grants and contributions in this chapter refer to voted grants and contributions.

**6.3** The government currently spends about \$17.5 billion a year on grants and contributions. Grants and contributions are used as financial incentives to influence recipients (individuals or organizations) to carry out activities that help achieve the government's policy goals and a department's objectives.

**6.4** Management requirements that government policy imposes on departments are different for grants and contributions. Once recipients meet the eligibility criteria for a grant, they can usually receive it without meeting further conditions. However, the recipient of a contribution must meet the monitoring and performance requirements, specified in the terms and conditions of a contribution agreement, to be reimbursed for project costs.

### Key findings in 2001

**6.5** In chapters 4 and 5 of our 2001 Report, we reported on the management of grant and contribution programs, government-wide and in specific departments. Following hearings for that audit, the Standing Committee on Public Accounts made recommendations to the Treasury Board Secretariat concerning risk management, monitoring departmental operations, and providing guidance for program managers and officers on managing transfer payment programs.

**6.6** We reported on departmental management of grant and contribution programs. We noted weaknesses in

- the process for assessing funding applications;
- risk management as a tool for cost-effectively managing programs; and
- financial controls, especially for managing payments to recipients.

**6.7** We also reported that the Treasury Board had revised the Policy on Transfer Payments in 2000. To promote a results-based approach to designing and managing grant and contribution programs with a focus on strengthening control and accountability, the policy required that departments

- use better risk-management practices,
- specify and measure the intended results of programs, and
- improve cash management.

### Important changes since 2001

**6.8** The Policy on Transfer Payments is designed to ensure sound management, control, and accountability for transfer payments in government programs. For example, departments must submit the **terms and conditions** of their grant and contribution programs to Treasury Board for approval and establish controls to manage and monitor the recipient's use of funds. These controls include establishing criteria for screening recipients for eligibility, auditing recipients' use of funds, and monitoring program results.

**6.9** To supplement the Policy on Transfer Payments, the Treasury Board Secretariat has issued guidance documents including

- Guide for the Development of Results-based Management and Accountability Frameworks;
- Risk-Based Audit Framework Guide; and
- Guide on Grants, Contributions, and Other Transfer Payments.

**6.10** At the same time as our audit, the Secretariat began to revise the Policy on Transfer Payments, as required by the current policy.

**Terms and conditions**—This chapter refers to two types of terms and conditions. Program terms and conditions are the requirements that must be approved by the Treasury Board before a department can create or renew a transfer payment program. Agreements with grant and contribution recipients also include specific terms and conditions.



## Focus of the audit

**6.11** The objective of our audit was to determine the extent to which the government has ensured effective government-wide management and control of the spending of public money through grants and contributions.

**6.12** We assessed

- the design, implementation, and effectiveness of the control frameworks for managing grants and contributions;
- whether the government responded to our past recommendations and those of the Standing Committee on Public Accounts;
- whether the government has a complete and clear policy framework, provides oversight for effective management of grants and contributions in a manner sensitive to risks, and is accountable for results;
- the nature and extent of the Treasury Board Secretariat's monitoring, including the status of the required renewals of the terms and conditions for all grant and contribution programs, to take place by their expiry date or 31 March 2005, whichever came first; and
- the departmental management and control of grant and contribution programs to ensure that they adequately address the design stipulated in their approved Treasury Board submission.

**6.13** In our detailed file review, we included

- Canadian Heritage—Development of Official-Language Communities Program;
- Human Resources and Skills Development Canada—Summer Career Placements Initiative;
- Indian and Northern Affairs Canada (INAC)—Contributions to Support the Building of Strong Governance, Administrative and Accountability Systems (Gathering Strength);
- Public Health Agency of Canada—Community Action Program for Children; and
- Social Sciences and Humanities Research Council of Canada (SSHRC)—Indirect Costs of Research Program.

**6.14** To assess the application of the Policy on Transfer Payments, we included departments that were part of our previous audit and some that were not (INAC and SSHRC).

In 2006, Human Resources and Skills Development Canada became Human Resources and Social Development Canada.

**Basic services** represent social services provided to all Canadians. Indian and Northern Affairs Canada's basic service programs parallel provincial programs for the same social benefit.

**6.15** Grants and contributions may also include payments for **basic services**, such as education and social assistance to First Nations, Inuit, and other northern Canadians delivered by INAC. Our audit did not include the management of these payments. There is more information about our scope, approach, and criteria in **About the Audit** at the end of this chapter.

## Observations and Recommendations

### The role of the Treasury Board Secretariat

**6.16** The Treasury Board sets government-wide policies, such as the Policy on Transfer Payments. Under this policy the Treasury Board approves the terms and conditions for all grant and contribution programs. The Treasury Board Secretariat is responsible for providing guidance to departments to implement this policy and is responsible for monitoring the application of the policy.

**6.17** We expected that since our 2001 audit, the Secretariat would have given the departments guidance to help them interpret and apply the Policy on Transfer Payments; we found that it has done so.

### The policy and guidance on transfer payments provide a basis for effective control

**6.18** The Secretariat is responsible for reviewing a department's proposed terms and conditions for transfer payment programs to ensure that they meet the Policy on Transfer Payment requirements including those for clearly stated objectives, identification of eligible recipients, and a framework for measuring results.

**6.19** We examined the terms and conditions for the five programs included in our sample and all of them met the requirements of the policy.

**6.20** The existing policy and guidance, and the Secretariat's review and Treasury Board's approval of proposed terms and conditions, provides a basis for effective control. However, there could be more variety in the types of transfer payments available to departments and some aspects require clarification to ensure greater consistency.

### The current Policy on Transfer Payments requires refinements to meet departmental needs

**6.21** The range of departmental requirements for accountability and results measurement cannot always be met with either grants or contributions as they are defined in the policy. In the absence of

A results-based management accountability framework and a risk-based audit framework were introduced in the 2000 Policy on Transfer Payments.

A **results-based management and accountability framework** is used to identify a program's performance measures and develop strategies to report on outcomes.

A **risk-based audit framework** is used to identify specific risks to transfer payment programs, monitor the risks, and conduct recipient and internal audits as needed to mitigate the identified risks.

choices, some programs have created their own transfer payment types that include elements of both grants and contributions.

For example, while Social Sciences and Humanities Research Council of Canada (SSHRC) uses grants to fund their Indirect Costs of Research Program, it uses a **risk-based audit framework** to monitor its recipients and requires them to report on results according to SSHRC's **results-based management and accountability framework**.

**6.22** By definition recipients of a grant are not subject to audit. However, the Policy on Transfer Payments requires a risk-based audit framework, which includes developing a component for the conduct of recipient audits. This aspect of a risk-based audit framework is more consistent with the definition of a contribution.

**6.23** Clear direction has not been provided to departments on how to choose between the existing transfer payment types. Because of inadequate guidance, departments have developed a variety of practices. For example

- The Official Languages Support Programs Branch at Canadian Heritage has a rule that if a risk assessment indicates that a recipient is low risk, project funding under \$25,000 and core funding under \$50,000 could be grants, and all transfer payments over these amounts must be contributions; and
- Human Resources and Skills Development Canada funds its Summer Career Placement Initiative through contribution agreements with recipients (employers) for amounts as small as \$1,800. These contribution funds are given to support student summer employment.

**6.24 Recommendation.** The Treasury Board Secretariat should ensure that

- the types of transfer payments available to departments meet the variety of needs for their programs,
- the definitions of transfer payment types and their associated requirements are consistent, and
- guidance is provided on how to select transfer payment types so that selections are consistent across departments.

**The Treasury Board Secretariat's response.** Agreed. The Treasury Board Secretariat is pleased that the Office of the Auditor General has recognized that the existing policy and guidance, as well as the review and approval by the Treasury Board of program terms and conditions, provides a basis for effective control of transfer payments.

Further improvements are being considered through the policy review and other guidance to enable consistent approaches across government that allow for a better balance between risks, control, and accountability for results.

The Treasury Board Secretariat is committed to incorporating departmental, central agency, and stakeholder experiences into policy revision. In this regard, it hopes to increase the number of transfer payment options available to departments, thereby responding to their various needs while continuing to allow for flexibility as further needs arise.

The Treasury Board Secretariat will update the accompanying guidance material to facilitate consistent approaches across government, including the selection of suitable transfer payment instruments. The implementation strategy being considered for the proposed revisions to the Policy on Transfer Payments will facilitate an integrated approach to sharing knowledge and best practices through training programs and interdepartmental activities.

#### **A risk-based approach to reviewing terms and conditions is needed**

**6.25** When the Treasury Board revised the Policy on Transfer Payments in 2000, it stipulated that the terms and conditions for all grant and contribution programs were to expire no later than 31 March 2005. All departments needed Treasury Board approval to renew all program terms and conditions before that date to be able to continue programs. Because some departments have not met this deadline, the deadline had to be extended to allow the programs involved to continue until the required renewal of their terms and conditions.

**6.26** Even though there were over 700 grant and contribution programs, the policy did not have a risk-based approach for reviewing program terms and conditions. Rather, it set a fixed expiry date, regardless of the degree of risk in the individual programs. A more measured, risk-based approach to reviewing program terms and conditions would have reduced the extra workload this requirement caused the Secretariat and departments.

#### **The Treasury Board Secretariat needs to facilitate the sharing of best practices**

**6.27** The Treasury Board Secretariat is responsible for monitoring departmental use of grants and contributions to

- ensure that Policy on Transfer Payments objectives are met,

- identify better practices, and
- identify any systemic weaknesses in applying the policy.

**6.28** In 2001, we recommended that the Secretariat strengthen its monitoring of departmental procedures for managing grants and contributions. The Standing Committee on Public Accounts made a similar recommendation. The Secretariat has partially responded to these recommendations.

**6.29** We found that the Secretariat has compiled a list of government transfer payment programs and is analyzing program evaluation results. We reported in our November 2004 Report that the Secretariat reviews the internal audit reports it receives, but does not have a process to ensure that it receives all completed internal audit reports. Therefore, the analysis of completed reports and the monitoring of departmental use of grants and contributions may be limited.

**6.30** We also noted that departments had concerns about insufficient sharing of best practices and were calling for the Secretariat to re-establish an interdepartmental working group on transfer payments. Creating a group to discuss concerns in applying the Policy on Transfer Payments and share best practices for managing grants and contributions would provide another means for the Secretariat to monitor departmental operations.

**6.31 Recommendation.** The Treasury Board Secretariat should establish and co-ordinate an interdepartmental working group on transfer payments to discuss concerns about applying the Policy on Transfer Payments and share best practices for managing grants and contributions.

**The Treasury Board Secretariat's response.** Agreed. Interdepartmental initiatives that focus on exchange of knowledge and best practices in transfer payments are key success factors. Results of departmental consultations in the review of the Policy on Transfer Payments reveal that there is strong support for the re-establishment of such an interdepartmental working group. The Treasury Board Secretariat is including such an initiative as part of its planned implementation strategy for the proposed revisions to the Policy on Transfer Payments.

#### **The Treasury Board Secretariat needs to monitor the Task Force on Community Investment**

**6.32** The Policy on Transfer Payments is subject to review at least once every five years. As part of the 2005 review, the Treasury Board Secretariat asked departments if they had any concerns with the Policy

and, as a result of these consultations, decided that it should be rewritten. Departmental concerns included clarification of their responsibilities for maintaining internal control frameworks and monitoring the costs and results for transfer payment programs. The Secretariat's consultation with departments is a positive step.

**6.33** In our view, the Secretariat also needs to continue to consult the government's newly formed (March 2005) Task Force on Community Investment, which is examining federal policies and practices on transfer payments that affect interaction with the **voluntary sector**. The task force is scheduled to complete its work in early 2007. The results of its consultation may offer useful input to the Secretariat on the nature and extent of guidance that may be required. Consulting this task force is particularly appropriate since the voluntary sector includes some of the same organizations that receive federal grants and contributions.

The **voluntary sector** consists of non-profit organizations, registered charities, and non-incorporated volunteer groups.

**6.34 Recommendation.** The Treasury Board Secretariat should continue to monitor the work of the Task Force on Community Investment and amend the Policy on Transfer Payments and guidance for transfer payments as necessary.

**The Treasury Board Secretariat's response.** The Treasury Board Secretariat is committed to continuing its engagement with the Task Force on Community Investments and to building on the lead role it played in the development of the Voluntary Sector Initiative guidance publication, *A Code of Good Practice on Funding*. The Secretariat will continue to be involved both at the Steering Committee and working levels so as to better understand the needs of the voluntary sector. This understanding will feed into ongoing processes related to improvements to the Policy on Transfer Payments, and to the accompanying directives, guidance materials, and practices.

### The role of departments and agencies

**6.35** In our current audit, we looked at the management control frameworks that departments established to set policy and to provide guidance and tools for managing grants and contributions, and how the frameworks responded to the 2000 Policy on Transfer Payments. We then looked at a sample of departmental programs to assess whether the design of the management control framework was carried out and whether it had provided sufficient guidance to the program officers who manage grants and contributions.

### The design of departmental management control frameworks to manage grants and contributions is reasonable

**6.36** We found that the departments had developed policies and procedures to govern grants and contributions within departmental programs and had issued guidance to staff managing grants and contributions. While the clarity and complexity of the guidance varied considerably across departments, it did provide a framework for managing grants and contributions.

**6.37** Departments had also established delegated signing authorities to manage grant and contribution programs.

### Overall department performance was satisfactory

**6.38** We assessed the progress made by Human Resources and Skills Development Canada (HRSDC), Canadian Heritage, and Public Health Agency of Canada (PHAC) since our 2001 audit (Exhibit 6.1).

#### Exhibit 6.1 Progress in addressing our recommendations

	Eligibility	Monitoring	Financial management	Departmental capacity
HRSDC	●	●	●	●
Canadian Heritage	●	●	●	●
PHAC	●	●	●	●

- **Satisfactory**—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.
- **Unsatisfactory**—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

**6.39** Since two of the departments included in this status report, Indian and Northern Affairs Canada (INAC) and Social Sciences and Humanity Research Council of Canada (SSHRC), were not part of our previous audits of grants and contributions, we have not reported their progress. We do comment on whether we found their existing controls to be satisfactory or unsatisfactory.

**6.40 Eligibility.** The HRSDC system for ranking applicants is the most transparent and objective of the programs we examined, as it informs all applicants about the ranking criteria and the expected results.

**Eligibility** refers to the extent to which a department ranks applications according to objective assessment criteria, and documents its assessment of the project's eligibility for funding.

**6.41** We noted that in administering this program, HRSDC provides its list of recommended and non-recommended projects for a constituency to its Member of Parliament for the Member's concurrence on funding listed projects. Our audit did not assess the Member of Parliament concurrence process.

**6.42** Canadian Heritage, SSHRC, and PHAC also met our audit criteria, and we found their processes for assessing applicants' eligibility to be satisfactory.

**6.43** We assessed INAC as unsatisfactory because half of the program files we examined did not indicate that the department assessed whether the proposed project met the program's terms and conditions. Because the regional program officers responsible for the Gathering Strength Program did not receive their budgets from headquarters until late in the fiscal year, they had no idea how much money (if any) they had for grants and contributions. Since funds must be allocated before the end of the fiscal year, they had little time to do eligibility assessments as required. In one region, they did not advise potential recipients of the availability of funds for this program and decided by themselves which organizations to fund. By not requesting applications, there is a risk that INAC has not considered all potential projects for funding.

**Monitoring** refers to whether or not a department's monitoring activities are commensurate with the level of risk inherent in a given project.

**6.44** **Monitoring.** HRSDC, Canadian Heritage, and SSHRC received satisfactory ratings because they follow a documented risk-assessment process, with the level of risk determining how much they monitor and how many reports they require from recipients. We noted that HRSDC's risk-assessment process was rigorous and used objective criteria, including projects' dollar values, previous experience with recipients, and recipients' organizational capacity and public profile.

**6.45** We consider PHAC's progress to be satisfactory. We noted that the way it had determined the appropriate level of monitoring varied from region to region and did not always consider the risk level of the recipients. PHAC recognized this; it now has an effective risk assessment methodology and is taking steps to have all regions adopt it.

**6.46** INAC received an unsatisfactory rating because its management control framework stipulates that monitoring and reporting requirements are largely determined by the program and do not consider the risk level of the recipients. In the program that we audited, we found no evidence that risk assessments had been done to determine the appropriate frequency and depth of monitoring or reporting.



For the purposes of this chapter, **financial management** refers to a department's cash management and compliance with the *Financial Administration Act* and the Policy on Transfer Payments.

**6.47 Financial management.** The objective of the cash management requirement in the Policy on Transfer Payments is to ensure that departments only advance funds to recipients as needed, which generally means that funds are advanced in instalments.

**6.48** HRSDC, Canadian Heritage, SSHRC, and PHAC received satisfactory ratings because they followed the Policy on Transfer Payments' cash management requirements.

**6.49** Based on the results of our statistical sample, we gave INAC an unsatisfactory rating for a number of reasons, including the following:

- INAC does not analyze or challenge differences between the amounts originally budgeted for specific items and the amounts actually spent. For example, one project (value \$151,750) had a project management budget of \$36,500. The audited financial statements showed that the cost of this item had risen to \$62,198. INAC's program officer did not question the increase or attempt to determine where money had been shifted from in order to cover the increased cost of managing the project. In contrast, other departments in our sample had set limits of 10 percent to 15 percent on changes to budget allocations. If a change in budget allocations exceeded these thresholds, the recipients were required to obtain departmental approval.
- The Department did not require recipients who received more than \$100,000 for a project to provide a statement about other sources of proposed funding.
- Project officers did not hold back final payments on one project until the recipient had fulfilled all the terms of its contribution agreement, as required by the Act and the Policy on Transfer Payments.
- The Department did not reclaim unspent money from a project within a reasonable time, as is required by the Policy on Transfer Payments when funding exceeds actual expenses. In one case, even though a recipient owed money to the Crown for non-qualifying expenditures in 2001 and 2002, the Department did not seek repayment until 2004.

**Departmental capacity** refers to a department's infrastructure—the tools, automated systems, procedures, and trained people needed to run grant and contribution programs effectively.

**6.50 Departmental capacity.** Since our 2001 audit, all departments we examined have developed automated systems for managing grants and contributions. Some systems are more comprehensive and have a greater level of control than others. For example, HRSDC's system has built-in features and controls to ensure that program officers responsible for grant and contribution projects follow rigorous

management procedures. In 2004, INAC began to develop a new grants and contributions management system to replace its current system, which was designed only to support its cash management. The existing system has not automated all the controls for reducing risk and promoting sound management. INAC's main objectives for developing a new system are to ensure that a consistent business process is followed for grants and contributions and key controls are enforced at the appropriate times. We support this initiative.

**6.51** Four of the five departments (HRSDC, PCH, SSHRC, and PHAC) have made satisfactory progress in developing appropriate training programs for managing grant and contribution projects.

**6.52** INAC offers no formal training for program officers who manage grant and contribution projects. Even though INAC has developed policies and procedures and issued guidance to program officers to govern the use of grants and contributions, we found that the lack of training contributed to a lack of consistency in applying its control framework.

**6.53** In our view, this lack of training and the narrow focus of its grants and contributions management system have helped to create many of INAC's problems. For example, we noted instances where program officers, in managing their grants and contributions, did not clearly understand the requirements of the *Financial Administration Act*. Section 34 of the Act states that before a payment is made for grants and contributions, the responsible departmental officer must certify that the payee is entitled to the payment. In addition to using section 34 to certify payments, we found examples of section 34 certifications being used for reasons unrelated to issuing funds.

**6.54 Recommendation.** Indian and Northern Affairs Canada should strengthen its grant and contribution management controls by

- preparing a risk-assessment of recipients to determine the appropriate frequency and depth of monitoring and reporting,
- completing the development and implementation of its automated management system for grants and contributions, and
- providing necessary training to its program officers.

**Indian and Northern Affairs Canada's response.** Indian and Northern Affairs Canada agrees with this recommendation. The Department recognizes the importance of the issues raised in this chapter and is committed to improving and strengthening its grants and contributions management processes.

The development of a new First Nations and Inuit Transfer Payment System is the most important initiative currently under way, which will further improve and strengthen management practices. The Office of the Auditor General is supportive of this automated grants and contributions management system.

Indian and Northern Affairs Canada recognizes and fully supports the importance of providing ongoing training to its staff. It also recognizes the need to adopt a risk-based approach to manage all grants and contributions, and determine eligibility and the appropriate level of monitoring and reporting.

The Department will continue to work closely with the Treasury Board Secretariat to develop a Policy on Transfer Payments that meets both departmental and recipient needs.

#### **All departments have developed a results-based management and accountability framework**

**6.55** The Treasury Board's 2000 Policy on Transfer Payments requires departments to use a results-based management and accountability framework (RMAF). Our audit found that all five departments developed RMAFs for their programs. We did not audit the implementation of INAC's RMAF as it was only approved by the Treasury Board in August 2005. The RMAFs of the other four departments include evaluation plans and strategies to report on program outcomes that are being reported in the departmental performance reports. The strategies included in the RMAFs have not yet been completed because these are generally based on a five-year plan. Therefore, we have determined that the implementation and use of RMAFs is in progress.

#### **Recipients have raised concerns about administrative burdens**

**6.56** In the spring of 2005, parliamentary hearings were held to inquire into certain directives that HRSDC had issued for funding various community programs. These directives contained various administrative, management, and accountability requirements for contribution programs.

**6.57** As part of our audit, we reviewed the reports of these hearings and found that recipients of grants and contributions had a number of concerns with the directives on audit and reporting requirements, the administrative burden of complying with the directives, the length of time it took HRSDC to approve their projects, the lack of multi-year funding for long-term projects, and the need to re-apply each year for

these projects. Other departments have surveyed organizations that have received funding through grant and contribution programs on a range of issues related to the application of the Policy on Transfer Payments. These surveys and our audit findings tend to reinforce findings of the parliamentary hearings, indicating that those concerns are not unique to HRSDC's recipients.

**6.58** We noted that while some departments are trying to respond to recipients' concerns, they could do much to streamline their procedures and reduce recipients' administrative burden. The following paragraphs describe the typical concerns recipients had about departmental processes for approving and managing contributions.

**6.59 There are delays in negotiating agreements and receiving approvals.** In a survey conducted by Canadian Heritage, clients indicated that they had to wait an average of seven months before receiving decisions on their applications. The wait time for the Official Languages Support Programs Branch is five and a half months. We noted similar wait times in the statistical sample of files we examined. Long delays mean that when an organization eventually receives funding, it may have little time left to begin a project. In other departmental programs we examined, program officers were able to have agreements in place by the beginning of the fiscal year.

**6.60 Organizations must re-apply annually, even for long-term projects.** Two of the five programs examined were **core programs**:

- the Development of Official Language Communities Program at Canadian Heritage, which provides funds to support French- and English-speaking minority communities; and
- the Community Action Program for Children (CAPC) at PHAC, which funds community coalitions to promote the health and development of young children.

**6.61** We found that despite the long-term nature of core programs and the continuing relationship between departments and recipients, departments still require recipients to submit annual applications. This requirement results in added administrative costs for recipients and wasted departmental time and resources. Multi-year agreements, which take into account appropriate risk factors and previous experience with the recipient, would eliminate re-application costs. PHAC has addressed this concern by entering into multi-year agreements with CAPC recipients. However, such agreements are the exception rather than the rule.

**Core programs** are long-term and are typically conducted by the same recipients who receive grants and contributions year after year to provide services to Canadians.

**6.62 Monitoring and reporting requirements are often redundant.**

An organization that receives funding for different programs from one or more departments may be required, by the terms and conditions of the contribution agreement, to submit an audited financial statement to the program officer responsible for each program. The organization may also be audited by each department from which it received funding; witnesses appearing at the parliamentary committee hearing cited instances when they were subject to more than one financial audit within the same fiscal year. This process is cumbersome and duplicates work for the departments and the recipient.

**6.63** We looked at the practices of other jurisdictions and noted that the United States federal government has a single-audit process for organizations whose funding from more than one federal program exceeds an established funding threshold. This is a highly co-ordinated practice that enforces one audit for each recipient of federal money, rather than multiple audits of a recipient, as is generally the practice in Canada. Single audits are risk-based, include compliance work over program specifics, and include both high-dollar and low-dollar, high-risk programs. Although the Policy on Transfer Payments encourages departments to consider a single audit approach where appropriate, the Secretariat does not provide the resources or procedures for this approach.

**6.64 Recommendation.** The government should co-ordinate and implement a single audit process for the recipients of transfer payments from federal programs.

**The Treasury Board Secretariat's response.** Agreed. There is a need to reduce the audit burden placed on recipients while ensuring an appropriate level of control and accountability. A coordinated single recipient audit regime will be pursued to the extent possible.

The Treasury Board Secretariat's commitment to improving management aims to better promote horizontal management and the integration of activities that will assist departments to focus on exchanges of knowledge and promotion of best practices. Program design and administration must be client focused including, wherever possible, common and integrated recipient audit requirements. Interdepartmental initiatives will be undertaken to facilitate implementation and to highlight best practices in areas of streamlined recipient auditing.

**Some departments have taken constructive steps in response to recipients' concerns**

**6.65** To date, some departments have taken constructive steps in response to recipients' concerns raised during Parliamentary hearings. However, much remains to be done to streamline departments' management of transfer payments.

**6.66** HRSDC and SSHRC have simplified their application forms and clearly explain how the recipients' performance will be measured, and what information they must provide for evaluations. This reduces uncertainty and helps to ensure that recipients will provide the necessary performance information.

**6.67** PHAC funds two programs: one relating to pre-natal care, the other to promoting the health and development of children up to six years old. Some recipients run both programs and must report similar information for each. Program officers in Atlantic Canada consolidated their information requests for reporting and evaluation requirements, which allows recipients to submit one report instead of two. Such initiatives reduce administrative work for the department and the recipients.

**6.68 Recommendation.** The Treasury Board Secretariat and departments, while balancing risk, control, and accountability for results, should streamline the application, reporting, and audit requirements for grants and contributions in ways that would reduce the administrative burden on recipients.

**The Treasury Board Secretariat's response.** Agreed.

The administrative burden on recipients must be reduced through streamlined application, reporting and audit requirements to the extent possible.

The proposed revisions to the Policy on Transfer Payments and to the supporting guidance material will provide best practices on how to streamline application, reporting, evaluation, and audit requirements. Interdepartmental initiatives will enable the sharing of knowledge and best practices between departments on how to reduce the administrative burden. Guidance will also be provided on reducing the administrative burden on the recipient population.

Periodic assessments of departmental transfer payment programs will address the extent to which streamlined application, reporting, and audit requirements are being implemented, which would in turn reduce the administrative burden on recipients.

## Conclusion

**6.69** While the Policy on Transfer Payments provides a basis for effective control, the Secretariat needs to further improve its monitoring of departmental operations. We also noted that the policy needs to expand the types of transfer payments available to departments to better respond to program needs.

**6.70** Four of the five departments that we audited have satisfactory controls over the management of grants and contributions. Indian and Northern Affairs Canada needs to make significant improvements.

**6.71** The departments and the Secretariat need to streamline the management of grants and contributions and maintain an appropriate balance between risk and control.

## About the Audit

### Objectives

The objective of our audit was to determine the extent to which the government has ensured effective government-wide management and control over the spending of public money through voted grants and contributions. To do this we assessed the design, implementation, and effectiveness of control frameworks for grants and contributions, and how the government responded to our past recommendations and those of the Standing Committee on Public Accounts.

### Scope and approach

Our audit was designed to assess whether the government has a complete and clear policy framework and whether it oversees effective management of grants and contributions in a way that is sensitive to risks, complexity, and accountability for results.

We assessed

- the nature and extent of monitoring done by the Treasury Board Secretariat, including the status of the required renewal of all grant and contribution programs, which were to take place no later than 31 March 2005;
- whether approved terms and conditions of renewed grant and contribution programs provide a basis for adequate control and risk management;
- the effectiveness of departmental management and control of grant and contribution programs; and
- whether these programs adequately address the design stipulated in their approved Treasury Board submissions.

Our audit covered the period between 1 April 2003 and 31 March 2005.

The departments and agencies included in the audit were

- Canadian Heritage,
- Human Resources and Skills Development Canada,
- Indian and Northern Affairs Canada,
- Public Health Agency of Canada,
- Social Sciences and Humanities Research Council of Canada, and
- Treasury Board Secretariat.

The summary level criteria were based upon the Treasury Board's Policy on Transfer Payments.

### Criteria

We expected that the Treasury Board Secretariat would

- set a complete and clear policy for departments to follow to manage grants and contributions;
- ensure that the terms and conditions of approved grant and contribution programs provide effective control;



- provide appropriate direction and guidance to departments to manage grants and contributions;
- use a risk management approach to its responsibilities to monitor the use of grants and contributions;
- compile sufficient information on departmental operations to assess the effectiveness of the Policy on Transfer Payments and whether its objectives are being met; and
- identify any systemic problems in managing and controlling grant and contribution programs, and take appropriate remedial action and assess the effectiveness of that action.

We expected that departments would

- design and implement effective financial and program controls;
- exercise due diligence in the selection and approval of recipients of grants and contributions;
- comply with authorities;
- develop a results-based management and accountability framework that provides for appropriate measurement and reporting of results and evaluation criteria to be used in assessing the effectiveness of the programs;
- establish the management and program capacity necessary to effectively deliver and administer their programs;
- exercise due diligence in monitoring recipients' use of contributions, including a risk-based framework for audit;
- ensure that proper program, accounting, and other relevant records and documents are maintained;
- ensure that the amount of each transfer payment is appropriate, taking into consideration stacking of assistance and eligible project costs;
- ensure that payments were made according to the Policy on Transfer Payments and the *Financial Administration Act*; and
- recover amounts due to the Crown, as appropriate.

### **Audit work completed**

Audit work for this chapter was substantially completed on 30 September 2005.

### **Audit team**

Assistant Auditor General: Ronnie Campbell

Principal: Bruce Sloan

Gibby Armstrong

Sébastien Bureau

Nadine Cormier

David Norton

Stuart Smith

Nadia Talakshi

Casey Thomas

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll-free).

## Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Department's response
<p><b>The role of the Treasury Board Secretariat</b></p> <p><b>6.24</b> The Treasury Board Secretariat should ensure that</p> <ul style="list-style-type: none"> <li>• the types of transfer payments available to departments meet the variety of needs for their programs,</li> <li>• the definitions of transfer payment types and their associated requirements are consistent, and</li> <li>• guidance is provided on how to select transfer payment types so that selections are consistent across departments.</li> </ul> <p>(6.21–6.23)</p>	<p><b>The Treasury Board Secretariat's response.</b> Agreed.</p> <p>The Treasury Board Secretariat is pleased that the Office of the Auditor General has recognized that the existing policy and guidance, as well as the review and approval by the Treasury Board of program terms and conditions, provides a basis for effective control of transfer payments.</p> <p>Further improvements are being considered through the policy review and other guidance to enable consistent approaches across government that allow for a better balance between risks, control, and accountability for results.</p> <p>The Treasury Board Secretariat is committed to incorporating departmental, central agency, and stakeholder experiences into policy revision. In this regard, it hopes to increase the number of transfer payment options available to departments, thereby responding to their various needs while continuing to allow for flexibility as further needs arise.</p> <p>The Treasury Board Secretariat will update the accompanying guidance material to facilitate consistent approaches across government, including the selection of suitable transfer payment instruments. The implementation strategy being considered for the proposed revisions to the Policy on Transfer Payments will facilitate an integrated approach to sharing knowledge and best practices through training programs and interdepartmental activities.</p>

Recommendation	Department's response
<p><b>6.31</b> The Treasury Board Secretariat should establish and co-ordinate an interdepartmental working group on transfer payments to discuss concerns about applying the Policy on Transfer Payments and share best practices for managing grants and contributions. (6.27–6.30)</p> <p><b>6.34</b> The Treasury Board Secretariat should continue to monitor the work of the Task Force on Community Investment and amend the Policy on Transfer Payments and guidance for transfer payments as necessary. (6.32–6.33)</p>	<p><b>The Treasury Board Secretariat's response.</b> Agreed. Interdepartmental initiatives that focus on exchange of knowledge and best practices in transfer payments are key success factors. Results of departmental consultations in the review of the Policy on Transfer Payments reveal that there is strong support for the re-establishment of such an interdepartmental working group. The Treasury Board Secretariat is including such an initiative as part of its planned implementation strategy for the proposed revisions to the Policy on Transfer Payments.</p> <p><b>The Treasury Board Secretariat's response.</b> The Treasury Board Secretariat is committed to continuing its engagement with the Task Force on Community Investments and to building on the lead role it played in the development of the Voluntary Sector Initiative guidance publication, <i>A Code of Good Practice on Funding</i>. The Secretariat will continue to be involved both at the Steering Committee and working levels so as to better understand the needs of the voluntary sector. This understanding will feed into ongoing processes related to improvements to the Policy on Transfer Payments, and to the accompanying directives, guidance materials, and practices.</p>
<p><b>The role of departments and agencies</b></p>	
<p><b>6.54</b> Indian and Northern Affairs Canada should strengthen its grant and contribution management controls by</p> <ul style="list-style-type: none"> <li>• preparing a risk-assessment of recipients to determine the appropriate frequency and depth of monitoring and reporting,</li> <li>• completing the development and implementation of its automated management system for grants and contributions, and</li> <li>• providing necessary training to its program officers.</li> </ul> <p>(6.38–6.53)</p>	<p><b>Indian and Northern Affairs Canada's response.</b> Indian and Northern Affairs Canada agrees with this recommendation. The Department recognizes the importance of the issues raised in this chapter and is committed to improving and strengthening its grants and contributions management processes.</p> <p>The development of a new First Nations and Inuit Transfer Payment System is the most important initiative currently under way, which will further improve and strengthen management practices. The Office of the Auditor General is supportive of this automated grants and contributions management system.</p> <p>Indian and Northern Affairs Canada recognizes and fully supports the importance of providing ongoing training to its staff. It also recognizes the need to adopt a risk-based approach to manage all grants and contributions, and determine eligibility and the appropriate level of monitoring and reporting.</p>

Recommendation	Department's response
<p><b>6.64</b> The government should co-ordinate and implement a single audit process for the recipients of transfer payments from federal programs. (6.56–6.63)</p> <p><b>6.68</b> The Treasury Board Secretariat and departments, while balancing risk, control, and accountability for results, should streamline the application, reporting, and audit requirements for grants and contributions in ways that would reduce the administrative burden on recipients. (6.65–6.67)</p>	<p>The Department will continue to work closely with the Treasury Board Secretariat to develop a Policy on Transfer Payments that meets both departmental and recipient needs.</p> <p><b>The Treasury Board Secretariat's response.</b> Agreed. There is a need to reduce the audit burden placed on recipients while ensuring an appropriate level of control and accountability. A coordinated single recipient audit regime will be pursued to the extent possible.</p> <p>The Treasury Board Secretariat's commitment to improving management aims to better promote horizontal management and the integration of activities that will assist departments to focus on exchanges of knowledge and promotion of best practices. Program design and administration must be client focused including, wherever possible, common and integrated recipient audit requirements. Interdepartmental initiatives will be undertaken to facilitate implementation and to highlight best practices in areas of streamlined recipient auditing.</p> <p><b>The Treasury Board Secretariat's response.</b> Agreed. The administrative burden on recipients must be reduced through streamlined application, reporting and audit requirements to the extent possible.</p> <p>The proposed revisions to the Policy on Transfer Payments and to the supporting guidance material will provide best practices on how to streamline application, reporting, evaluation, and audit requirements. Interdepartmental initiatives will enable the sharing of knowledge and best practices between departments on how to reduce the administrative burden. Guidance will also be provided on reducing the administrative burden on the recipient population.</p> <p>Periodic assessments of departmental transfer payment programs will address the extent to which streamlined application, reporting, and audit requirements are being implemented, which would in turn reduce the administrative burden on recipients.</p>