

PARKS CANADA AGENCY

**NATIONAL AUDIT
OF PARKS CANADA'S NATIONAL HISTORIC SITES
COST-SHARING PROGRAM**

FINAL REPORT

Prepared by:

Internal Audit and Evaluation Office

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Her Majesty the Queen of Canada, represented by
the Chief Executive Officer of Parks Canada, 2011

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Report submitted to the Internal Audit Committee on June 21st and approved by the Chief Executive Officer of the Parks Canada Agency on July 26th 2011.

SUMMARY

The Parks Canada Agency (PCA) is currently conducting a national audit of the Parks Canada's National Historic Sites Cost-Sharing Program. A national audit provides an overview of the organization with regard to a specific subject. That is, it identifies the strengths and weaknesses of existing general controls and processes in order to take any corrective measures required and to share best practices with a view to effectiveness and efficiency.

Given that management of the EAP is a priority for the Agency, that the accelerated nature of the plan involves some risk and that the program has received a substantial amount of money through the EAP, audit of the program (PCNHSCSP) was included in the "Risk-based Work" component of the 2010-2011 Annual Audit Plan, approved by the CEO in March 2010.

The objectives of this audit were to confirm that the management of Parks Canada's National Historic Sites Cost-Sharing Program is subject to due diligence and to assure senior management that mechanisms and controls are in place to counter the risk of non-compliance with PCA practices and guidelines and TBS policies.

The exercise included an examination of the financial management control framework to ensure its existence and effectiveness, and an analysis of the level compliance with PCA policies and guidelines. Tests were conducted on contribution agreements signed during rounds 1 and 2 of the PCNHSCSP.

The audit methodology included a review of relevant documents, interviews with the employees involved in the Program and audit of a sampling of contribution agreements. The on-site work was carried out between November 30, 2010 and February 25, 2011.

This audit was planned and conducted in accordance with Government of Canada Internal Audit Standards.

Overall, the processes in place are adequate to ensure due diligence in management of the National Historic Sites of Canada Cost-Sharing Program. However, the management control framework could be strengthened by the establishment of clear service standards, standardization of documentation in the physical files and the introduction of standardized monitoring methods. In addition, compliance with program terms and conditions in selecting projects to be funded should be given special attention; the

documentation related to the evaluation of proposals and the recommendations made to the CEO should be fleshed out.

Summary of audit rating for the National Historic Sites of Canada Cost-Sharing Program.

Ref.	Management processes	Rating
7.1	Management Control Framework	BLUE – Minor Improvements Needed
7.2	Management of proposals and agreements	YELLOW - Moderate Improvements Needed

The following is a list of recommendations for the Director General of the National Historic Sites Directorate (NHSD):

- 1- The Director General of the NHSD must ensure that service standards for delivery of the PCNHSCSP are clearly documented, formalized and communicated.
2. The Director General of the NHSD must ensure that communications with applicants are properly and uniformly documented.
3. The Director General of the NHSD must ensure that the documentation supporting the recommendations submitted to the CEO by the Proposal Evaluation Committee is appended to the contribution file
4. The Director General of the NHSD must ensure that applications are complete and that program terms and conditions are met before approving the contribution.
5. The Director General of the NHSD must ensure that documentation supporting the evaluation of the project and its risks is appended to the contribution file.
6. The Director General of the NHSD must ensure that an appropriate monitoring process is in place to ensure the reports provided by recipients are monitored.

Overall Response

This national audit of the Parks Canada's National Historic Sites Cost-Sharing Program is a unique opportunity for the National Historic Sites Directorate and, in particular, the Heritage programs branch, to review its management approach of the program business,

its standards and procedures in order to ensure compliance with the terms of the program approved by Treasury Board as well as TBS and Parks Canada's transfer payments guidelines and policies.

In general, we agree with the audit findings and recommendations presented in the audit report, and we want to thank Parks Canada's audit team for the quality of work, the accuracy of comments and recommendations made. We welcome the conclusion of this national audit that process in place are adequate to ensure due diligence in managing Parks Canada's Cost-Sharing program.

Context

In September 2008, Treasury Board approved the terms of Parks Canada National Historic Sites Cost-Sharing program. On behalf of the Agency, the National Historic Sites Directorate has been mandated to implement this program on short notice. A first round for intake of project proposals was held in April 2009.

Some changes have been made based on lessons learned from the management of this first round of invitations as well as the first year of financial contributions in 2009-2010. In fact, existing procedures and standards of service have been modified and new ones adopted to make the program delivery more efficient. Control measures have also been taken to correct some approaches and procedures of the first round for intake of project proposals and the first year of managing the new program.

With the conduct of a second round for intake of project proposals in 2010, the management of heritage programs introduced new practices and changed some others to continue its efforts of managing Parks Canada National Historic Sites Cost-Sharing program more effectively and efficiently. Among others, since 2010, a financial risk analysis of each proposal to the program is done by a financial officer and the results are taken into consideration when selecting projects for financial contribution. In addition, a new system of data management (CCM Mercury) was implemented in 2011 to improve the records management of this program.

Finally, it should be emphasized that, since 2009, the cost-sharing program has entered the largest number of contribution agreements for national historic sites ever done by the Agency. In addition to the \$ 14.3 million invested by the Agency in 81 cost-shared projects, the owners have invested an additional \$ 79.3 million in conservation and

development of their national historic site. Overall, these amounts represent the largest investment in the non-profit heritage sector in Canada over the last decade.

1. BACKGROUND

Our national historic sites are very important to Canadians. They bear witness to this nation's defining moments and illustrate its human creativity and cultural traditions. Each national historic site tells its own unique story, part of the greater story of Canada, contributing in its own way to our understanding of Canada. National historic sites are so designated owing to a direct association with an important aspect of Canadian history. A national historic site may be an archaeological site, structure, building, group of buildings, locality or cultural landscape.

Parks Canada supports the [Historic Sites and Monuments Board of Canada \(HSMBC\)](#), the body which advises the Minister of Environment on issues related to national historic significance. At present, there are 955 national historic sites in Canada. The federal government, through Parks Canada and other federal departments, has custody of and manages about 25% of these sites.

Parks Canada's National Historic Sites Cost-Sharing Program (PCNHSCSP) helps ensure the heritage value (commemorative integrity) of non-federally owned or administered national historic sites. The Program supports the Parks Canada Agency's mandate of protecting and presenting places of national historic significance and fostering the public's understanding, appreciation and enjoyment of these places in ways that ensure their commemorative integrity for present and future generations. A national historic site possesses "commemorative integrity" when it is in good condition, and when the site's heritage values are protected, communicated and respected.

Through financial contributions, the Program shares with the owners of national historic sites the cost of planning and carrying out the work needed to maintain commemorative integrity. In addition, costs related to presenting the importance of the site and its role in Canadian history to the public are also eligible for contributions. Parks Canada provides funding for projects, matching the amount invested by the owners of historic sites up to the authorized contribution limit.

The budget of Parks Canada's National Historic Sites Cost-Sharing Program is \$13.1 million over five years, from 2008-2009 to 2012-2013. However, an additional \$8 million was allocated to the Program under the 2009 Budget vote included in Canada's Economic Action Plan (EAP). This additional funding has to be spent in the 2009-2010 and 2010-2011 fiscal years.

Given that management of the EAP is a priority for the Agency, that the accelerated nature of the plan involves some risk and that the program has received a substantial amount of money through the EAP, audit of the PCNHSCSP was included in the "Risk-

based Work” component of the 2010-2011 Annual Audit Plan, approved by the CEO in March 2010.

2. OBJECTIVES AND SCOPE

The audit criteria were developed to:

- confirm that the management of Parks Canada's National Historic Sites Cost-Sharing Program is subject to due diligence.
- assure senior management that mechanisms and controls are in place to counter the risk of non-compliance with PCA practices and guidelines and TBS policies.

The scope of the audit includes examination of the management control framework (MCF) used to manage Parks Canada's Cost-Sharing Program for National Historic Sites and examination of the following main areas of interest:

- application review;
- contribution agreements;
- payment requirements;
- submission of reports by recipients;
- project completion and file closure.

All contribution applications received for rounds 1 and 2 of the Cost-Sharing Program were considered in the audit. The additional budget from the EAP was distributed over 39 projects in round 1 and 34 projects in round 2.

3. METHODOLOGY

The audit methodology included the following activities:

- Interviews with program staff at the National Historic Sites Directorate (NHSD) at the national office.
- Interviews with finance staff at the National Historic Sites Directorate at the national office.
- Review of relevant documents, including: TBS submissions, training documents, legislation, policies and guidelines governing the PCNHSCSP management process, financial reports and contribution agreements.

- Review of a sample of financial transactions and their supporting documentation at the Ontario Service Centre.

The on-site work was carried out between November 30, 2010 and February 25, 2011. Once the on-site work was completed, preliminary observations were presented to the Director and Manager of the PCNHSCSP.

Our findings and recommendations have been made in accordance with the Audit Reporting Rating System described below:

Audit Reporting Rating System		
RED	Unsatisfactory	The controls are either ineffective or non-existent. Immediate management actions need to be taken to correct the situation.
ORANGE	Significant improvements needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.
BLUE	Minor improvements needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
GREEN	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

4. STATEMENT OF ASSURANCE

This audit was planned and conducted in accordance with the Internal Audit Standards for the Government of Canada.

5. AUDIT OPINION

Overall, processes in place are adequate to ensure due diligence in the management of the National Historic Sites of Canada Cost-Sharing Program. However, the management control framework could be strengthened by the establishment of clear service standards, standardization of documentation in the physical files and the introduction of standardized monitoring methods. In addition, compliance with program terms and

conditions in selecting projects to be funded should be given special attention; the documentation related to the evaluation of proposals and the recommendations made to the CEO should be fleshed out.

6. DESCRIPTION OF THE BUSINESS PROCESS

To effectively manage the allocation of contributions, the Agency decided to establish scheduled rounds for the intake of proposals from applicants. Since 2009, three contribution rounds have been organized – in April 2009, November 2009 and October 2010.

To access funding, applicants submit their project proposal according to Program guidelines. When the applications are received, program officers assess the eligibility of proposals and projects on the basis of pre-established criteria. An assessment of the risk associated with the project and the applicant is also carried out at this stage. Tools have been created and are available to help program officers in their evaluations. The tools developed are:

- Proposal evaluation grid;
- Risk assessment grid;
- Recommendation form;
- Project forecast provided by the applicant.

If the project is deemed unacceptable for the Program, a letter is sent to the applicant. However, if the project is acceptable, a contribution recommendation is placed on the file for the Program Director. An assessment of the financial risk related to a contribution to the project is also prepared by the NHSD's Manager, Corporate Services. The assessment of financial risk is based on the size of the project, the level of risk, the applicant's management capability and the percentage of funding secured by the recipient. A "red-yellow-green" colour code identifying financial risk is used to prepare the recommendation for the Proposal Evaluation Committee. An overall risk rating is then assigned to each project. Once this step has been completed, the projects are returned to the Program Director for final review before being submitted to the Proposal Evaluation Committee.

The Proposal Evaluation Committee, created for round 2, is made up of the Program Director and Manager, the Manager, Corporate Services and experts in the conservation of historic sites. These experts are mainly from regions and can change from one round to another to ensure a fair national representation. The terms of reference for the Evaluation

Committee are not officially defined, but a presentation made to and approved by the CEO briefly describes the composition of the Committee and its roles and responsibilities. The Committee reviews all projects deemed eligible for the Program and classifies them on the basis of the risk they represent and the Agency's priorities. Projects recommended by the Proposal Evaluation Committee are then submitted to the Agency's Chief Executive Officer (CEO), who gives final approval. A letter signed by the CEO is then sent to contribution recipients to notify them that their project has been selected.

Before the contribution agreement is drawn up, a pre-certification report must be prepared by a certification service provider appointed by the Agency and attached to the contribution agreement. These persons are employed by the Agency and normally work in the regions. Service agreements are established with national office to support certification activities. This report certifies that the project complies with the *Standards and Guidelines for the Conservation of Historic Places in Canada* and the PCA's *Cultural Resource Management Policy*. It lists the conditions that recipients must meet to obtain funding and contains a section listing eligible expenditures submitted by the applicant.

The contribution agreement, drafted by a Program Officer and reviewed by the Program Manager and Director, is then sent to the recipient for signing. Only then is it signed by the Director General of the NHSD. An advance payment may then be sent to the recipient to provide funding to start the work.

One section of the contribution agreement describes program requirements related to the interim reports that allow for project monitoring. Interim reports, monitoring reports and cash flow statements may be required on the basis of the risk represented by the projects. Interim certification reports may also be required. These reports were formerly used to monitor contribution agreements signed for more than one fiscal year. In future, the Agency will avoid becoming involved in this type of agreement and will favour annual contribution agreements. This strategy change makes it possible to better identify risk related to projects and facilitates the planning of program expenditures. The new strategy has served the Agency well, particularly in monitoring expenditures associated with Canada's Economic Action Plan.

The final payment for a project is issued only after:

- the recipient has submitted a descriptive report and a final financial statement; and

- a final certification report has been received, certifying that the work has been completed and that the conditions of the pre-certification report have been met.
- A final and signed cash flow statement has been received.

The following table shows a summary of PCNHSCSP expenditures, by funding source, as of March 31st 2011.

		Expenditures	
Fiscal year	No. of agreements	EAP	Base
2009-2010	40	\$2,704,913.00	\$0.00
2010-2011	41	\$5,295,087.00	\$3,533,284.00
Total	81	\$8,000,000.00	\$3,533,284.00

7. OBSERVATIONS AND RECOMMENDATIONS

7.1 Management Control Framework (MCF)

BLUE	Minor improvements needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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The management control framework of PCA's PCNHSCSP includes a segregation of duties, the Agency's policies and guidelines rounding out Treasury Board policies, training and employee support, decision making and the monitoring function.

To determine whether a control framework exists and is sufficient to ensure due diligence in program management, interviews were conducted with staff at various levels of the organization, using the following criteria:

- C-1 The information required for delivering the Program is documented, accessible and communicated to current staff (training, directives, roles and responsibilities and objectives to be met)
- C-2 The procedure to follow, forms and information useful to recipients are provided in a timely manner.
- C-3 An evaluation and performance monitoring framework has been established by management and the results are documented.

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- C-4 Management reports and the required statistics are completed and available as required.
- C-5 The individuals in charge of the program monitor projects continuously and use their audit entitlement if necessary.

Legislative framework

Parks Canada's National Historic Sites Cost-Sharing Program is governed by the following acts, policies, directives and guidelines:

- Financial Administration Act (FAA)
- Official Languages Act
- Canadian Environmental Assessment Act;
- Parks Canada Agency Act (21.3(c) and 21.3(d))
- Historic Sites and Monuments Act (3(b))
- Parks Canada's National Historic Sites Cost-Sharing Program guidelines
- Terms and conditions for National Historic Sites of Canada Cost-Sharing Class Contribution Program (Appendix C of TB submission #834538)

The audit program is based mainly on the terms and conditions of the contribution program by National Historic Sites of Canada cost-sharing category.

Employee Training

Various levels of training are required by staff involved in management of the PCNHSCSP. The specific nature of the program means that program management staff require an academic background related to the management of cultural resources and experience in allocating grants and contributions. In addition, some training must be taken, including Parks Canada's mandatory training for managers and course FA201 on key financial practices, which leads to obtain the financial delegations required to approve contribution applications.

Staff involved in the assessment and management of agreements must have sufficient knowledge to adequately manage a contribution. A training session on grants and contributions at School of Public Service of Canada is available to program officers who do not possess such knowledge. In addition, a day of training in conservation of cultural resources held in conjunction with the certification group PCA was provided to program officers to hone their skills. New employees are supported by more senior Program Officers so as to ensure uniformity in day-to-day tasks. The documentation governing program terms and conditions and a variety of other useful information is available on the Agency's intranet site and the shared network for reading and consultation as required.

There is a training manual on the activities that must be carried out by certification service providers, but it is not up to date. The program terms and conditions have changes since the manual was developed and have not been added to it. The manual should be updated when program terms and conditions are changed to ensure that the information available is as accurate as possible.

Roles and Responsibilities

The interviews demonstrated that employees clearly understood their roles and responsibilities, which are defined in part in the job descriptions for regular staff involved in the process. Work instructions for the program are based on *The Standards and Guidelines for the Conservation of Historic Places in Canada* and the *Cultural Resource Management Policy*, which clearly list the objectives that stakeholders must meet. Annual evaluations allow specific related tasks to be assigned to certain individuals. Assigning these specific tasks means that expectations can be clearly defined and an evaluation platform is provided for supervisors. Roles and responsibilities are well defined among the various groups and reporting relationships are clearly established.

Internal communications

Program Officers and their Manager hold weekly meetings to discuss delivery of their files and share information on the challenges met or best practices to be implemented. In addition, the Program Manager holds monthly meetings with the regional staff, including Certification Service Providers, to discuss technical challenges and the deadlines for each agreement in force. Minutes are taken at these meetings and are made available. The Program Director acts as liaison agent with the Director General of NHSC and the CEO.

A different communications strategy is in place with certification service providers, as they mainly work in the regions and have no reporting relationship with the National Historic Sites Directorate. To share information, certification service providers have access to a Lotus database which allows them to consult information and documents relevant to their work, in a central, authorized access location. Only the Certification Manager may add to, destroy or amend the documents stored in this record.

All staff involved in the PCNHSCSP have access to the intranet, e-mail, the Internet and the shared drive where all documents related to program delivery are stored.

Although some service standards for delivery of the program exist, they are not clearly documented and formalized. The file review showed that a number of questions had been

received with regard to the time required to analyse proposals. Applicants should be informed of the time frame for analysing proposals at the start of the process, so as to reduce the number of questions.

The certification team normally gives itself a 30-day time frame for a certification project, this standard is not officially approved in a directive. Establishing service standards would make it possible to evaluate the performance of program delivery staff more objectively.

Contribution files are not uniformly organized. Harmonization of the physical files would make it easier to transfer them in the event of a sudden departure from the Program Officer team and would accelerate management's file review.

Recommendation

- 1- The Director General of the NHSD must ensure that service standards for delivery of the PCNHSCSP are clearly documented, formalized and communicated.

Management Response

Agree: Many service standards have been developed by the program, some of which are communicated to potential applicants, where appropriate.

The program acknowledges that service standards could be formalized and communicated to management, employees and the public in a more consistent and uniform manner. Program management will formalize the service standards, have them approved by the Director General of National Historic Sites, and share them with program management and team for implementation, and with the public through the Agency's. This exercise will be completed by September 1, 2011.

External communications

Program Officers are the point of contact with the owners of historic sites. A page dedicated to the PCNHSCSP has been created on the Agency's Web site, along with an e-mail address for questions regarding the program. All questions submitted through the Web site or by phone are answered by Program Officers. They are also responsible for preparing ministerial correspondence and gathering necessary information to answer Parliamentary questions that might be submitted.

General information on the Program is contained in guidelines, which are readily accessible on the Agency's Web site. This document guides applicants in developing their proposals and sets out the parameters and financial provisions. The document also suggests useful links to other relevant documents, such as the legislation, policies and standards to be applied. The Agency's Web site also includes the forms and templates required to develop a proposal.

Program Officers are responsible for contacting applicants for follow-up when their proposals are incomplete. They are required to record communications with the applicants in the form of notes to the file. The audit indicated that there is no established format for recording the information from communications with applicants. These notes to file can take a number of forms and are not consistent from one file to another. Identifying information needed to monitor a file would ensure consistency of communications from one file to another and facilitate the review of records or the recovery thereof by another agent, should a sudden departure occurs.

For official communications, Program Officers use standard form letters. Once an application has been approved, a letter of acceptance signed by the CEO is sent to the applicant, specifying the maximum amount that the Agency can allocate to the project and the timeframe to negotiate an agreement with the Agency.

All projects funded by the PCNHSCSP are announced publicly, in partnership with applicants, the communications group and the Office of the Minister of the Environment. The announcements are also recorded and can be consulted by the public at (www.pc.gc.ca/apps/cp-nr/index_e.asp). In addition, the PCA's communications group is working with applicants and field units so that the official announcements are also published in local media. Projects receiving funding under Canada's Economic Action Plan (EAP) are also listed on the Privy Council Office's Web site (www.actionplan.gc.ca).

Recommendation

- 2- The Director General of the NHSD must ensure that communications with applicants are properly and uniformly documented.

Management Response

Agree: Since January 2011, program management has developed a standard of service which requires that program officers who communicate with applicants and beneficiaries of the program systematically follow up with them, through email, to confirm the content

of their conversations. These standard emails are added to the file of the applicant or recipient. When an additional note is required either to clarify an aspect of the file that is not obvious or to inform program management of major developments in a file, the program officer must include such note on file. A standard format for this type of notes has also been established to ensure some consistency to the information added on files.

Reports

The Program Director can regularly monitor the Program through the weekly report prepared by the Program. This report provides an overview of the Program. It contains information on the number of agreements under way, announcements made, certification status and payments approved. It also mentions the time elapsed between payment authorization by the Director General of the NHSD and the issuance of cheques to recipients. In addition, a monthly financial report by project (internal order), based on information from the STAR financial system, is prepared by the Program, and sent to the Program Manager for monitoring purposes.

Other reports are also used to manage the Program, including:

- project certification reports;
- management reports;
- quarterly reports to the TBS;
- updates to the Privy Council Office (PCO) on projects funded under the EAP.

A master list recording all proposals received from applicants, their eligibility and the Agency's decision is kept up to date by the Program.

Performance monitoring

According to TBS submission, Parks Canada has to measure and monitor the progress and results for each project funded by the Program and the overall results defined in the performance measurement framework established by the TBS. Those responsible for the Program are required to review the PCNHSCSP annually and report to the Executive Management Committee. For a variety of reasons, there was no evaluation following rounds 1 and 2. However, the 73 projects which received funding from the EAP were subject to regular, detailed reports. An annual evaluation is planned for 2011, but the terms of reference for this evaluation have not yet been defined.

An annual survey of applicants is planned as part of the measurement of the Program's performance. The survey is included in the final report which the recipient must complete to receive the final payment. The Agency sends a template to be filled out, including four questions. The questions deal with the following subjects:

- reducing on-site risks;
- communicating the commemorative message;
- the value-added of the contribution on the choice of work carried out; and
- recipient's overall satisfaction.

Given the limited number of projects completed at the time of the audit, survey results had not yet been compiled. The results will be analysed and included with the 2013 submission to the TBS for renewal of the Program. Recipients sometimes send comments in the form of letters, and these comments will also be taken into consideration.

The performance measurement framework calls for an evaluation of the PCNHSCSP every five years. When extension of the PCNHSCSP's terms and conditions was approved, in June 2007, the TBS asked the Agency to conduct an evaluation to respond to a number of questions. The evaluation was carried out in 2008 and this exercise was appreciated by management. Although the five-year cycle has not ended, discussions have begun with the Chief Audit and Evaluation Executive in order to launch an evaluation of the Program in 2011-2012, since renewal of the submission to the TBS is planned for 2013. The purpose of the work will be to evaluate the impact of the Program on the heritage community and identify potential improvements.

Conclusion

We found that existing processes are adequate to ensure due diligence in management of the National Historic Sites of Canada Cost-Sharing Program. However, minor improvements could be made to strengthen the management control framework, particularly in terms of establishing clear service standards and standardizing the documentation on physical files.

7.2 Management of proposals and agreements

YELLOW	Moderate improvements needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement of program/operational objectives.
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The following criteria were used to determine whether mechanisms and controls are in place to control the risk of non-compliance with the PCA's practices and guidelines and TBS policies.

Application review

- C-6 Applications for funding contain all the information required to support their eligibility and comply with all eligibility criteria.
- C-7 Monitoring plans are prepared by the officer or manager responsible for the Program.

Contribution agreement

- C-8 The contribution agreement is complete, adequate and signed by the appropriate level of authority.

Payment requirements

- C-9 Eligible projects are identified in the financial system and funds are set aside in a timely manner in accordance with section 32 of the Financial Administration Act.
- C-10 Payments to recipients are duly authorized and supported in accordance with section 34 of the Financial Administration Act.

Submission of reports by the recipient

- C-11 Reports are produced by recipients in a timely manner when required.
- C-12 The reports produced by recipients are analysed and approved as required by the Program officer or manager.

File completion and project closure

- C-13 The final payment is released only after the required documents have been produced.

Practices and ObservationsApplication review

As already mentioned, proposals received from applicants must be evaluated by Program Officers to determine whether or not they are eligible, complete and in line with Program terms and conditions. The Manager, Corporate Services evaluates the financial risk. Projects which have been evaluated and recommended must be approved by the Program Manager and the Program Director before being submitted to the Proposal Evaluation Committee.

Since it is impossible to fund all eligible projects, the Proposal Evaluation Committee is responsible for choosing the projects to be funded and the contribution amount for each project. Sometimes the Committee makes decisions which are contrary to the recommendation of the Program Officer. Although the information useful for decision-making exists, it is not always attached to the contribution file. In order to support the final decision and the file history, especially for decisions which reverse the recommendation of the Program Officer, it is essential to act with transparency and document the contribution file properly. Once projects have been selected, a list of recommended projects to be funded is sent to the CEO for final approval.

Once projects have been approved, the Program Officer is responsible for establishing the monitoring plan for the recipient. The plan is established on the basis of the project's risk and can include a variety of control points, such as the production by the recipient of a regular report on the progress of work, cash flow reports or interim certification reports. Once the strategy is established, a monitoring schedule is included in the contribution agreement. A review of the contribution files indicated that appropriate plans are in place to manage contribution agreements.

Of the 33 contribution files selected, 32 were audited. One file was cancelled since it did not involve enough total government funding. Of this number, 12 files were fully compliant and eight files contained only one deficiency. However, 12 files were non-compliant in more than one way. Of these files, five were deemed not to meet some basic conditions of the Program, namely:

- management capacity of the applicant (1)
- objectives and expected results (3)
- project design (1)

The current Program management team realized that these files, which dated from before they were part of the team, contained non-compliant elements.

The following list identifies deficiencies with regard to the program terms and conditions:

- 1 proposal received after the submission deadline was considered;
- 8 proposals were approved which did not include a description of the project and its risks or the required documentation;
- 2 approved proposals did not include budgets, financial statements or detailed cost structures;
- 8 files were missing evaluation grids (eligibility criteria and/or project risks and/or financial risks and/or environmental assessment);
- 9 files did not include a duly completed and signed recommendation form;
- 4 approved proposals did not demonstrate that the selected criteria were met;
- 2 approved proposals included ineligible expenditures;
- 2 files included expenditures for work that began before the contribution was approved.

Recommendation

3. The Director General of the NHSD should ensure that the documentation supporting the recommendations submitted to the CEO by the Proposal Evaluation Committee is appended to the contribution file.

Management response

Agree: Recommendations made by the committee evaluating the proposals and submitted to the Director General of the Agency, particularly for the second round (2010) and the third round (2011) of intake for projects are adequately documented in a general file for evaluations and funding recommendations. Management program, however, agrees that committee's recommendations and funding approvals are not filed to individual contribution records. Program management will ensure that a copy of these documents be filed to better reflect the decision of the Agency

Recommendation

4. The Director General of the NHSD must ensure that applications are complete and that Program terms and conditions are met before approving the contribution.

Management response

Agree: Program management will ensure that all relevant information and required documents for each funding request made to the program is obtained and added to the appropriate file. Similarly, program management will ensure that all information and documents required to meet program eligibility are obtained and kept on file for projects selected for a contribution. To this end, program management has developed a checklist that has been included in each contribution file for 2011-2012, allowing for greater standardization of physical records and better management of information on file.

In addition, program management believes that disclosure of the program service standards to applicants and beneficiaries, as proposed above in response to recommendation 1, will better ensure that requirements with regard to documents and information are respected.

Recommendation

5. The Director General of the NHSD must ensure that documentation supporting the evaluation of the project and its risks is appended to the contribution file.

Management Response

Agree: Since the program began in 2009, the risks of each proposal, level of experience and professional and financial capacity of applicants have been analyzed by program agent. Results of these analyses were taken into consideration when evaluating and selecting projects to be funded. Since the second round of funding in 2010, an additional analysis of the financial risk of each proposed project has been done by a financial officer of the Agency and these results were also taken into consideration when evaluating and selecting projects to be funded. Program management recognized that in some cases all relevant information and documents related to the evaluation of project proposals and their risks are not on file. Program management will ensure that the information and a copy of the documents be put on individual file in order to better reflect the Agency's decision. In addition, program management has developed a checklist that has been included in each new contribution file, enabling greater standardization of physical records and better management of information on file

Contribution agreement

Once the application analysis stage is complete and monitoring plans have been established, the formal agreement must be ratified. So as to ensure the standardization of agreements, a template has been developed for Program Officers and approved by Legal Services. The conditions governing the contribution agreement and the list of eligible work are carefully included in the agreement. In addition, the contribution agreement specifies that recipients must mention the PCA as a partner in their project in their external communications. Once the agreement has been drawn up, it is reviewed and approved by management. The recipient must sign the copies of the agreement first and then return them to the Agency for signing by the Director General of the NHSD. Contribution agreements are signed an average of 68 days after receipt of the pre-certification report.

Analysis of the 32 agreements revealed modifications to the work for three projects, requiring amendment of the agreement and a subsequent certification report. For one of these projects, the recipient covered the additional costs without asking that the agreement be amended. For the other two projects, the work was completed prior to authorization by the Agency or was not eligible. Making payments for work already under way or which is not eligible could create a risk of the misuse of Program funding and could have an impact on Program performance. In addition, some ineligible work could have an impact on the status of the site and/or involve a loss of cultural designation, which would be harmful for the entire cultural community.

Payment requirements and submission of reports by recipient

After the agreements are signed, the Manager, Corporate Services, commits the funds in the financial system (STAR) and assigns an internal order number so that the status of expenditures for each project funded can be monitored. The Program Manager should receive regular reports on the financial situation of projects under way. The reports compare the signed agreements with the funding committed in STAR so as to ensure that funding is committed for all signed agreements.

In order to manage the payment approval process properly, the Cost-sharing Program uses the General Application for Funding (GAF) form. The GAF form includes three signature levels (s32, s34, and compliance with applicable laws and policies). The signature for compliance with laws and Program policies is an additional control added by Corporate Services. Once the authorizations have been obtained, a document bearing the signature of the Director General of the NHSD is attached to the GAF for all payments. Payments should be made in accordance with the schedule provided in the

contribution agreement, as long as agreement conditions are met. This schedule is based on the pre-determined monitoring plan and as established on the basis of the risk associated with the project.

An examination of payments related to the 32 audited contribution agreements demonstrates substantial compliance with the authorization process. To receive funding, recipients must demonstrate that they meet agreement conditions by providing, in the form of reports, the information requested by the Program Officer. The production of these reports is necessary for the issuance of both the advance and final payments. To help recipients meet their obligations, the Program Officer sends them report templates in advance. The final payment is conditional on obtaining the final certification report prepared by the Agency, reporting that the objectives set in the pre-certification report have been met.

File monitoring is currently done manually by Program Officers. To ensure that all the required monitoring reports are submitted to the Program in accordance with the schedule provided in the contribution agreement and to facilitate the transfer of information when there is a change in personnel, a standardized monitoring process should be put in place.

The final reports from recipients are reviewed by Program Officers who make sure that all sections are duly completed. The opinion of certification service providers may be required during evaluation of the final report. Program staff makes sure that the final financial reports meet the necessary requirements. All reports are then reviewed by the Program Manager and Director.

The review of the files indicated that nearly half of projects (48%) received an advance payment equal to 75% of the value of the contribution. A holdback of at least 25% of the value of the contribution is in line with established rules. The following deficiencies related to the reports required according to monitoring schedules on files were noted:

- 22 files for which the monitoring schedule was not followed, including 19 which did not contain the required reports from recipients; and
- 3 multi-year files which did not include the end-of-year report.

Even though many progress reports were not on file, for various reasons, no deficiencies have been identified with respect to certification reports and final reports, both key documents to be obtained prior to payment.

Recommendation

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6. The Director General of the NHSD must ensure that an appropriate monitoring process is in place to ensure monitoring of reports provided by recipients.

Management response

Agree: First, the checklist that has been developed and included in each new contribution file will allow for program officers and program management to ensure that recipients comply with reporting requirements, as mentioned in the contribution agreement. To clarify the reporting requirements required by clients, the program has also modified the contribution agreements template to be used in the future.

In addition, program management believes that disclosure of the program service standards to applicants and beneficiaries, as proposed above in response to recommendation 1, will better ensure that requirements with regard to documents and information are respected.

Finally, the implementation of the database (CCM Mercury) by the program since January 2011 will support the efforts of the program team to ensure an adequate reporting follow up with beneficiaries.

Conclusion

Overall, proposals and agreements are properly managed. However, the following areas of activity should be given special attention: compliance with Program terms and conditions in choosing projects to fund, documentation related to proposal evaluation and recommendations to the CEO should be fleshed out. In addition, a standardized monitoring process would ensure better monitoring of activities.