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Report on the Review of the Reporting of Economic Action Plan Funding, and on the Application of Specified Auditing Procedures

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

October 2010



Cette publication est également disponible en français.

This publication is available upon request in alternative formats.

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

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Catalogue No. CH4-156/2010E-PDF
ISBN: 978-1-100-17534-8

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Executive Summary

Introduction

On January 27, 2009, the Government of Canada announced “Canada’s Economic Action Plan” which injected \$52 billion into the Canadian economy over the following two years to stimulate growth and sustain the recovery. The Economic Action Plan provided additional funding to seven programs delivered by Canadian Heritage for which the additional funding amounted to \$166.8 million for 2009/10 and \$197.8 million for 2010/11.

Authority

The authority for this engagement is derived from the Risk Based Multi-Year Audit Plan 2009-2010 to 2012-2013, which was reviewed by the Departmental Audit Committee in May 2009 and approved by the Deputy Minister.

Scope

The scope of the engagement covered all funding received by the Department under the Economic Action Plan from January 1, 2009 until March 19, 2010. The review covered six programs that had received funding as part of the Economic Action Plan. Canada Prizes for the Arts and Creativity was excluded from the review because the program was still in the process of being established and had not received any funds as of March 19, 2010.

Additional efforts, through the use of specified auditing procedures, were concentrated on Canada Arts Training Fund and Canada Cultural Spaces Fund because of the increased workload on the program due to the Economic Action Plan funding.

Objective

The engagement was divided into two approaches:

1. Review

The objective of the review was to provide a moderate level of assurance to the Department’s senior management that each program which received funding under the Economic Action Plan has been adequately tracking and reporting on such funding.

2. Application of Specified Auditing Procedures

The objective of the application of specified auditing procedures was to provide the Department’s senior management with assurance that the controls over the stewardship of funds received by Canada Cultural Spaces Fund and Canada Arts Training Fund as part of the Economic Action Plan are adequate.

Key Findings

Through interviews and an examination of documentation, the team observed that adequate controls over tracking and reporting of the Economic Action Plan funding are implemented. Through the application of specified auditing procedures, the team tested and observed that controls are properly designed and are applied effectively by the two Programs.

This resulted in several positive findings listed below:

- Each of the six programs had appropriate tools in place to adequately report on the information requested by Treasury Board Secretariat regarding the Economic Action Plan.
- Each program has submitted, on a timely basis, the required information to Canadian Heritage's designated reporting co-ordinator.
- Changes to the eligibility criteria due to the additional Economic Action Plan funding were communicated to applicants and this information was detailed on the program websites.
- Clear and explicit criteria were indicated on the websites which improved the quality of the applications received.
- Economic Action Plan funding was appropriately tracked and monitored within Canadian Heritage's financial systems as unique coding was used for four of the six programs. The remaining two programs used established financial coding, as unique coding was not necessary.

Recommendations

From the review and the application of specified auditing procedures, the team identified the following opportunities for improvement:

1. The Director General of Financial Management Branch should examine whether the application approval process could be streamlined by reviewing the number of required sign-offs on the Recommendation for Approval Form. The Director General of Financial Management Branch should also clarify the requirements regarding the appropriate procedures for the approval of amendments over \$1M.
2. The Director General of Arts Policy Branch should implement the formal practice of documenting the tracking and follow-up responses in appropriate Canada Cultural Spaces Fund files.

Statement of Assurance

Given that this engagement was a review and the application of specified auditing procedures, this report does not provide the same degree of assurance as an audit. As a result, no positive opinion is provided.

The review of the internal controls for tracking and reporting on the Economic Action Plan funding provides a moderate level of assurance on the observations and conclusions. Procedures used for this review were limited to enquiry, analysis and discussions. Based on these procedures, nothing came to our attention that would lead us to believe that Canadian Heritage Programs, which were impacted by the Economic Action Plan, do not conform, in all significant respects, to the criteria.

Based on the application of the specified auditing procedures on the Economic Action Plan funding for two programs (Canada Cultural Spaces Fund and Canada Arts Training Fund), nothing came to our attention that would lead us to believe that the controls over the stewardship of funds are not adequate and do not conform, in all significant respects, to the criteria.

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate procedures have been conducted and evidence gathered to support the recommendations contained in this report. The evidence was gathered in compliance with Treasury Board policy, directives, and standards, and the procedures used meet the professional standards of the Institute of Internal Auditors.

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With the assistance of external resources

1. Introduction and Context

1.1 Authority for the Project

The authority for this engagement is derived from the Risk Based Multi-Year Audit Plan 2009/10 to 2012/13, which was reviewed by the Departmental Audit Committee in May 2009 and approved by the Deputy Minister.

An initial review was completed and a summary was presented to the Departmental Audit Committee (DAC) in June 2009. The summary report identified a follow up review to be completed in the last quarter of fiscal year 2009/10, which was approved by the DAC.

This is the report on the follow up review and on the application of specified auditing procedures.

1.2 Background

On January 27, 2009, the Government of Canada announced “Canada’s Economic Action Plan” which injected \$52 billion into the Canadian economy over the next two years to stimulate growth and sustain the recovery. The Economic Action Plan provided additional funding to seven programs delivered by Canadian Heritage:

Programs	09/10 Funding	10/11 Funding	Total
Canada Cultural Spaces Fund	\$30 million	\$30 million	\$60 million
Canada Arts Training Fund	\$7 million	\$13 million	\$20 million
Canadian Television Fund	\$100 million	\$100 million	\$200 million
Canada Periodical Fund	\$15 million	\$15 million	\$30 million
Canada New Media Fund	\$14.3 million	\$14.3 million	\$28.6 million
Canada Prizes for the Arts and Creativity		\$ 25 million	\$25 million
Special Olympics	\$0.5 million	\$0.5 million	\$1.0 million
TOTAL	\$166.8M	\$197.8M	\$364.6M

Canada Cultural Spaces Fund

The Canada Cultural Spaces Fund program contributes to improved physical conditions for artistic creativity and presentation/exhibition. Canada Cultural Spaces Fund supports the improvement, renovation and expansion of arts and heritage facilities and the acquisition of specialized equipment.

Canada Arts Training Fund

The Canada Arts Training Fund supports independent, non-profit, incorporated, Canadian organizations that train Canadians for professional national/international artistic careers. Funding

supports ongoing operational activities of the organizations' professional programs and is not for capital infrastructure.

Canada Media Fund (Canadian Television Fund & Canada New Media Fund)

The Canadian Television Fund provides funding support to Canadian television productions in various genres, including drama, children and youth, documentary, variety and performing arts in both official languages, as well as Aboriginal languages. The Canada New Media Fund provides funding support to encourage the creation and development of Canadian interactive digital content products, such as games, webisodes and interactive Internet sites. In 2009, the Minister of Canadian Heritage announced the creation of the Canada Media Fund, which came into effect on April 1, 2010. The Fund is a new program that reforms, combines and rebrands the Canadian Television Fund and the Canada New Media Fund.

Canada Periodical Fund

The Canada Periodical Fund is a program in support of Canadian magazines and community newspapers. In February 2009, the Government of Canada announced the creation of the Canada Periodical Fund. This replaced the Canada Magazine Fund and the Publications Assistance Program.

Canada Prizes for the Arts and Creativity

This program is still in the process of being established and no funds have been committed to this program as at the end of fieldwork (March 19, 2010). On May 3, 2010, the Minister of Canadian Heritage announced that the Canada Council of the Arts would administer the Canada Prizes for the Arts and Creativity. An online consultation process was launched to take into account input from Canadians interested in sharing their views about the initiative.

Special Olympics

Support for Special Olympics Canada will be increased to enable the organization to support increased sport participation by Canadians with an intellectual disability. Increased support will be provided for priority initiatives such as Special Olympics Canada's 2010 National Summer Games.

Other than the collection and reporting of economic data, the Economic Action Plan had no significant impacts on Canadian Heritage as all Programs, except for the Canada Prizes for the Arts and Creativity (which is a new program), already had tools in place to deliver the Economic Action Plan funds allocated to them.

2. Objectives

The engagement was divided into two approaches:

1. Review

The objective of the review was to provide a moderate level of assurance to the Department's senior management that each program which received funding under the Economic Action Plan has been adequately tracking and reporting on such funding.

2. Application of Specified Auditing Procedures

The objective of the application of specified auditing procedures was to provide the Department's senior management with assurance that the controls over the stewardship of funds received by Canada Cultural Spaces Fund and Canada Arts Training Fund under the Economic Action Plan are adequate.

3. Scope

The scope of the engagement covered all funding received by the Department under the Economic Action Plan from January 1, 2009 until March 19, 2010, the end of the fieldwork. The review covered six programs that had received funding as part of the Economic Action Plan. Canada Prizes was excluded because the program was still in the process of being established and had not received any funds as of March 19, 2010.

Additional efforts, through the use of specified auditing procedures, were concentrated on Canada Arts Training Fund and Canada Cultural Spaces Fund due to the increased workload on the program due to the Economic Action Plan funding.

4. Approach and Methodology

Review Approach

The approach used to address the review objective included the development of criteria against which observations, assessments and conclusions were drawn. The team performed a combination of interviews with Program personnel and the Economic Action Plan Budget Taskforce, and reviewed documentation relating to the tracking and reporting of funding for the programs included in the scope.

Appendix B contains further details on the criteria and evidence.

Specified Auditing Procedures Approach

The Economic Action Plan funding had different effects on Canadian Heritage programs and their delivery. For four of the programs, the increase in funding did not result in a significant change in workload, controls or program administration by Canadian Heritage. For the remaining two programs, Canada Arts Training Fund and Canada Cultural Spaces Fund, the Economic Action Plan funding increased the workload for the programs. Therefore, the specified auditing procedures concentrated on these two programs.

The approach used to address the specified auditing procedures objectives included interviews with Program personnel and an examination of a sample of recipient files. The samples were chosen based on the material value of the individual files. Random sample selection was used to select files below the material value threshold.

Program Name	Total Number of Recipient files	# of files tested	Total Value of Economic Action Plan Funding Committed (as at Feb 2010)	Total Value of Files Tested	% of Value Tested
Canada Cultural Spaces Fund	96	27	\$51.5M	\$42.7M	83%
Canada Arts Training Fund	30	14	\$5.97M	\$5.52M	92%

The specified auditing procedures for Canada Cultural Spaces Fund and Canada Arts Training Fund files focused on the appropriate segregation of duties through the review of Sections 32, 33 and 34 of the Financial Administration Act.

Criteria were developed for each of the approaches and were reviewed and agreed with the Program management prior to the start of the fieldwork. The fieldwork was completed between March 3 and March 19, 2010. Appendix C and D contain further details on the criteria and evidence.

5. Observations, Recommendations and Management Response

Based on a combination of the evidence gathered through the examination of documentation and interviews with Program personnel and the Economic Action Plan Budget Taskforce, each criterion was assessed by the review team and a conclusion was drawn. Where a significant difference between the criterion and the observed practice was found, the risk of the gap was evaluated and used to develop a conclusion for each criterion and to document recommendations for future improvements.

Through the interviews conducted and the examination of documentation, the team observed that adequate controls over tracking and reporting of Economic Action Plan funding and results are implemented. Through the specified auditing procedures, the team observed that controls are properly designed and are being applied effectively by the two Programs.

This resulted in several positive findings listed below:

- Each of the six programs had appropriate tools in place to adequately report on the information requested by Treasury Board Secretariat regarding the Economic Action Plan.
- Each program has submitted, on a timely basis, the required information to Canadian Heritage's designated reporting co-ordinator.
- Changes to the eligibility criteria due to the additional Economic Action Plan funding were communicated to applicants and this information was detailed on the program websites.
- Clear and explicit criteria were indicated on the websites which improved the quality of the applications received.

- Economic Action Plan funding was appropriately tracked and monitored within Canadian Heritage's financial systems as unique coding was used for four of the six programs. The remaining two programs used established program coding as unique coding was not compatible.

From the review and the application of specified auditing procedures, the team identified the following opportunities for improvement:

5.1 Stewardship

5.1.1 Approval of Project Funding

Observation

For both Canada Arts Training Fund and Canada Cultural Spaces Fund, the Program Officer prepares an assessment based on the applicant's request for funding. This assessment is reviewed by a Committee to determine whether the application will be endorsed. When the application is endorsed, the Program Officer prepares the Recommendation for Approval Form, which is then reviewed and approved by several levels of authority.

Both Canada Cultural Spaces Fund and Canada Arts Training Fund have detailed processes in place requiring specific position approvals be obtained on the Recommendation for Approval Form. In eight cases, the Recommendation for Approval Form was signed by the same person under two different position titles on the same day. Furthermore, the review team noted that an amendment to the Recommendation for Approval Form did not follow the requirements of the Recommendation for Approval Form approval process.

Analysis

For the Canada Arts Training Fund program, in six of the 14 files that were tested, the acting Director General signed for two of the five required signatures (i.e. Director of Program and Director General).

For the Canada Cultural Spaces Fund program, in two of the 27 files that were tested, the Manager of the Program signed for two of the five required signatures (i.e. Manager of the Program and Program Officer). In addition, in one Canada Cultural Spaces Fund file, a modification was made to the initial recommended amount of \$2.8M on the Recommendation for Approval Form, which had been approved and signed by all five required signatures. An amended Recommendation for Approval Form was completed with a recommended amount of \$1.2M with no evidence of Director General or Assistant Deputy Minister review or approval. The remaining 24 files followed the appropriate approval process.

Although these occurrences do not contravene the current practices in place, their presence may suggest that some signatures are mostly for information purposes rather than the exercise of a management responsibility contributing to the accountability structure for the recommendation; therefore, these signatures may render the controls unnecessarily onerous and less efficient by lengthening the processing time of an application.

Risk Assessment

Numerous required levels of approval add to the processing time of the Recommendation for Approval Forms, thus, increasing the risk of not delivering the Economic Action Plan funding on a timely basis. Given that applications also go through an electronic approval process via Grants and Contributions Information Management System, the practice of an individual signing for multiple positions on the Recommendation for Approval Form could indicate that some signature blocks are purely of an administrative nature. Therefore, the process may be unnecessarily onerous, rendering the internal controls no longer efficient.

This practice was identified as part of the review of Canada Cultural Spaces Fund and Canada Arts Training Fund files in relation to the Economic Action Plan, but the findings and recommendations apply to the general operations of those programs.

Recommendation

1. The Director General of Financial Management Branch should examine whether the approval process could be streamlined by reviewing the number of required sign-offs on the Recommendation for Approval Form. The Director General of Financial Management Branch should also clarify the requirements regarding the appropriate procedures for the approval of amendments over \$1M.

Management Response

Agreed

5.2 Accountability

5.2.1 National Review Committee Endorsement

Observation

For Canada Cultural Spaces Fund, the review team observed that while notes from the National Review Committee meetings are retained, an opportunity exists to better support the National Review Committee endorsement of the recommendations. More specifically, the following items were noted:

1. For endorsed applicants, the minutes did not include any details on the endorsement; and
2. Some applicants are endorsed pending the submission of additional information. Once the information is received, final endorsement is not documented in the National Review Committee meeting minutes as it is granted via internal e-mails. The National Review Committee meeting minutes are not updated with the date of the final endorsement nor are the e-mails appended to the minutes.

Analysis

The TBS directive on record keeping states in Section 3.3: “An information resource identified as having business value and placed into a repository enables effective decision making and

provides reliable evidence of business decision, activities and transactions, for program managers, deputy heads, ministers and Canadian citizens”.

The review team obtained the National Review Committee meeting minutes for the year 2009-10 from the Canada Cultural Spaces Fund program and noted that further to the regional assessments and recommendations, 15 of the 27 files tested were endorsed without any changes. These endorsements were recorded in the National Review Committee meeting minutes but did not include an additional summary of the discussion regarding the decision.

For the remaining 12 files, the minutes detailed that the National Review Committee requested additional information before giving its final endorsement. The final endorsement was granted via internal e-mails, however, the National Review Committee meeting minutes were not updated with the date nor were the e-mails appended to the minutes; final endorsement e-mails were, however, filed in the electronic folder for each National Review Committee meeting.

Documentation should be properly filed to understand the complete approval and decision-making process. This may not be the case when emails are kept in individual inboxes and may lead to the lack of ability to trace decision-making processes.

Risk Assessment

The practice of not updating the National Review Committee meeting minutes may have an impact on the complete understanding of the full endorsement of the application recommendations. Without complete and updated minutes reflecting the tracking of endorsement decisions, there is a risk that the records pertaining to the decision making process are not captured, compromising transparency and accountability.

This practice was identified as part of the review of Canada Cultural Spaces Fund files in relation to the Economic Action Plan, but the findings and recommendations apply to the general operations of this program.

Recommendation

2. The Director General of Arts Policy Branch should implement the formal practice of documenting the tracking and follow up responses from regions in appropriate Canada Cultural Spaces Fund files.

Management Response

Agreed

Appendix A –Criteria used for this engagement

The conclusions reached for each of the criteria were developed according to the following definitions.

Numerical Categorization	Conclusion on Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none">• well managed, no material weaknesses noted; and• effective.
2	Controlled	<ul style="list-style-type: none">• well managed, but minor improvements are needed; and• effective.
3	Moderate Issues	Has moderate issues requiring management focus (at least one of the following two criteria need to be met): <ul style="list-style-type: none">• control weaknesses, but exposure is limited because likelihood of risk occurring is not high;• control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	Requires significant improvements (at least one of the following three criteria need to be met): <ul style="list-style-type: none">• financial adjustments material to line item or area or to the department; or• control deficiencies represent serious exposure; or• major deficiencies in overall control structure.

The following are the criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (4) and/or moderate issues (3) were observed, these are included in the report.

Appendix B – Review of Economic Action Plan: Criteria

Review Criteria	Conclusion	Examples of Key Evidence / Observation
<ol style="list-style-type: none"> 1. Programs have appropriately planned for and monitored the funding received as part of the Economic Action Plan. 2. Compliance with financial management laws, policies and authorities is monitored regularly 3. Transactions are coded and recorded accurately and in a timely manner to support accurate and timely processing 4. Appropriate and timely financial and non-financial reporting is communicated internally and externally 5. Management has identified appropriate performance measures linked to planned results 6. Accountability frameworks are developed and documented for achieving results 7. Eligibility criteria are explicit and clear enough to reduce the potential for confusion about which projects/expenditures qualify 8. Clear and well-defined eligibility and selection criteria are documented, commonly understood and applied consistently to ensure that eligible projects with the 	1	No exceptions were noted for the first 8 criteria based on interviews with program management, program staff and the Economic Action Plan co-ordinator, as well as the relevant documentation review.

highest merit are funded		
9. Data needed to measure and report on results is identified at an early stage	2	The review team noted that not all programs will be requesting the recipients to follow-up on the economic/job creation data at the end of their respective projects as this is not requested by Treasury Board and is difficult to collect.

Appendix C – Canada Cultural Spaces Fund Audit Criteria

Audit Criteria	Conclusion	Examples of Key Evidence / Observation
1. S.32 - Approval of Project for Funding		
1.1. Eligibility Assessment and approval of the application by the Program staff with the appropriate authority has been documented and dated	3	<ul style="list-style-type: none"> One recipient of funds (\$2M) provided reviewed financial statements even though audited financial statements are required for any contributions over \$50,000 as detailed on the Application Form 2009-2010. All of the tested files were endorsed by the National Review Committee as detailed in the minutes of the meetings as well as in subsequent e-mail approvals. However, the minutes included very few details on the reasons why the applicant was endorsed and no formal endorsement was documented in the minutes for applicants for which the endorsement was pending additional information. Two Recommendation for Approval Forms had one person sign for two of the required signatures (1 signature as Program Manager and 1 signature for Program Officer). One amendment to a Recommendation for Approval Form was not signed by either the Director General or the Assistant Deputy Minister even though the amount was greater than \$1M.
1.2. Appropriate segregation of duties (Contribution Agreement)	1	<ul style="list-style-type: none"> The review team obtained the specimen signature cards for employees who signed the Approval for Payment Form, the Recommendation for Approval Form, and the Contribution Agreement. All employees had the delegated authority to sign these documents.
2. S. 34 - Approval of submitted qualified expenses for payment		
2.1. Only eligible claims/advances are accepted and are appropriately approved	1	<p>The review team reviewed the following items and no issues were noted during testing:</p> <ul style="list-style-type: none"> the eligibility of the expenses claimed by the recipient; the expenses claimed by the recipient were incurred after the application date; the approved submitted expenses did not exceed 50% of eligible

		<ul style="list-style-type: none"> project costs; and the amount paid did not exceed the committed amount.
2.2. Review and approval of financial and non-financial reporting	N/A	<ul style="list-style-type: none"> The effectiveness of this audit criterion could not be assessed by the review team as none of the final reports were due before June 30, 2010.
2.3. Appropriate segregation of duties (Section 34)	1	<ul style="list-style-type: none"> The review team obtained the specimen signature cards for employees who signed S34 approval. All employees had the necessary authority.
3. S. 33 - Payment of funding		
3.1. Transactions are coded and recorded accurately and in a timely manner to support information processing	1	<ul style="list-style-type: none"> The review team reviewed the financial coding of the payments made and found that it was consistent with previously determined Economic Action Plan coding.

Appendix D – Canada Arts Training Fund Audit Criteria

Audit Criteria	Conclusion	Examples of Key Evidence / Observation
1. S.32 - Approval of Project for Funding		
1.1. Eligibility Assessment and approval of the application by the Program staff with the appropriate authority has been documented and dated	2	<ul style="list-style-type: none"> Six Recommendation for Approval Forms had one person sign for two required signatures (One signature as Acting Director General and one signature for Program Director).
1.2. Appropriate segregation of duties (Contribution Agreement)	1	<ul style="list-style-type: none"> The review team obtained the specimen signature cards for all employees who signed the Approval for Payment Form, the Recommendation for Approval Form and the Contribution Agreement and all employees had the necessary authority to sign these documents.
2. S. 34 - Approval of submitted qualified expenses for payment		
2.1. Only eligible claims/advances are accepted and are appropriately approved	1	<p>The review team reviewed the following items and no issues were noted during testing:</p> <ul style="list-style-type: none"> the eligibility of the expenses claimed by the recipient; the expenses claimed by the recipient were incurred after the application date; the approved submitted expenses did not exceed 70% of eligible project costs; and the amount paid did not exceed the committed amount.
2.2. Review and approval of financial and non-financial reporting	N/A	<ul style="list-style-type: none"> The effectiveness of this criterion could not be assessed by the review team as none of the final reports were due before June 30, 2010.
2.3. Appropriate segregation of duties (Section 34)	1	<ul style="list-style-type: none"> The review team obtained the specimen signature cards for all employees who signed S34 approval and all employees had the delegated authority to sign these documents.
3. S. 33 - Payment of funding		
3.1. Transactions are coded and recorded accurately and in a timely manner to support information processing	1	<ul style="list-style-type: none"> The review team reviewed the financial coding of the payments made and found that it was consistent with previously determined Economic Action Plan coding.