



Canadian  
Heritage

Patrimoine  
canadien



Canadian Heritage

## Internal Audit of Exchanges Canada Program

Office of the Chief Audit and Evaluation Executive  
Assurance Services Directorate  
February 2008

Canada 

# Table of Contents

**Executive Summary ..... i**

**1. Introduction..... 1**

    1.1 Authority for the project.....1

    1.2 Background .....1

**2. Audit Objectives..... 1**

**3. Scope..... 2**

**4. Approach & Methodology..... 2**

**5. Observations and Recommendations ..... 3**

    5.1 Identification of Program Risks .....3

    5.2 Program Human Resources .....4

    5.3 Monitoring Reports .....5

    5.4 Reporting System Access Controls .....6

    5.5 Financial Management of Delegated Authorities .....7

**APPENDIX A: Audit Criteria & Assessment ..... A**

# Executive Summary

## Introduction

Exchanges Canada creates opportunities for young Canadians to gain a better understanding of their country, to connect with one another and to gain a better appreciation of both the diversity and the shared aspects of life in Canada. The Exchanges Canada Directorate in the Department of Canadian Heritage (PCH) is responsible for managing the Exchanges Canada Program (Program).

Program activities are carried out through contribution agreements or grants with third-party non-profit organizations that have experience in delivering youth programs. Consideration is given to encourage the participation of groups traditionally under-represented in exchange programs, such as Aboriginal youth, youth with disabilities, visible minority youth, youth from low-income households, and youth from rural or isolated areas. There are two main components to the Program: Youth Exchanges Canada, and Youth Forums Canada.

## Audit Objectives

The objectives of this audit are to provide the department with assurance that:

- management controls, risk management frameworks, and the overall governance structure are adequate and effective;
- policies and guidelines are in place to ensure financial and operational controls to provide due diligence over transfer payments and to manage risks; and,
- information is available to allow management to report on achievement and make informed decisions that support continuous improvement.

## Observed Control Strengths

The audit team observed several controls that were properly designed and were being applied effectively within the Exchanges Canada Program. Noteworthy accomplishments are listed below:

- With the exception of observation noted in subsection 5.3, the Program Officers and Program management are diligent in managing their project files by properly documenting decisions that are made, including email correspondence that occurs with the recipient organization, and retaining relevant supporting documentation in the project file.
- The Program actively reviews anticipated projects and recommends the projects which best help the Program meet its objectives and fit within the available funding. In order to effectively manage the time required to receive Ministerial approval for

recommended projects, the Program has started to request that recipients submit their funding applications up to six months in advance of planned events.

- A full-time Finance Advisor was assigned to the Program providing in 2005 to provide assistance with financial monitoring, assessing a recipient's financial viability, and generally improving overall financial controls.
- The Program has implemented a number of effective supporting tools such as the Contribution Agreement Approval Process Document, the Risk Assessment Questionnaire, Management Services budgeting templates, and Performance reports to assist staff in managing and monitoring the projects.

## **Audit Opinion**

In the opinion of the audit team and based on the audit criteria examined, the Exchanges Canada Program has implemented good management controls in the areas of program design, processes for grants and contributions, and tools to assist in program tracking and monitoring. The audit noted that management controls could be improved in the areas of documenting monitoring results, risk management, human resource management and access to GCIMS.

## **Recommendations**

The following are recommendations that address the areas where internal controls can be strengthened as detailed in this report.

It is recommended that:

1. The DG, Citizen Participation, should consider including a contingency plan, as part of their risk mitigation strategy, should a critical recipient no longer be accessible for program delivery.
2. The DG, Citizen Participation, should ensure that, in future, contribution agreements are signed prior to the start date and before eligible expenses are incurred. When this is not possible, the DG should consider, based on a risk assessment, scheduling a recipient compliance audit at some point during the agreement period that will specifically include the first year, to provide management with assurance that expenses incurred prior to the signing of the contribution agreement are indeed eligible.
3. The DG, Citizen Participation, should develop an overall Human Resources plan/strategy that will provide for a longer-term solution and encompass updating job descriptions, staffing vacant positions, and meeting current and future human resource needs of the Program.

4. The DG, Citizen Participation, should ensure that monitoring reports are completed as per the assessed level of risk and included in the project file.
5. The DG, Citizen Participation, should submit the recommendation for funding assessment for Ministerial approval him/herself electronically and not share his/her UserId and password. In addition, since the DG's UserId and password have now been shared with at least one staff member, they should be changed as soon as possible and kept confidential.
6. The Director General, Financial Management Branch, should ensure that the Delegation Financial Signing Authorities Chart and accompanying notes are revised to distinguish between engagement authority and commitment authority. The Authority to ensure that funds are available prior to S32 approval should be identified in the "Other Authorities" section of the DFSAC.

# **1. Introduction**

## **1.1 Authority for the project**

This audit was conducted pursuant the Department of Canadian Heritage Risk-Based Audit Plan for 2006-07 that was approved by the Departmental Audit and Evaluation Committee.

## **1.2 Background**

The objectives of the Exchanges Canada Program are to:

- Contribute to increased knowledge and understanding of Canada among Canadian youth, by enabling them to learn first-hand about the history, geography, industry, institutions, cultures, communities, languages and other facets of their country;
- Help young Canadians connect to one another and create linkages, across the country and between groups, thereby helping to strengthen the fabric of Canadian society; and,
- Develop Canadian identity and a sense of belonging to Canada among youth by enhancing their appreciation of both the diversity and the shared aspects of the Canadian experience.

Exchanges Canada Program funding for the period April 2003 to September 30, 2006 was approximately \$17M per fiscal year for direct program delivery to support approximately 16,000 exchange participants per year. In addition, the Program received approximately \$3M annually in operating funds during this period.

An internal audit of the Exchanges Canada Program, completed in February 2003, found no significant issues with respect to program design, the management control framework, program processes and risk management. Recommendations in the previous internal audit resulted primarily from minor inconsistencies in file documentation.

# **2. Audit Objectives**

The objectives of this audit are to provide the department with assurance that:

- management controls, risk management frameworks, and overall governance structure are adequate and effective,
- policies and guidelines are in place ensure financial and operational controls are in place to provide due diligence over transfer payments and to manage risks, and
- information is available to allow management to report on achievement and make informed decisions that support continuous improvement.

### **3. Scope**

The scope of this audit covered the management controls, risk management frameworks, governance structures and policies and procedures for the Exchanges Canada Program. The scope of this audit included the period from April 1, 2003 to September 30, 2006.

This audit was limited to the activities of the Exchanges Canada Program. It did not extend to responsibilities/activities performed by other functions within the Department of Canadian Heritage.

### **4. Approach & Methodology**

The audit of the Exchanges Canada Program was conducted following the Standards for the Professional Practices of Internal Auditing as per the Institute of Internal Auditors (IIA) and in accordance with Federal Government Policy on Internal Audit.

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report.

The principal audit techniques used included:

- Interviews with the Exchanges Canada Program management and staff;
- Reviewing relevant program documentation and its compliance with Treasury Board Secretariat (TBS) and departmental policies, guidelines and procedures;
- Evaluating the system of internal controls within the Exchanges Canada Program; and,
- Conducting a detailed review of a sample of project files (grants and contributions) for compliance with Canadian Heritage and TBS requirements.

The approach used to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. The audit criteria and lines of enquiry developed for this audit are included in Appendix A to this report.

The audit team examined 31 project files for the 2003-2004 to 2006-07 fiscal years. The 31 files consisted of 8 from the Youth Exchanges Canada component and 23 from Youth Forums Canada component. This sample represented approximately 40% of the project file total population and 63% of the funding committed during the period of audit scope.

Audit fieldwork was conducted between February 2007 and June 2007.

## 5. Observations and Recommendations

Based on a combination of the evidence gathered through documentation review, analysis and interviews, each of the audit criteria was assessed by the audit team and a conclusion for each audit criteria was determined. While the Exchanges Canada Program was found to be well controlled, the audit team did identify three issues where management controls can be improved but the exposures are not considered serious.

### 5.1 Identification of Program Risks

A criteria used for this audit was that a formal and systematic risk management process is implemented within the Program. Overall, the risk management process in the Program was well implemented and many risks were routinely considered and monitored; however, the Program was not prepared for the sudden and unexpected termination of funding to a key partner critical to the achievement of the Program objectives.

In March 2006, the Government of Canada decided to discontinue funding to the Canadian Unity Council (CUC) and to seek a new delivery mechanism for the CUC's Youth Exchanges Program, called Encounters with Canada<sup>1</sup>. In April of that year, the Minister of Canadian Heritage committed to funding a renewed Encounters with Canada. The Historica Foundation of Canada purchased the assets of Encounters with Canada from the CUC and began delivering the new program in September 2006. The Program was under pressure to deal with the replacement organization, while simultaneously respecting PCH approval processes and obligations. As a result, the negotiation process to complete and sign the contribution agreement with the replacement organization took longer than normal. The appropriate approval processes were followed to implement this directive, however formal signing of the contribution agreement with the replacement organization occurred after the start of the contribution agreement period. Of the files tested, the auditors did not find any other example where the contribution agreement was signed after the effective date of the contribution.

#### Risk Assessment

While the program has developed a Risk-Based Accountability Framework that includes a risk management strategy, the lack of a contingency plan for the potential loss of an existing critical partner increases the risk of failure to deliver on program objectives.

Treasury Board Secretariat (TBS) guidance is that all parties should sign a written agreement before the stated date, and before eligible expenses are incurred. Although the expenses were appropriate according to the contribution agreement, the delay in negotiation resulted in expenses being incurred by the recipient organization while the

---

<sup>1</sup> Encounters with Canada is a one-week program of Canadian Studies held at The Terry Fox Canadian Youth Centre in Ottawa. It is the largest Youth Forum within the Exchanges Canada Program. From mid September to early December and from late January to early May, more than 138 high school students per week, aged 14 – 17 come from across the country to Ottawa.



contribution agreement was being approved. The absence of a signed contribution agreement increases the risk of the recipient incurring potentially ineligible expenses.

### **Recommendations**

1. The DG, Citizen Participation, should consider including a contingency plan as part of their integrated risk management strategy should a critical recipient no longer be accessible for program delivery.

### **Management Response**

Agreed and already included in the Management Action Plan.

2. The DG, Citizen Participation, should ensure that, in future, contribution agreements are signed prior to the start date and before eligible expenses are incurred. When this is not possible, the DG should consider, based on a risk assessment, scheduling a recipient compliance audit at some point during the agreement period that will specifically include the first year, to provide management with assurance that expenses incurred prior to the signing of the contribution agreement that are submitted under the agreement are indeed eligible.

### **Management Response**

Agreed and already included in the Management Action Plan.

## **5.2 Program Human Resources**

At the time of the audit, it was observed that recent departures of two Program Officers may have had an impact on the Youth Forums component of the Program. Program management reported that it takes time to monitor, attend an event, document a monitoring report, and follow up. There was a lot of turnover in the Program and this was recognized by Program management to be one of the Program's most significant risks. Program management reported they do not foresee any issues with bringing in new recruits to the Program. Program Officers reported they feel there are experienced senior Program Officers still within the Program. The current mitigation strategy being used by the Program is to prioritize activities according to the number of staff available.

Although roles and responsibilities were not considered areas of concern, job descriptions were not all current. Program management recognizes that the job descriptions need to be revised. This is true as the updated job descriptions are key to the staffing of vacant positions.

## **Risk Assessment**

While the Program's current mitigation strategy may resolve short-term issues, the longer-term impact on program staff, the quality of their work, and their ability to deliver on all program objectives may be impacted. Updated job descriptions facilitate the staffing process, as without them the program may encounter not only delays in staffing, but also in finding the appropriate resources.

## **Recommendation**

3. The DG, Citizen Participation, should develop an overall Human Resources plan/strategy that will provide for a longer-term solution and encompass updating job descriptions, staffing vacant positions and meeting current and future human resource needs of the program.

## **Management Response**

Agreed and already included in the Management Action Plan.

## **5.3 Monitoring Reports**

The audit criteria used were that accurate, complete, and timely performance and financial results are provided in accordance with the funding agreement and monitoring activities are conducted to determine compliance. These procedures are critical to ensure that funds are being used by recipients for the agreed-upon purposes.

The audit reviewed 25 contribution agreement project files and did not find a completed monitoring report in 5 project files (20%). Relative to a previous audit of the Program conducted in 2003, in which monitoring files were absent in 92% of sampled project files, 20% is a significant improvement, but is still considered a moderate issue. In cases where monitoring reports were absent from the project file, there was evidence on file which demonstrated that Program Officers had regular communication with the recipient.

Program Officers reported that they make all possible attempts to follow the planned schedule of monitoring activities, but that they do sometimes fall behind schedule. Another explanation provided for the absence of monitoring was that this may have occurred with the transition of a file to another Officer.

## **Risk Assessment**

The potential risk associated with not adequately conducting monitoring visits is that the Program will not be able to directly observe the quality of planned events and receive adequate assurance that funds are being used by recipients for the purposes outlined in the recipient's funding application. When monitoring visits are not properly documented in project files, this increases the risk that appropriate follow-up actions required by program management will not be addressed or completed.

## **Recommendation**

4. The DG, Citizen Participation, should ensure that monitoring reports are completed as per the assessed level of risk and included in the project file.

## **Management Response**

Agreed and already included in the Management Action Plan.

## **5.4 Reporting System Access Controls**

The audit criteria used were that the supporting tools assist in the effective and efficient management and monitoring of a program and management reporting system used by the Exchanges Canada Program provides reliable information that supports decision-making and accountability.

In the Grants and Contributions Information Management System (GCIMS) used by the Program, only the DG, Citizen Participation, has been granted the ability to formally decide and submit a recommendation for funding assessment for Ministerial approval. It was found, however, that the DG, Citizen Participation, does not access GCIMS. Rather, the recommendation for funding is provided by signing a hard copy of the Recommendation for Approval form (RAF) and the Grants and Contribution Officer, or the Director of Management Services, subsequently uses the DG's GCIMS user ID and password to request Ministerial approval based on the DG's hard copy approval.

## **Risk Assessment**

The sharing of a user ID and password impairs fundamental system-access controls and the potential segregation of duties, and increases the risk of unauthorized approvals going undetected which exposes PCH to additional risks.

## **Recommendation**

5. The DG, Citizen Participation, should submit the recommendation for funding assessment for Ministerial approval him/herself electronically and not share his/her UserId and password. In addition, since the DG's UserId and password have now been shared with at least one staff member, they should be changed as soon as possible and kept confidential.

## **Management Response**

Agreed and already included in the Management Action Plan.

## **5.5 Financial Management of Delegated Authorities**

(Observation addressed to the Financial Management Branch)

The criterion used is that procedures for the review and approval of applications for contributions are in place, in compliance with delegated financial authorities and being followed.

As part of the audit work conducted to provide assurance on the financial management controls in place, the auditor examined a sample of transactions to verify sections 32 and 34 delegations as it appears in the PCH approved Delegation Financial Signing Authorities Chart (DFSAC).

For grants and contributions, the auditors expected to find Section 32 delegation exercised by program staff in accordance with the DFSAC. Audit tests conducted noted that only the Minister has the authority to sign under Section 32 of the Financial Administration Act for all grants and contributions with the exception of Celebrate Canada grants up to \$3,000 and grants for the Athletes Assistance program, which is different than what is in the Chart.

As part of the grants and contribution approval process, program officers have to enter the commitment into the SAP system before the Minister will sign section 32 approval. The recording of these amounts in the accounting system indicates that funds have been reserved for the grants and contributions before approval. The authority to ensure that funds are available prior to section 32 approval is not, in fact, identified.

Therefore, a distinction is not made between ensuring the availability of funds and making a commitment that is indeed approved by the Minister.

Since this observation is outside the scope of the Exchanges Program, this issue will be addressed by the Department's Financial Management Branch.

### **Risk Assessment**

The DFSAC provides the authority for managers to exercise their financial delegations in the department. As there is a gap between the current process and the DFSAC, current processes could be misinterpreted as being non compliant to the DFSAC signed by the Minister.

### **Recommendation**

6. The Director General, FMB, should ensure that the DFSAC and accompanying notes are revised to distinguish between expenditure initiation and commitment authority. The Authority to ensure that funds are available prior to S32 approval should be identified in the "Other Authorities" section of the DFSAC.

### **Management (FMB) Response**

Agreed.

## APPENDIX A: Audit Criteria & Assessment

Based on a combination of the evidence gathered through documentation review, analysis and interviews, each of the audit criteria list below was assessed and a conclusion for the audit criteria was determined using the following definitions:

Conclusion on Audit Criteria	Definition of Opinion
Criteria Met (Well controlled)	Well managed, or no material weaknesses noted, controls are effective and sustainable.
Criteria Met with Exceptions (Controlled)	Minor improvements required.
Criteria Not Met (Moderate Issues)	Requires improvements in the area of material financial adjustments, some risk exposure.
Criteria Not Met - High Impact (Significant Improvements required)	Requires significant improvements in the area of material financial adjustments, serious risk exposure.

The following are the audit criteria and a brief summary of evidence obtained against which conclusions were drawn.

### **Audit Objective 1: Management controls, risk management frameworks, and overall governance structure are adequate and effective**

*Program design is effective in determining needs, setting objectives and establishing proper controls.*

Audit Criteria (A1 to A3)		Conclusion	Evidence
Criteria 1	Program budgets and plans are developed to ensure ongoing, sufficient resources and to operationalize Program objectives.	Criteria Met with Exceptions	Budgeting tool Weekly meetings Project tracking
Criteria 2	Program policies and procedures are developed based on approved terms and conditions and provide Program Managers and Program Officers with the information required to operate within approved terms and conditions.	Criteria Met	Program policies and procedures document Standard templates Contribution agreements with clear objectives
Criteria 3	Clear roles and responsibilities that are consistent with departmental practice are communicated formally to all Program staff.	Criteria Met with exceptions	Contribution Agreement Process Description

*A formal risk management process is in place to monitor, manage and communicate risk and control information to appropriate areas.*

Audit Criteria (D)		Conclusion	Evidence
Criteria 4	A formal and systematic risk management process is implemented within the Program.	Not Met	Key Program risk not identified Risk Assessment Questionnaire RMAF

*Information is disseminated to potential applicants and stakeholders are well informed.*

Audit Criteria (B)		Conclusion	Evidence
Criteria 5	A communication plan is developed to ensure potential applicants and partners are aware of the Program and understand its objectives, eligibility criteria, means of application, and service standards.	Criteria Met with exceptions	Printed brochures and web site Standard contribution agreement Application guidelines

*Performance management procedures ensure accountability and actual outcomes and expenditures are in accordance with the Program's intended objectives.*

Audit Criteria (E1 to E4)		Conclusion	Evidence
Criteria 6	Clear performance measures, indicators and targets, and roles and responsibilities are developed.	Criteria Met	Participation targets Targets included in contribution agreements
Criteria 7	Key reporting requirements are established to set minimum baseline data/ reporting standards to ensure that adequate performance and financial information and outcomes are provided.	Met with exceptions	Requirements indicated in contribution agreement Interim and final reports received
Criteria 8	Performance information is collected and analyzed and results are consolidated to demonstrate Program performance and effectiveness.	Criteria Met	Feedback questionnaires Performance reports
Criteria 9	Variances between actual and expected results are identified, analyzed and resolved.	Criteria Met	Monthly budget reviews Variance reports

**Audit Objective 2: Policies and guidelines are in place to ensure financial and operational controls are in place to provide due diligence over transfer payments and to manage risks.**

*Procedures for the review and approval of applications for contributions are in place and being followed.*

Audit Criteria		Conclusion	Evidence
Criteria 10	A formal eligibility assessment, based on the Program's terms and conditions, is conducted.	Criteria Met	Recommendation for Approval Form Reviewed and signed by management
Criteria 11	Rationale for awarding (or not awarding) a contribution/grant amount is open and transparent and justifiable through supporting documentation.	Criteria Met	Forms reviewed and signed by management Segregation of duties
Criteria 12	Certification is provided by the responsible officer that sufficient funds are available before the agreement is signed (in accordance with FAA Section 32).	Met with exceptions	Budgeting templates Delegation of authority signatures Monthly meetings
Criteria 13	The agreement is developed using approved templates and includes clear requirements in terms of program standards, accountability, and reporting.	Met with exceptions	Standard agreement templates used Oversight by Finance

*Procedures are in place and being followed to ensure payments are consistent with the level of funding approved and that funds are being used by recipients for the purposes agreed.*

Audit Criteria		Conclusion	Evidence
Criteria 14	Initial and ongoing disbursements are valid and accurate and are issued and recorded in a timely manner (in accordance with FAA Section 34).	Met with exceptions	Payments tracked in GCIMS Review and analysis of reports
Criteria 15	Accurate, complete and timely performance and financial results are provided in accordance with the funding agreement and monitoring activities are conducted to determine compliance.	Not met	Absence of monitoring reports Monitoring activities based on risk Payments not made until reports reviewed

**Audit Objective 3: Information is available to allow management to report on achievement and make informed decisions that allow for continuous improvement.**

*The management reporting system provides reliable information that supports decision-making and accountability.*

Audit Criteria		Conclusion	Evidence
Criteria 16	Performance results of the Program are accurately reported within the Program's accountability structure to demonstrate progress towards achievement of Program objectives.	Criteria Met	Reported in Departmental Performance Report and Report on Plans and Priorities
Criteria 17	Timely and accurate performance information and financial reports are used by Program management.	Met with exceptions	Financial budget reports Demographic data reports Project tracking reports
Criteria 18	Supporting tools are developed and provided as required to assist in the effective and efficient management and monitoring of the Program.	Not met	Sharing of GCIMS user id and password Risk Assessment Questionnaire Performance database