Audit of the National Arts Training Contribution Program

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

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Executive Summary

Introduction

The entity examined was the National Arts Training Contribution Program (NATCP) which provides support for training initiatives of the highest calibre in the arts and cultural industries. The annual contributions budget averaging $17 million is distributed across approximately 40 training institutions. NATCP is administered at Canadian Heritage (PCH) headquarters by the Director General of the Art Policy Branch, supported by a Director (both referred to as NATCP Program Management). The NATCP Program Management is responsible for the delivery of NATCP and implementation of a system of internal controls. Five additional staff members are dedicated to the delivery of NATCP.

The objective of the audit was to provide assurance that internal controls, risk management frameworks and overall governance structure are effective and adequate. The audit examined the NATCP activities undertaken by the NATCP Program Management and staff in the 2006-2007 and 2007-2008 fiscal years.

Key Findings

Throughout the audit fieldwork, the audit team observed several examples of how controls are properly designed and are being applied effectively by the NATCP Program Management. This resulted in several positive findings:

- To ensure the provision of funding for the highest calibre arts training institutions, applications are assessed using independent assessors who are experts in a particular artistic discipline. Assessors evaluate applicants based on criteria related to the artistic quality and national impact of the training, and make recommendations to NATCP Program Management for funding decisions.

- Funding decisions are made by a committee through a scoring process, based on the assessment criteria detailed in the application guideline. All applicants are assessed against a standard set of 17 published criteria. Rationale for decisions (approvals and rejections) are well documented and clear.

- Management's risk-based approach to monitoring contribution agreements includes the assignment of a risk score for each recipient using a PCH standard format. Monitoring activities are aligned with the risk score (i.e. more site visits for higher risk recipients).

- There has been low staff turnover and the NATCP Program Management monitors the career progression of its staff. A stable workforce has allowed the NATCP Program Management to maintain program knowledge and expertise and sustain positive client relationships.

- Management provides a comprehensive procedures manual for its staff which facilitates consistent administration of the NATCP.

Given the observed strengths in the administration of the NATCP, it is well positioned to share its practices both within PCH and with other Grants and Contributions (Gs and Cs) departments, a goal of the recently published *Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs*.

Recommendations

The audit team also identified areas where management practices require improvements.

1. The Director General, Art Policy Branch, should ensure that the NATCP's Application Guidelines posted on the web-site:

    a) are consistent with the NATCP program's standard operating procedures. The guidelines should clearly describe to all potential applicants what must be received by the deadline, what may be requested following a review of the application and support materials, and the consequences of non-compliance with the deadlines; and
    b) clearly indicate the risk to applicants that expenses incurred prior to ministerial approval may not be reimbursed.

2. The Director General, Art Policy Branch, should formally establish service standards, targets, and processes to monitor service standards and service performance aimed at continuous improvement of service to recipients aligned with the spirit and intent of the Government's plan to reform the administration of Gs and Cs programs. Where circumstances indicate that established targets may not be met, NATCP Program Management should document those circumstances and establish mitigating processes. It is also recommended that service standards, once formalized, should be included in staff performance plans and procedures manuals as appropriate.

3. The Director General, Art Policy Branch, should ensure that the responsibility for ongoing reviews of and updates to Grants and Contribution Information Management System (GCIMS) access is assigned, on a continuous basis, and that user access rights are current.

4. The Director General, Art Policy Branch, should:

    a) establish a target for elapsed time before files are appropriately reviewed and closed and, in particular, before new applications for funding are considered; and
    b) implement a monitoring process to ensure such target is achieved.

Statement of Assurance

In my professional judgment as Chief Audit and Evaluation Executive, 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 opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed to with management. The opinion is applicable only to the entity examined and within the scope described herein. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors. Sufficient evidence was gathered to provide senior management with the proof of the opinion derived from the internal audit.

Audit Opinion

In my opinion, the National Arts Training Contribution Program is well managed and controls are effective. However, minor improvements are needed in the areas of Citizen-Focused Service and Stewardship.

Original signed by:

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With the assistance of external resources.

1.   Introduction and Context

1.1   Authority for the Audit

The authority for the audit is derived from the Multi-Year Audit and Evaluation Plan which was approved by the Deputy Minister and the Departmental Audit Committee in June 2008.

1.2   Background

The National Arts Training Contribution Program (NATCP) was created in 1997 to ensure sustainable support for training initiatives in the arts and cultural industries. NATCP contributes to the development of Canadian creators and future cultural leaders of the Canadian arts sector by supporting the training of artists with high potential through institutions that offer training of the highest calibre.

NATCP supports independent, non-profit, incorporated Canadian organizations on a multi-year or annual basis for the ongoing operational activities of their professional programs. It focuses on organizations that can demonstrate their status as national organizations of the highest calibre.

Within the Department, NATCP is managed by the Cultural Affairs Sector. The management of this program (NATCP Program Management or NATCP Program Management) carries out monitoring and recipient auditing under its integrated Results-based Management and Accountability Framework (RMAF) and Risk Based Audit Framework (RBAF).

The last NATCP RBAF/RMAF was revised and submitted in September 2007. The contributions budget for 2007-2008 was approximately $17 million. The NATCP is administered solely in the National Capital Region and consists of five dedicated employees' (full-time equivalents), plus a Director and Director General (Art Policy Branch) who also have responsibility for other programs.

2.   Objective(s)

The audit is intended to provide PCH senior management with assurance that management controls, risk management framework and overall governance structure are effective and adequate.

3.   Scope

For the two fiscal years starting April 1, 2006 and April 1, 2007, the audit examined key controls aligned with the PCH Grants and Contributions standardized process. The engagement was initiated on July 17, 2008 and completed on November 14, 2008. As NATCP is managed exclusively from headquarters, all work was conducted at this location.

4.   Approach and Methodology

All audit work was conducted in accordance with the "*Standards for the Professional Practice of Internal Auditing*".

Evidence was gathered for the audit using a combination of examination techniques that included file testing, interviews, and review and analysis of documents.

For file testing, a statistical sample of files was selected to produce a confidence interval of 90%. In selecting the sample, a risk-based approach was used. Higher risk files were selected and identified as those with:

a)   Total payments greater than $400,000; and,

b)   Contributions made towards Non-European and Aboriginal art forms, as these tend to be new recipients based on recently revised terms and conditions of the NATCP.

The remainder of files were randomly selected.

In developing the controls and audit criteria to be tested, the PCH Horizontal Gs and Cs Audit Program was used. This was supplemented with unique NATCP controls identified in the planning phase of the audit. The audit team was also alert to key risk areas of both the NATCP and its administrative procedures, as identified during the audit planning phase. For holistic opinion purposes, the controls and audit criteria used in the audit were mapped to the Treasury Board Secretariat (TBS) Core Management Controls which are primarily comprised of Committee of the Sponsoring Organizations of the Treadway Commission (COSO) controls that have been customized to the Government of Canada context.

Fieldwork for the audit was substantively completed at the end of September and exit meetings were held with NATCP Program Management on October 27, and November 17, 2008, to review and discuss the preliminary findings. The purpose of the exit meetings was to validate the audit team's observations with NATCP Program Management prior to the development of the audit report. This also helped clarify the possible causes giving rise to the observations and thereby assisted in the development of recommendations that are meaningful and useful to the improvement of the NATCP's control environment.

5. Observations, Recommendations and Management Response

Based on evidence gathered through file review, interviews, and documentation review and analysis, each of the audit criteria was assessed by the audit team and a conclusion for each audit criteria was determined and is provided in Appendix A.

The audit team made the following observations and recommendations. The corresponding management responses are also provided.

5.1 Citizen-Focused Service

5.1.1 Application Guidelines

The Application Guidelines for NATCP posted on the website:

a) do not clearly reflect the NATCP program's standard operating procedures for reviewing applications; and

b) do not adequately inform the potential recipients that project expenses incurred before ministerial approval are at their own risk and may not be funded.

Analysis

The application guidelines posted on the PCH website state that applications must be received by June 30th (July 14th for the 2007/08 fiscal year) and must include a completed application form and the support material requested such as projected budgets for the period of funding requested, description of the training program and its development, student composition, and financial statements, amongst others. It is further stated that failure to provide all the supporting documentation may render the application ineligible. After the deadline and following examination of the applications and documentation received, NATCP Program Management sends letters to applicants summarizing the missing items and providing them with a new deadline for receipt of those items. As described during NATCP staff interviews, this is a standard operating procedure.

With respect to the period during which expenses are eligible for reimbursement, the current practice at PCH states that expenses incurred prior to the approval of funding may be eligible for reimbursement. However these expenses must be incurred during the project period for which funding is sought and following the date of receipt of the application by PCH. The Treasury Board (TB) Guide on Grants, Contributions and Other Transfer Payments states that expenditures incurred before the approval date may not be reimbursed. It is therefore the NATCP Program Management's responsibility to inform all applicants that expenditures incurred before the date of ministerial approval is at the applicants' own risk and may not be reimbursed.

Risk Assessment

The lack of clarity in the application process may lead to criticism from rejected applicants and a general lack of confidence in the NATCP recipient selection process.

Given that it is not described in the NATCP Application Guidelines, it is likely that applicants are not aware of the risk that the expenses incurred prior to the approval date may not be reimbursed.

Recommendation

1. The Director General, Art Policy Branch, should ensure that the NATCP's Application Guidelines posted on the web-site:

    a) are consistent with the NATCP program's standard operating procedures. The guidelines should clearly describe to all potential applicants what must be received by the deadline, what may be requested following a review of the application and support materials, and the consequences of non-compliance with the deadlines; and
    b) clearly indicate the risk to applicants that expenses incurred prior to ministerial approval may not be reimbursed.

Management Response

Agreed.

5.1.2 Service Standards

With respect to service delivery, the time required by the Program to inform recipients of the outcome of their application was on average between 10 and 11 months for the 2006/2007 and 2007/2008 fiscal year. During the examination period, formal service delivery standards had not been established.

Analysis

In the file review, the audit team measured the elapsed time between the application date, NATCP Program Management approval date, and Ministerial approval date. From the work conducted, the audit team found that approximately one to two months was attributable to Ministerial approval and nine to ten months was attributable to the program administration. From discussions with NATCP Program Management, a formal performance standard had not been established although it was informally understood to be eight months.

Risk Assessment

The 2008 *Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs* and the new *Policy on Transfer Payments* both emphasize the need for service standards in order to continuously improve service to recipients. In the

former document, PCH is recognized as a vanguard department with five other departments that all have in common the establishment of service standards. The risk of not providing appropriate and timely service to it's clients may expose PCH to reputation risk as a vanguard department, and does not meet a key focus of the Government's plan to reform the administration of Gs and Cs programs.

Recommendation

2. The Director General, Art Policy Branch, should formally establish service standards, targets, and processes to monitor service standards and service performance aimed at continuous improvement of service to recipients aligned with the spirit and intent of the Government's plan to reform the administration of Gs and Cs programs. Where circumstances indicate that established targets may not be met, NATCP Program Management should document those circumstances and establish mitigating processes. It is also recommended that service standards, once formalized, should be included in staff performance plans and procedures manuals as appropriate.

Management Response

Agreed.

5.2   Stewardship

5.2.1 GCIMS Access

The responsibility to update access to NATCP files in the Grants and Contribution Information Management System (GCIMS) was not assigned to anyone during a temporary leave of absence; as a result, two staff members who no longer work with NATCP continued to have access.

Analysis

The list of users who had access to NATCP files in GCIMS was compared to the list of the current staff administrating the program. The audit team expected to find that access was limited to only those who currently worked on the program. The audit team found that this was not the case due to the fact that responsibility for updating GCIMS authorization was not re-assigned upon the absence of an employee who had previously performed the task.

Risk Assessment

Access to NATCP system files by individuals who are not working in the area introduces risks to the integrity of the data and operations of a critical PCH operational system.

Recommendation

3. The Director General, Art Policy Branch, should ensure that the responsibility for ongoing reviews of and updates to GCIMS access is assigned, on a continuous basis, and that user access rights are current.

Management Response

Agreed.

5.2.2 File Closure

File closing procedures are not promptly completed on a consistent basis.

Analysis

A sample of files was examined for evidence of appropriate closing procedures. The audit team expected to find that, following completion of the final payment under an agreement, project files were closed in GCIMS and included a final evaluation performed by a Program Officer confirming that terms and conditions of the agreement had been met by the recipient. The audit team found that in 12 of the 39 files, final evaluations were not completed. Following the examination phase of the audit, Management has completed all of the evaluations.

Risk Assessment

Given that NATCP recipients tend to be recurring, this condition has the potential to result in funding commitments being made by PCH without NATCP Program Management having completed an evaluation of the recipient's compliance with prior contract conditions and an evaluation of the results achieved from the funding previously provided. Although the risk of this occurring is partially mitigated by the application process which includes a review of previous funding and achievements, a low level of residual risk remains.

Recommendation

4. The Director General, Art Policy Branch, should:

    a) establish a target for elapsed time before files are appropriately reviewed and closed and, in particular, before new applications for funding are considered; and
    b) implement a monitoring process to ensure such target is achieved.

Management Response

Agreed.

Appendix A – Audit Criteria

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

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	NATCP is: - Well managed, no material weaknesses noted; and - Effective.
2	Controlled	NATCP is: - Well managed, but minor improvements are needed; and - Effective.
3	Moderate Issues	NATCP has moderate issues requiring management focus based on at least one of the following two criteria: - Control weaknesses, but exposure is limited because likelihood of risk occurring is not high; or, - Control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	NATCP requires significant improvements based on at least one of the following three criteria: - 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 audit 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 have been reported in the body of the audit report. In addition, some issues requiring minor improvement (2) have been included in the body of the report based on the auditors' judgement of importance.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
1.1	Key documents properly articulate the linkages between the program and departmental objectives and priorities.	1	The Program's RMAF clearly links the program and departmental objectives.
1.2	A plan has been developed to periodically re-assess the program design and adjust as required.	1	Periodic Evaluations of the Program are planned and conducted. The 2002 and 2007 Evaluations have resulted in changes to the design of the Program.
1.3	Expected results are clearly defined and a plan to measure and demonstrate results is followed.	1	Expected results are included in the Program's RMAF. Management conducts surveys of recipients and uses the data to demonstrate results.
1.4	Available resources (e.g. human, financial, tools) and competencies are reviewed and match those required to deliver the program.	1	The resources required for the Program are identified in the 2007 Treasury Board Submission and have been made available. Systems such as GCIMS and SAP are effectively used. Program has low staff turnover, relevant training, and an effective performance management process.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
1.5	Standard operating procedures for service delivery and systems to ensure quality have been developed.	2	A comprehensive set of procedures is available and used by staff to ensure consistent quality of delivery. Performance standards for service delivery have not been established.
1.6	An appropriate governance structure and mechanisms are in place and being followed to ensure sound decisions are made (e.g. equitable, transparent, and justifiable).	2	Funding decisions are made by a Committee using publicly disclosed and consistent criteria. External members noted concerns about the purpose of the NRC, its responsibility, and time requirements of members.
1.7	A mechanism exists to systematically identify, assess, monitor and report on risks facing the program.	2	The Program's risk management process includes a RBAF, risk-based recipient audits, and risk assessments of every recipient aligned with monitoring activities such as site visits. Some file management issues were noted.
2.1	The characteristics and size of the target audience is known.	1	The target audience is clearly defined on the web-site and in application guidelines.
2.2	An appropriate method of public communication is used to inform the target audience and its effectiveness is periodically reassessed.	1	The Program is easily accessible via the web-site. Management also uses arts-related publications to increase awareness of the Program.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
2.3	The public communication clearly explains who is eligible for funding under the program.	1	Eligibility is clearly explained on the web-site and in application guidelines.
2.4	Application forms are readily available, easy to complete, and request all information needed to assess eligibility.	1	Applications are readily available on the web-site as well as application guidelines. The information provided provides sufficient information to assess eligibility.
2.5	Applications are completed with reasonable and equitable PCH assistance.	3	In addition to application guidelines, Management provides contact information to all applicants if additional help is required. Issues were noted related to consistency between published application guidelines and standard operating procedures.
2.6	All submitted applications (complete or not complete) are accurately recorded in GCIMS.	1	Management tracks all applications received and monitors them through the eligibility and selection process using MS Excel and GCIMS.
3.1	Applications are consistently assessed against approved eligibility criteria. When greater diligence is required, additional review procedures exist and are followed.	1	Eligibility criteria are fully disclosed, clear and consistently applied across all applicants as per the web-site.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
3.2	Those with financial authority certify that sufficient funds are available in the program budget and the funds are committed before forwarding recommendations for approval (Section 32).	1	Evidence of section 32 was gathered through testing a sample of files.
3.3	Recommendations (e.g. Recommendation for Approval Form (RAF)) include adequate rationale, demonstrate the recipient's capacity to perform, their need for funding, and assessment of their financial viability.	1	Evidence of appropriate documentation to support recommendations was gathered through the review of a sample of files.
3.4	Applications that are rejected are recorded and contain appropriate evidence of analysis and rationale.	1	NRC files related to rejected applicants were reviewed and provided evidence of analysis and rationale for decisions.
4.1	All funding recommendations are approved by the Minister or delegated authority on a timely basis.	1	A sample of files was reviewed to gather evidence of the Minister's approval and turnaround time.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
5.1	All contribution agreements are documented, authorized, and recorded accurately.	1	A sample of files was reviewed to gather evidence of appropriate documentation to support agreements.
5.2	Contribution agreements are signed by approved authority prior to start of period covered by agreements.	2	A sample of files was reviewed to gather evidence of appropriate approvals and period of coverage. Issues noted related to interpretation of eligible expenses, particularly those that are incurred by recipients prior to Ministerial approval of the agreement.
5.3	System/manual access to amend agreements is limited to authorized personnel, and any amendments are promptly approved and retained with the original agreement.	2	Access to the system of record (GCIMS) was tested via a comparison of current staff and the current user list in GCIMS. Issues were noted.
6.1	Approval of claims and request for payments are issued only following confirmation of: • a signed contribution agreement or grant letter; • appropriateness of the amount requested and remaining availability of funds under the	2	A sample of files was reviewed to gather evidence of appropriate processing of claims. An issue was noted related to approval of 1 payment in anticipation of reports being received.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
	agreement; • compliance with eligible expenses; and, • compliance with performance conditions of agreements (FAA Section 34)		
6.2	Where inappropriate payments have been detected, corrective actions are promptly taken.	1	SAP reports and interviews were used to investigate the management of payment errors and corrective measures.
6.3	All payments are recorded accurately in SAP and in the proper period.	1	Accuracy of payments in SAP was tested through evidence of reconciliation with GCIMS and Management's reconciliation processes.
6.4	A risk-based approach to the monitoring of contribution agreements exists (i.e. frequency, extent and type of monitoring) and is followed.	1	Management has implemented risk management activities at the Program and individual recipient levels as evidenced through documentation review and corroborated through interviews.
6.5	Upon successful completion of a funding agreement, project files are closed in GCIMS and paper files archived.	2	Issues related to prompt and consistent procedures for closing files were noted.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
7.1	Information collected is useful for re-considering the design of programs, and meets the needs of accountability reporting as defined by stakeholders and Management (e.g. expected results vs. actual results).	1	Management effectively uses surveys of recipients and the arts industry to gather information about the impact of the Program. The information is used in accountability reporting and has resulted in continued investment in the Program.
7.2	Capabilities and resources required to analyze information is available and applied.	1	Management has appropriately assigned responsibility for the analysis of results information.
7.3	Performance reports fairly present results.	1	Results reported in the Department Performance Report were consistent with results from surveys conducted (i.e. source data).
7.4	Reports on performance are routinely shared with the appropriate stakeholders and the usefulness of reports is demonstrated.	1	Performance information is included in accountability reporting and has resulted in continued investment in the Program.