

Indian and Northern Affairs Canada

**Internal Audit Report
Audit of Community Economic Development Funding**

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Audit and Assurance Services Branch**

**Project #07/18
September 25, 2008**

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Initialisms and Abbreviations

AFA	Alternative Funding Arrangement
CEDP	Community Economic Development Program
CEOP	Community Economic Opportunities Program
CIDMS	Comprehensive Integrated Document Management System
CSSP	Community Support Services Program
DPR	Departmental Performance Report
DRBAF	Departmental Risk-Based Audit Framework
DRMAF	Departmental Results-based Management and Accountability Framework
EDB	Economic Development Branch
FAA	Financial Administration Act
FNITP	First Nations and Inuit Transfer Payment System
FNRG	First Nations Reporting Guide
FTP	Flexible Transfer Payment
LED	Lands and Economic Development
INAC	Indian and Northern Affairs Canada
NOBA	Notice of Budget Adjustment
OAG	Office of the Auditor General
RDG	Regional Director General
T&C	Terms and Conditions
TBS	Treasury Board of Canada Secretariat
TPMS	Transfer Payment Management System

Executive Summary

Introduction

The Economic Development Program of Indian and Northern Affairs Canada (INAC) is intended to foster the conditions and opportunities which increase participation in the economy by First Nation and Inuit communities in a manner compatible with community culture and values, and by other Aboriginal individuals.

There are four programs/subprograms delivered by the Economic Development Branch¹ (EDB) of the Aboriginal Economic Development Sector² with the assistance of the regions. These are:

- **Community Economic Development Program (CEDP).** Under this program, core support is provided to First Nation and Inuit communities for community economic development planning and capacity development initiatives, development of proposals and leveraging financial resources and carrying out economic development activities.
- **Community Economic Opportunities Program (CEOP).** Under this program, financial support is provided to First Nation and Inuit communities and the organizations they administer in response to opportunities.
- **Community Support Services Program (CSSP).** This program funds the implementation of national and regional plans to deliver support services to First Nation and Inuit community economic development organizations. The support services are intended to increase the economic capacity with community organizations to carry out one-time projects and ongoing activities related to economic development.
- **Aboriginal Workforce Participation Initiative (AWPI).** This is a partnership initiative of the federal government that has as its objective, the increased participation of Aboriginal peoples in the labour market.

Based on a risk-based assessment, an audit focused on the CEOP and CSSP was conducted between January and June, 2008.

Objectives and Scope

The objective of the audit was to provide assurance that the CEOP and CSSP are operating effectively and in conformance with Treasury Board policy requirements and approved program authorities.

The focus of the audit was to determine the existence of key controls that would be expected to be in place and to assess the extent to which the controls were applied.

¹ The branch has since been renamed the Community Partnership Branch.

² Effective September 1, 2008, as part of a departmental reorganization, the Community Investments Branch became part of the Lands and Economic Development Sector.

Between February and April 2008, the audit examined key components of the management control framework, key controls in place, and a sample of recipient files at INAC's British Columbia, Saskatchewan, Ontario, Quebec, Atlantic and Nunavut regional offices. CSSP files were also examined at headquarters. The sample of recipient files examined was selected using a dollar unit sampling methodology from all projects provided with funding during the period April 1, 2005 to November 7, 2007. The audit also examined the policies and practices applicable to CEOP and CSSP at headquarters and in the regions.

The audit was conducted in accordance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and Treasury Board's Policy on Internal Audit.

Conclusions

Internal Audit is of the opinion that:

- While extensive guidance has been developed for CEOP, there are gaps in it and it is not accessible from one source. Significantly less guidance has been developed for CSSP. These deficiencies contributed to inconsistencies in practices noted at headquarters and across the regions.
- There may be insufficient resources allocated to CEOP and CSSP to properly manage them. As well, limited training on all aspects of the program lifecycle has been provided to staff responsible for managing CEOP and CSSP. This contributed to the nature of the findings identified in this report.
- Formal risk management processes at both the program and project level were not implemented for CEOP and CSSP, increasing the likelihood that funded projects would not achieve planned outcomes.
- Project management practices need to be improved so that:
 - Funding is targeted more consistently at those projects with the best impacts
 - Funding agreements better describe planned projects and what is to be achieved
 - Funding is only provided to eligible recipients
 - All projects and payments are approved by the appropriate delegated official
 - Payments are made when the funds are needed and any advances are reconciled on a timely basis
 - Sufficient performance information is requested from recipients to monitor the results achieved
 - Additional information is obtained to periodically validate the financial information provided by recipients in their consolidated audited financial statements and
 - Regular and systemic monitoring of recipients is undertaken.

In addition:

- CSSP projects may not be consistently funded using the appropriate transfer payment arrangement thereby increasing the risk that funding may have been provided to recipients who were unlikely to achieve the program objectives within the required timeframes or were likely to use a significant amount of the funding provided for other purposes; and
- Project information was not readily available, making it more difficult to properly manage funding agreements and placing INAC at risk of being unable to properly address any potential queries about specific projects.

Recommendations

The audit report provides a number of recommendations intended to address the audit findings, including:

The Director General, Community Partnerships Branch, should improve the policies, procedures and supporting tools used in the management of the CEOP and CSSP programs. This should include:

- The development of one comprehensive Operations Manual for the Community Economic Development program for use by headquarters and across all regions
- Guidance on the measures to be taken to identify and mitigate project level risk on an ongoing basis
- Guidance on how projects are to be selected for funding
- A formal application process for organizations seeking CSSP funding that is communicated broadly to potential applicants
- A template for CSSP project approvals by headquarters and the regions
- Guidance on reporting requirements for CSSP that can be included in funding agreements until such time as they can be included in the First Nations Reporting Guide and
- Guidance on the documents that must be retained and the mechanisms that are to be used to ensure that they are readily accessible (e.g. an index that provides a link to relevant documents, naming conventions).

The Director General, Community Partnerships Branch, should undertake a comprehensive review of staff requirements in conjunction with the Regional Directors General, to ensure that the CEOP and CSSP programs are adequately resourced to effectively deliver the program in accordance with the program terms and conditions, TBS policy, and internal policies and procedures.

The Director General Community Partnerships Branch should develop and deliver a training program for headquarters and regional management and staff responsible for delivering Economic Development programs that will provide them with the skills required to fulfill their program delivery responsibilities. Specific areas that should be addressed include:

- The importance of clearly describing in funding agreements planned project activities and outcomes, required reporting, and the time period over which these will occur
- Properly documenting project activities including approvals, risks assessments, and ongoing project monitoring and
- Responsibility for ensuring that recipients respect the terms and conditions of their funding agreements.

The Director General Community Partnerships Branch should take steps to improve the risk management practices applied to CEOP and CSSP. This should include:

- A formal review to update CEOP and CSSP program risk and mitigation strategies on at least an annual basis and
- The development and implementation of a risk-based audit framework for program recipients.

The Director General Community Partnerships Branch should undertake to identify and record the outcomes achieved for all funded projects since program inception.

The Director General Community Partnerships Branch should work with the Regional Directors General to ensure that CEOP and CSSP are consistently delivered in compliance with the program terms and conditions and government policy. This should include:

- Following the cash management policy as set out in the June 2000 Policy on Transfer Payments so that the need for advances and any variances from the Policy are documented in the project files and that outstanding advances are reconciled with actual expenditures incurred on at least a quarterly basis before additional funds are advanced
- Reviewing and adjusting, as required, practices for approving CEOP and CSSP payments so that approvals are made by the appropriately delegated official as identified in the program terms and conditions and
- Exploring options for flowing funds to provincial governments under the terms of existing agreements until such time as the terms and conditions for the Economic Development Program permit it.

The Director General Community Partnerships Branch should consider including other levels of government as an eligible recipient when the terms and conditions for the Economic Development Program are renewed or the terms and conditions for a successor program are put forward for approval.

The Director General Community Partnerships Branch should reassess the circumstances under which funding for CSSP projects should be provided through a flexible transfer payment (FTP) and advise the regions accordingly.

1.0 Statement of Assurance

We have completed the internal audit of the Community Economic Development Program as managed by the Aboriginal Economic Development Sector and delivered with the assistance of the regions. The overall objective of the audit was to provide assurance on the adequacy of the management framework established for selected subcomponents of the program and on how well it has been implemented.

The internal audit was conducted in accordance with the requirements of the Treasury Board Secretariat (TBS) Policy on Internal Audit and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

The audit team assessed the management control framework against criteria derived from the Treasury Board of Canada Secretariat (TBS) *Policy on Transfer Payments* and associated guidance.

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 conclusions reached and contained in this report. The conclusions were based on a comparison of the situations, as they existed at the time of the audit, against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

2.0 Introduction

The Economic Development Program of Indian and Northern Affairs Canada is intended to foster the conditions and opportunities which increase participation in the economy by First Nation and Inuit communities in a manner compatible with community culture and values, and by other Aboriginal individuals.

To increase their participation in the economy, First Nations and Inuit communities need assistance to:

- Increase their capacity to deliver public services in economic development;
- Get community members into employment;
- Develop land and resources under community control;
- Access opportunities from lands and resources not under community control;
- Promote investment in the community;
- Carry out research and advocacy initiatives; and
- Develop community-owned and community member businesses.

The Economic Development Program, which has roots dating back to 1989 and which was renewed effective April 1, 2005, has four programs/subprograms that are delivered by the Economic Development Branch³ (EDB) of the Aboriginal Economic Development Sector⁴, with the assistance of the regions. These are:

- **Community Economic Development Program (CEDP).** Under this program, core support is provided to First Nation and Inuit communities for community economic development planning and capacity development initiatives, development of proposals and leveraging financial resources and carrying out economic development activities. To access core funding and receive its annual allocation, recipients need to complete an annual plan outlining activities and expected performance measures to be carried out with the funds. Funding is provided through a Contribution, a Flexible Transfer Payment (FTP) or an Alternative Funding Arrangement (AFA).
- **Community Economic Opportunities Program (CEOP).** Under this program, financial support is provided to First Nation and Inuit communities, and the organizations they mandate, in response to opportunities. Proposals are assessed based on their community economic impacts and the projects with the best impacts are supported. Funding for this component is only provided through a contribution. INAC funding for any one project is not to exceed \$3M. The Economic Development Programs Directorate within EDB provides functional direction to the regions in their delivery of this program.

Funding is allocated to the regions based on their share of the total Indian and Inuit population. In 2005-2006 the expenditures were \$82M and in 2006-2007 they were \$34.5M. In 2007-2008 the budget was \$24.4M

³ The Branch has since been renamed the Community Partnership Branch.

⁴ Effective September 1, 2008, as part of a departmental reorganization, the Community Investments Branch became part of the Lands and Economic Development Sector.

- **Community Support Services Program (CSSP).** This program funds the implementation of national and regional plans to deliver support services to First Nation and Inuit community economic development organizations. The support services are intended to increase the economic capacity with community organizations to carry out one-time projects and ongoing activities related to economic development. In most cases, potential recipients are identified by regional program management and asked to submit a proposal. Funding is provided through a contribution where an ongoing relationship is not anticipated with the recipient. Otherwise, funding is provided through a Flexible Transfer Payment. Funding for contributions is allocated to the regions based on their share of the total Indian and Inuit population. In 2007-2008 the budget was \$3.3M, although approximately \$10M is spent annually.
- **Aboriginal Workforce Participation Initiative (AWPI).** This is a partnership initiative of the federal government that has as its objective, the increased participation of Aboriginal peoples in the labour market.

Based on a risk-based assessment, this audit focused on the CEOP and CSSP.

3.0 Objectives

The objective of the audit was to provide assurance to senior management that:

- appropriate policy and procedures, resources, systems and supporting tools were developed at the program level to facilitate consistent implementation of the program across all regions and promote the achievement of program objectives;
- funding requests are assessed in a timely, fair and transparent manner. Only eligible recipients and activities are approved for funding and only at a level consistent with the financial need, expected benefits or results, and risks;
- formal agreements, containing complete, appropriate and compliant terms and conditions are established with the recipient on a timely basis;
- activities are monitored to ensure compliance with program terms and conditions and with the funding agreement. Payments are made only upon fulfillment of requirements; and
- sufficient monitoring and oversight activities are conducted on a timely basis by program management to promote the achievement of program objectives. Identified issues that adversely impact program objectives are addressed in a timely manner.

4.0 Scope

The audit examined the processes and controls at the national and regional levels associated with:

- the development of policies, procedures and other tools for use by the regions;
- the processing of funding requests; and
- monitoring of funded activities and assessment of results achieved.

The activities in six regional offices were examined in detail: British Columbia, Saskatchewan, Ontario, Quebec, Atlantic and Nunavut.

5.0 Approach and Methodology

The audit was conducted in accordance with Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and Treasury Board's 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:

- Interviewing management and staff at headquarters and in the regions who are responsible for the delivery of CEOP and CSSP
- Reviewing policies, procedures, guidelines, etc. that have been developed by either headquarters or regional offices to support the delivery of CEOP and CSSP, and
- Reviewing 32 CEOP and 31 CSSP project files from six regional offices (Atlantic, Quebec, Ontario, Saskatchewan, British Columbia, Nunavut) and headquarters (CSSP files only) against a standard checklist. The files were selected using a dollar unit sampling methodology from all projects provided with funding during the period April 1, 2005 to November 7, 2007.

The audit team held an exit meeting at each regional office to discuss its findings with regional management. Program management at headquarters was also briefed on the overall audit findings after all fieldwork had been completed.

The approach used to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. The criteria for the audit were drawn from standard criteria developed by the Audit and Evaluation Sector for audits of grants and contributions programs, which in turn was based on:

- *TBS Policy on Transfer Payments*, June 1, 2000
- *TBS Guide on Grants, Contributions and Other Transfer Payments*, July 2002
- Office of the Auditor General (OAG) *A Framework for Identifying Risk in Grant and Contribution Programs*, November 1, 2000.

Audit fieldwork was conducted in the regions between February and March 2008 and at headquarters during April 2008.

6.0 Conclusions

Internal Audit is of the opinion that:

- While extensive guidance has been developed for CEOP, there are gaps in it and it is not accessible from one source. Significantly less guidance has been developed for CSSP. These deficiencies contributed to the inconsistencies in practices noted at headquarters and across the regions.
- There may be insufficient resources allocated to CEOP and CSSP to properly manage them. As well, limited training on all aspects of the program lifecycle has been provided to staff responsible for managing CEOP and CSSP. This contributed to the nature of the other findings identified in this report.
- Formal risk management processes at both the program and project level were not implemented for CEOP and CSSP, increasing the likelihood that funded projects would not achieve planned outcomes.
- Project management practices need to be improved so that:
 - Funding is targeted more consistently at those projects with the best impacts;
 - Funding agreements better describe planned projects and what is to be achieved;
 - Funding is only provided to eligible recipients;
 - All projects and payments are approved by the appropriate delegated official;
 - Payments are made when the funds are needed and any advances are reconciled on a timely basis;
 - Sufficient performance information is requested from recipients to monitor the results achieved;
 - Additional information is obtained to periodically validate the financial information provided by recipients in their consolidated audited financial statements; and
 - Regular and systematic monitoring of recipients is undertaken.

In addition:

- CSSP projects may not be consistently funded using the appropriate transfer payment arrangement, thereby increasing the risk that funding may have been provided to recipients who were unlikely to achieve the program objectives within the required timeframes or were likely to use a significant amount of the funding provided for other purposes; and
- Project information was not readily available, making it more difficult to properly manage funding agreements and placing INAC at risk of being unable to properly address any potential queries about specific projects.

7.0 Observations and Recommendations

7.1. General

7.1.1. Funding Arrangements

CSSP projects may not be consistently funded using the appropriate transfer payment arrangement.

The TBS *Guide on Financial Arrangements and Funding Options* provides a list of attributes associated with different types of transfer payments. Key attributes of AFAs include entitlement to payment based on a negotiated formula, the recipient can redesign the program in accordance with their community priorities provided that the minimum program requirements are met, and any surplus can be retained. With FTPs, entitlement to payment is based on meeting specific performance targets based on anticipated program results. The recipient that has been funded through a FTP does not have the authority to redesign the program and any surplus or deficit is the responsibility of the recipient. It is considered to be an appropriate funding mechanism when the level of risk is judged to be medium. With a contribution, only eligible, agreed to expenses are reimbursed.

According to the T&C for the Economic Development program, CSSP projects may be funded as a contribution, FTP or AFA. It indicates that contributions are to be used where there is not necessarily an ongoing funding relationship with the recipient. AFAs are to be used where the recipient qualifies for such arrangements under one or more other INAC programs. The Guidelines for CSSP indicate that either a contribution or FTP may be used to provide the funding. No guidance is provided on the conditions under which each is most appropriate.

Our review of project files found that FTPs were consistently used for CSSP if there was an ongoing funding relationship with the recipient for any INAC funded activity. No consideration was given to the inherent risk of the proposed project. Further, performance targets were generally defined in terms of requiring the submission of one or more reports, often just a financial report, by a specific date rather than in terms of achieving the desired program outcomes. In many regions, additional reporting requirements were established beyond those described in the funding agreement such that the project was treated more like a contribution notwithstanding the FTP funding agreement.

By providing funding in this manner, there is a significant risk that funding may have been provided to recipients who were unlikely to achieve the program objectives within the required timeframes or were likely to use a significant amount of the funds provided for other purposes. It is the view of Internal Audit that for a program such as CSSP, which funds both ongoing and one-time projects, there needs to be a consideration of the risks associated with the individual project to determine whether a contribution or FTP should be used. The decision should not be based on how other funding is provided for other programs or on the basis of just one potential risk factor (e.g. the nature of the ongoing relationship with the recipient).

Recommendation

The DG Community Partnerships Branch should reassess the circumstances under which funding for CSSP projects should be provided through FTP, and advise the regions accordingly.

7.1.2. Project Documentation

Expected project documentation could not be consistently found.

The TBS *Guide on Grants, Contributions and Other Transfer Payments* requires that contribution files include:

- the original application
- enough documentation to support the application's approval
- the original agreement (except when the application is considered the agreement, as allowed by the Transfer Policy for low-risk grants) and any subsequent amendments
- a record of all important communications, written or verbal, that have taken place between the recipient and the program officer
- original claims, along with supporting documentation, presented by the recipient (unless the original is held by Finance) and
- monitoring and progress reports.

INAC has a decentralized process for managing programs. Program management is primarily involved in the decision to fund a recipient, funding services manages the funding arrangement, and financial services is responsible for processing payments. Separate files are maintained in each functional area; there is no one source for all the information related to a project. Program officers also have information that is not on the official project file. At headquarters, the program was unable to provide project files for the arrangements funded by headquarters. All that could be found were the Financial Services files. During the period covered by the audit, INAC was in the process of moving away from paper-based records to electronic records. Paper documents are now routinely scanned and placed in the Comprehensive Integrated Document Management System (CIDMS). We were advised by some program officers that there are some restrictions on what can be placed on CIDMS and we observed how time consuming it can be to find a document if one does not have the document number.

Without ready access to project information, whether it is in paper or electronic format, it is more difficult to properly manage a contribution especially when the program officer changes. It also places INAC at risk of being unable to properly address any potential queries about a specific project.

Recommendation

The Director General Community Partnership Branch should develop guidelines, for all managers responsible for administering CEOP and CSSP projects, on the documents that must be retained and the mechanisms that are to be used to ensure that they are readily accessible (e.g. an index that provides a link to relevant documents, naming conventions).

7.2. Policies and Procedures

While extensive guidance has been developed for CEOP, there are gaps in it and it is not accessible from one source. Significantly less guidance has been developed for CSSP.

An effective and efficient management control framework for a transfer payment program requires that appropriate policies and procedures be developed, communicated and maintained to ensure the program is applied in a coherent manner within approved terms and conditions and other relevant policy and regulatory requirements.

The CEOP and CSSP program operations across the country are primarily conducted based on the following:

- Economic Development Program – Terms and Conditions effective April 1, 2005;
- Economic Development Programs – Administration Manual effective August 24, 2005;
- Guidelines for the Community Economic Development Program (undated document created during the 2005-2006 fiscal year);
- Guidelines for the Community Support Services Program (undated document created during the 2005-2006 fiscal year);
- First Nations Reporting Guide (FNRRG) updated annually;
- Region specific policies, guidelines and procedures developed in the regions; and
- Interpretation Bulletins.

The guidelines developed for the CEOP and CSSP are reproductions of the information contained in the T&C for the programs. They cover requirements related to: eligible recipients, projects and expenditures; applications; project approval criteria; funding levels; and terms and conditions of funding arrangements.

The Administration Manual provides guidance to staff that administer the economic development programs of the department. It contains information on: Authorities and Responsibilities; Program Administration; Managing Projects Under the Proposal-Driven Programs (Community Developmental Equity Program and CEOP); Managing the Community Economic Development Program; and Community Support Services Program (one page). It contains numerous links to other documents such as the: program T&C; Program Guidelines; Project Assessment Guide; Guide to Environmental Issues; Application Template; Project Assessment and Summary Report; Funding Agreement models; and FNRG.

In the Introduction to the *Manual*, a clear distinction is made between “must” and “should”. Practices that “should” be followed are described as being normally based on “good” practices. Where the responsible regional or headquarters official did not follow the recommended practice, the *Manual* indicated that the responsible official should document the reasons why⁵.

In accordance with the Administration Manual “Regional offices may develop manuals for the administration of the development programs in their region. Regional manuals apply only to regional operations, and must include justifications for any inconsistencies with this Manual”. Two of the six regions included in the scope of the audit found it necessary to significantly revise the Manual before it could be used, because of the limitations with it. Several others had developed regional specific procedures.

The undated Interpretation Guidelines, many of which were still in draft at the time of the audit, provided additional details on what types of projects and costs were eligible for funding under CEOP and/or CSSP, beyond what was already available in the Administration Manual and/or Guidelines.

The guidelines would benefit from further clarity and additional guidance in particular as they relate to cash management, results management, reporting, the use of performance indicators, monitoring requirements, project closing and post-project evaluations. There is insufficient detail on roles, responsibilities, accountabilities and file maintenance. The guidelines and procedures have not been revised on a regular basis; interpretation bulletins are used to provide new or updated guidance in part because they could be issued more easily⁶.

⁵ Economic Development Programs *Administration Manual*, p. 2

⁶ Program guidelines were approved by the Assistant Deputy Minister responsible for the Economic Development Program, the Administration Manual by the Director General, Aboriginal Economic Development, and the Interpretation Guidelines, by the Director

It is the view of Internal Audit that the use of multiple sources of information for program managers and staff contributed to the inconsistencies in practices noted at headquarters and across the regions. The use of one comprehensive Manual, which sets out the guidelines and procedures solely for the CEOP and CSSP programs, would facilitate their application for management and staff, particularly new staff, and result in a more consistent implementation of the two Programs across the regions. Regional variations may be required, however, these should be kept to a minimum, be approved by headquarters and form part of the comprehensive guidelines package. The consistent application of the guidelines and procedures would be further enhanced through the use of “how to” examples. There should be regular reviews and updates of the Manual.

Recommendation:

The Director General Community Partnerships Branch should develop one comprehensive Operations Manual for the Community Economic Development program for use by headquarters and across all regions.

7.3. Resource Capabilities

There may be insufficient resources allocated to CEOP and CSSP to properly manage them.

When the Economic Development Program was approved in March 2005, INAC estimated salary and operating costs of \$10.2 million for all aspects of the program, that were to be sourced from existing departmental reference levels. This was equivalent to 7 per cent of the total amount that was identified for program related transfer payments. It is our understanding that significant cuts were subsequently made to both salary and operating costs and to planned transfer payment amounts to assist in meeting departmental program review targets and to reflect the decision not to implement the planned equity subcomponent of the program.

An analysis of planned 2004-2005 operating and transfer payment funding by major strategic outcome⁷ from the 2005 Departmental Results-based Management and Accountability Framework (DRMAF) and Departmental Risk-Based Audit Framework (DRBAF) shows that there are programs in INAC with more operational funding in relation to the amount for grants and contributions, and those with less. Based on our analysis of the information in the DRMAF/DRBAF, planned 2004-2005 operating funding for the strategic outcome that CEOP and CSSP fell into was roughly half or less than what was described in the approval documents. The strategic objectives where the ratio of salary and operating costs to the amount available for grants and contributions was the most similar were governance and institutions of government and community infrastructure.

⁷ Figures from 2004-2005 were used as they were the most recent that provided a breakdown of salaries and operating costs by strategic outcome.

The *Administration Manual* also acknowledged that resource constraints might impact program delivery in the region. It indicates that regional responsibilities may not be clearly assigned to specific units where “resource constraints may limit work carried out with regard to negotiation, conclusion, monitoring and enforcement of funding functions⁸.”

All regional offices visited expressed the concern that there were insufficient personnel available to effectively manage the programs. The impact of this lack of staff is that there is often insufficient time to: conduct proper and full proposal/project assessments; adequately identify project risks and follow-up; to undertake initial project visits or provide training to recipients; carry-out monitoring activities and to properly document monitoring activities when they do take place (e.g. notes to file on project visits, phone calls); and to follow-up and document results. Many of these potential outcomes were observed by Internal

Audit and thus it is of the opinion that the regional concerns with respect to insufficient personnel may have merit, recognizing that some of the current resource constraints may be due to regional decisions on where to make program review reductions.

Recommendation:

The Director General, Community Partnerships Branch, should undertake a comprehensive review of staff requirements in conjunction with the Regional Directors General, to ensure that the CEOP and CSSP programs are adequately resourced to effectively deliver the program in accordance with the T&C, TBS policy, and internal policies and procedures.

Limited training on all aspects of the program lifecycle has been provided to staff responsible for managing CEOP and CSSP.

Training is required to ensure that staff members know how their responsibilities are to be carried out.

The *Administration Manual* indicates that “The Economic Development Programs Directorate is responsible for developing, maintaining, periodically delivering and making available for regional delivery, a training course and training materials on the administration of the economic development programs for departmental employees, members of Regional Program Management Advisory Committees, and third party assessors⁹.”

At the outset of the Program in the spring of 2005, training was provided to departmental employees which focused on program changes; it was assumed everyone knew how to manage projects. No on-going training program has been developed and new staff are required to learn by doing. The planned training for third party assessors was never developed.

⁸ *Administration Manual*, p. 7.

⁹ *Administration Manual*, p. 19

Program issues have also been discussed as part of regular teleconferences and at semi-annual national meetings. Both occurred before and after the current program was implemented effective April 1, 2005. The teleconferences were used to discuss changes at headquarters, program tools (e.g. Administration Manual, Interpretation Bulletins, templates), and funding. The national meetings provided the regions with an opportunity to share information on their experiences, to identify areas where national consistency and tools might be beneficial, and to review and approve program tools (e.g. Administration Manual, Interpretation Bulletins, templates). The last national meeting occurred in February of 2006.

The Auditor General of Canada noted in her 2006 report¹⁰ that INAC offers no formal training for program officers who manage grant and contribution projects. The report noted “Even though INAC has developed policies and procedures and issued guidance to program officers to govern the use of grants and contributions, we find that the lack of training contributed to a lack of consistency in applying its control framework.” While this finding was in reference to a program managed elsewhere in the department, the lessons learned do not appear to have been applied to CEOP and CSSP.

Internal Audit is of the opinion that the training provided to date for CEOP and CSSP has been inadequate and contributed to the findings identified in this report. More comprehensive training that covers the entire lifecycle and includes examples is required.

Recommendation:

The Director General Community Partnerships Branch should develop and deliver a training program for headquarters and regional management and staff responsible for delivering Economic Development programs that will provide them with the skills required to fulfill their program delivery responsibilities.

7.4. Risk Management

Risk management processes at the program level were not implemented for CEOP and CSSP.

A formal and systematic risk management process is an essential element of an organization’s management control framework and is one of ten elements in the TBS *Management Accountability Framework (MAF)*. Integrated risk management contributes to better program management, delivery and better value for money. It helps management make more informed decisions in managing the environmental, strategic, operational, political and financial risks that are under their control and should assist them to better respond to those risks that are beyond their control.

¹⁰ Chapter 6, *Management of Grants and Contributions*. INAC was one of five departments included within the scope of this audit.

According to the *Administration Manual* “The responsible headquarters and regional officials should manage program risks by systematically updating the identified risks to the achievement of program objectives, establishing controls to mitigate risks, assessing residual risks after controls, and establishing priorities based on residual risks.” No further guidance is provided on how this should be done.

Program risks identified in the 2005 DRMAF/DRBAF were at a strategic departmental level and are of limited value in informing day-to-day program management. The component RMAF for the Economic Development program included no information on program specific risks. We understand that since at least 2006 Treasury Board Secretariat has been requiring INAC to submit much more detailed RBAFs in conformance with the TBS *Risk-Based Audit Framework Guide*.

The audit found a risk assessment for the Economic Development program that had been completed in August 2004 before the program T&C were approved. Several of the key controls that were identified in it had not been implemented as planned (e.g. planned review by headquarters of third party assessments and regional project approval processes). At the time of the audit, the document had not been updated since 2004.

Internal Audit is of the perspective that to be an effective tool in the management and control of the program, the identified risks and the associated mitigation strategies must be formally reviewed and updated on a regular basis. Having a process to do it on at least an annual basis reduces the likelihood that it will be overlooked.

Recommendation:

The Director General Community Partnerships Branch should undertake a formal review to update the CEOP and CSSP program risks and mitigation strategies and update it on at least an annual basis.

A formal process to identify project risk and implement appropriate risk mitigation strategies was not found.

The *Administration Manual* provides a list of factors that could contribute to the risk of a project not being completed. The Manual further describes the types of additional monitoring efforts that should be considered when a project is deemed to be high risk.

In our interviews with them, managers could readily identify those recipients that in their estimation were most likely to experience challenges in successfully carrying out planned projects and the reasons why these challenges existed. In some cases, they also described the steps that were taken to mitigate the risks. Nevertheless, we found no evidence of a formal risk identification process being used and there was little evidence of monitoring and follow-up of identified risks through the life cycle of the project.

Internal Audit is of the opinion that planned project objectives are less likely to be achieved when project risks are not consistently identified and appropriate steps are not taken to mitigate them. The actions taken also need to be documented so that there is clear evidence that mitigation steps were in fact undertaken.

Recommendation:

The Director General, Community Partnerships, should ensure that program policies and procedures include guidance on the measures to be taken to identify and mitigate project level risk on an ongoing basis.

7.5. Project Management

7.5.1. Funding Requests

CEOP funding is allocated in a manner that is unlikely to consistently support projects with the best impacts.

The program T&C indicates that INAC will assess CEOP proposals based on their community economic impacts and support projects with the best impacts.

The *Administration Guide* focuses on assessing whether the applicant and the project are eligible for funding. It indicates that “The review and approval process should be based on compliance with basic project screening criteria, as well as the economic context of the beneficiary community, quantitative community economic benefits, and qualitative community benefits.” Reference is made to the *CEOP Project Assessment Guide* which provides a framework for assessing applications and includes a Model Project Ranking Scoresheet.

All regions essentially use a first in, first out basis for allocating funds. One region placed an upper limit of less than \$100,000 on the amount of funds available for any project so as to increase the number of projects that could be funded. Some regions did rate projects using a scoresheet based on the Model Project Ranking Scoresheet but it was not clear how the information from it was used to compare one project to another for funding decisions.

Internal Audit is of the opinion that the observed process has a focus on funding eligible projects rather than those with the best outcomes which will make it more difficult for the program to meet its stated objectives. While ranking different types of projects is difficult, a means of achieving this in a manner that is seen as being fair must be implemented.

Recommendation:

The Director General, Community Partnerships Branch, should expand the existing procedures to provide more guidance to the regions on how projects are to be selected for funding.

It is difficult to determine if CSSP funds are used for the best purposes possible.

Funding for CSSP projects was to be based on regional and national priorities developed by the respective national and regional Program Management Advisory Committees (PMACs).

At the regional level, the RPMAC, if it existed¹¹, generally identified the types of projects it wanted to undertake with the available CSSP funding. The RPMAC may also have identified an organization that could carry out a specific project. Rarely was a formal process utilized to identify potential recipients for CSSP funding.

The NPMAC never identified national priorities and did not meet beyond the winter of 2006. Headquarters made the decision on which national projects it would fund and manage directly. Insufficient documentation was available on the headquarters files made available to ascertain the basis for the funding decisions. A recommendation has already been made with respect to identifying the documents that must be retained and the mechanisms that are to be used to ensure that they are readily accessible.

Application requirements and project selection criteria are outlined in the CSSP Guidelines. At the same time, the Guidelines state “the program does not seek proposals from First Nation and Inuit communities, or their designated or mandated organizations.” As a result, it is not clear what process was to be used to determine which organizations would be selected, how much funding would be provided, and whether the funds were being put to the best use possible.

The Office of the Auditor General (OAG) has noted that:

“A key ingredient of a successful program is a high level of interest among potential applicants. Encouraging as many potentially eligible applicants as possible to apply helps ensure fairness of the program and helps target available funds towards the most promising projects.”¹²

Internal Audit is of the opinion that the lack of consistency and the informality in the processes utilized to fund CSSP projects make the department open to accusations of favouritism.

Recommendation:

The Director General, Community Partnerships Branch, should implement a formal application process for organizations seeking CSSP funding and this process should be communicated broadly to potential applicants.

Funding is provided to provincial governments which are not identified as eligible recipients under the program T&C.

¹¹ Quebec Region had permission from headquarters to not have a RPMAC.

¹² *A Framework for Identifying Risk in Grant and Contribution Programs*, Office of the Auditor General in collaboration with Industry Canada, November 1, 2000, p. 9.

According to the program T&C, eligible recipients must fall within the following classes of recipients: Band Councils; Governments of self-governing First Nations; local governments of Inuit communities; tribal councils; First Nation, Inuit and other Aboriginal corporations, associations, co-operatives, and institutions which provide or plan to provide economic development services for the benefit of First Nation and Inuit communities; non-aboriginal corporations other than federal Crown corporations, associations, co-operatives and institutions which provide or are planning to provide economic development services for the benefit of First Nation and Inuit communities; Canadian Executive Services Organization; and the Province of Ontario in relation to the Canada-Ontario Resource Development Agreement (CORDA).

CSSP was being used to provide funding to three provincial governments as part of a multi-year agreement. Under each agreement, the provincial government acts as a third party to further distribute funds from both levels of government. It is administratively easier and fosters the development of multiparty partnerships. Only the Province of Ontario, with the funding provided for CORDA, was an eligible recipient.

Internal Audit is of the opinion that this limit on the eligibility of provincial governments as a recipient under CSSP may hamper INAC in its ongoing efforts to work collaboratively with other levels of government to improve the economic well being of First Nations, Inuit and Innu.

Recommendations:

The Director General, Community Partnerships Branch, should consider including other levels of government as an eligible recipient when the terms and conditions for the Economic Development Program are renewed or the terms and conditions for a successor program are put forward for approval.

The Director General, Community Partnerships Branch, should explore with the regions other options for flowing funds to provincial governments under the terms of existing agreements, until such time as the T&C for the Economic Development Program permit it.

7.5.2. Funding Agreements

Funding agreements did not adequately describe planned projects and what was to be achieved.

The June 2000 TBS *Policy on Transfer Payments* sets out the basic provisions that must be included within funding agreements. These requirements include the purpose of the contribution, the expected results to be achieved, the effective date and duration of the agreement.

Funding for most CEOP and CSSP projects was provided through an amendment or a Notice of a Budget Adjustment (NOBA) to a master agreement that the department had with the recipient. The master agreements are based on standard templates that the department has developed and incorporate many of the requirements of the TBS Policy on Transfer Payments that are generic to any agreement (e.g. indemnification clause; conditions to be met before payment is made and the schedule or basis of payment; conflict of interest provisions regarding federal officials; funding is subject to an appropriation by Parliament).

The typical amendment for a CEOP or CSSP project included the following text:

The [recipient] shall carry out activities in accordance with Program Guidelines, and approved operational plans, including terms and conditions in plan approvals.

The [recipient] shall submit Interim and Final reports as set out in the *First Nations Reporting Guide*.

The nature of “approved operational plans” took different formats in different regions and for CEOP and CSSP. Regional practices included:

- a template for CEOP work plans that listed the key activities that were aligned with those described in the CEOP Program Guidelines, provided a brief description of the activities and listed quantifiable performance indicators.
- using the approved Project Assessment and Summary Form as the operational plan,
- treating the activities outlined in the original application as the approved plan.

It was not always clear what was the “approved operational plan”.

A separate funding letter, which was sometimes referenced in the amended master agreement, generally provided more details including a budget breakdown by type of expense and details on the activities to be carried out.

One region included a specific schedule to the master agreement for CEOP funded projects that provided a brief summary of the planned project, the start and completion dates, cash flows, and required reporting. Most did not and simply let the project default to the dates of the master agreement.

Some regions had specific reporting requirements for CSSP projects that were provided in the amended funding agreement. An interim expenditure report was required part way through the fiscal year and the final expenditures report was done by April 30th of the following fiscal year. Since the inception of CSSP, there have been no reporting requirements for it included in the FNRG. It is expected to be included in the 2009-2010 Guide with the first reports being submitted four months after the program T&C are scheduled to expire.

Internal Audit is of the perspective that the practices followed for funding agreements create considerable uncertainty as to what is being achieved by the project, what the indicators of success will be (other than a completed project and reports submitted on time), what activities will be carried out, and when the activities will be carried out.

Without that level of clarity, it is impossible to hold recipients accountable for the results achieved or the costs incurred.

Recommendation:

The Director General, Community Partnerships Branch, should ensure that training is provided to program officers on the importance of clearly describing planned project activities and outcomes, required reporting, and the time period over which these will occur in all CEOP and CSSP funding agreements.

7.5.3. Approvals

The required level of approval was not obtained for all funded projects.

According to the Program T&C, the authorities to sign and amend agreements for CEOP and CSSP are delegated no lower than Program Directors and Regional Directors. The Economic Development Program *Administration Manual* requires the approval of the Regional Director General for all CEOP projects for INAC funding up to and including \$100,000. Projects above this amount must be sent to headquarters for approval by the Assistant Deputy Minister or the Minister, depending on the dollar value.

The audit found that some projects were approved at a level lower than that set out in the program T&C. Internal Audit believes that the lack of a common approach to the approval of projects may have contributed to this noncompliance.

For CEOP projects, Part C: Funding Recommendation of the Project Assessment and Summary Report was to be used for project approvals. It has blocks at the bottom of the form for the signature of the recommending Director and for the approval of the Regional Director General (RDG) or Associate Regional Director General (A/RDG). We did not find that this form was used in all regions. Other mechanisms noted included:

- Signed budget transfer request form
- Approval letter to the recipient (these were not all signed by the RDG or A/RDG. In one region they were routinely signed by the project officer)
- Signed agreement (this was signed by either a Manager or Director Funding Services).

No similar template existed for CSSP projects. Rather the other mechanisms outlined above were utilized. One region combined the approval letter to the recipient with a Funding Action Request. The Director responsible for CSSP signed both.

By not having projects approved at the appropriate level, delegated authority was not properly exercised and there is an increased possibility that projects could be approved that should not be.

The training program that has been recommended to provide management and staff with the skills required to fulfill their program delivery responsibilities should help to ensure that all regional offices utilize a similar approach for documenting project approvals. A template for CSSP projects will also need to be developed to facilitate this.

Recommendation:

The Director General, Community Partnerships Branch, should develop a template for CSSP project approvals and provide it to the regions.

The appropriate delegated authority did not approve all CEOP and CSSP payments.

The program T&C have delegated the authority to approve CEOP and CSSP payments to no lower than Program Directors and Regional Directors.

Most payments are approved at that level although in one region we noted that a Manager in a regional office routinely authorizes payments. We recognize that this level of delegation is different than the norm for many other programs in the department. Nonetheless, it must be respected.

Recommendation:

The Director General, Community Partnerships Branch, should direct Regional Directors General to review their practices for approving CEOP and CSSP payments and ensure that they are consistent with the requirements of the program T&C.

7.5.4. Payments

Funds were advanced to recipients sooner than required and the advances were not reconciled on a timely basis.

The T&C for the Program states, "Payments are made on a cash flow forecast from the recipient and will not exceed the payment frequency as set out in the Cash Management Policy¹³". The Cash Management Policy states, "Where advance payments are necessary, they should be limited to the immediate cash requirements of the recipient and not exceed the following payment frequency:

Total Value of annual amount	Duration of Agreement		
	Less than 4 months	4 months or longer	
		Initial Advance	Subsequent Advances
Up to \$24,999	90%	90%	N/A
\$25,000 - \$100,000	90%	Up to 75%	Quarterly
\$100,001 - \$250,000	50%	first quarter	Quarterly
\$250,001 - \$500,000	50%	first quarter	Monthly, beginning in 4 th month
Over \$500,000	Monthly	First month	Monthly

¹³ TBS Policy on Transfer Payments, Section 7.6

Terms and conditions for the template CEOP funding agreement drafted by headquarters took this requirement further and included the following suggested payment schedule:

“Include a schedule of payments which

4. Where the project is assessed as having a low implementation risk, envisages advance payments in accordance with the recipient’s cash flow forecast, but not to exceed the Treasury Board’s policy on advance payment of Contributions;
5. Where the project is assessed as having a medium or high implementation risk, envisages payments as reimbursements of expenses and may include a hold back up to 20 percent of the funding, until the recipient submits final and acceptable financial and other reports according to the requirements set out in the Contribution arrangement.”

A review of actual cash flows found that a significant number were not consistent with the requirements of the program T&C. None appeared to take into account the CEOP terms and conditions for agreements drafted by headquarters. Observed practices included:

- The whole amount was advanced in one payment. Generally, but not always, this occurred in the last quarter of the fiscal year. Based on the program T&C, the payment should have been as little as half of the amount that was paid out.
- Advances were made more often than the frequency prescribed by the program T&C
- The initial advance exceeded the amount prescribed by the program T&C.

There was no information available on the files providing a rationale for advancing the funds or for advancing them faster than prescribed by the program T&C. For the CEOP advances and most CSSP advances, there was no reconciliation of the amounts advanced until months after the fiscal year ended. In several cases, the entire contribution was advanced and the project never started. The funds were returned. In one region, as much as 50 percent of the CSSP project budget amount was placed in the Pool¹⁴ and was not paid out until an interim financial report was provided. Internal Audit views the use of the Pool as a good practice that should be used more extensively for CEOP and CSSP projects.

By advancing funds before they are needed, INAC is effectively subsidizing the recipient’s operations. The monies can be invested or used to meet other short- term financial requirements. From the Government of Canada’s perspective, by providing funds before they are needed, it foregoes the income from any short-term investments it could have made on the funds or incurs additional costs on the money it must borrow.

¹⁴ When a transfer payment is established and the exact month that funds will be paid out to the recipient has not yet been established (e.g. it is dependent on the receipt of a report from the recipient), the funds are placed in the “Pool”. When the required conditions have been met, the funds are moved out of the “Pool” and the funds are scheduled to be paid out in a specific month.

The lack of a periodic reconciliation of the advance throughout the fiscal year in which it is provided also makes it difficult to reallocate funds that would otherwise lapse. Funds that are subsequently returned after the recipient reconciles revenues and expenses by July 31st of the following fiscal year must go to the Consolidated Revenue Fund and can not be added to the current year's appropriation to further program objectives.

Recommendation:

The Director General, Community Partnerships Branch, should remind management responsible for CEOP and CSSP funding agreements: of the need to follow the cash management policy as set out in the 2000 TBS *Policy on Transfer Payments*; that the need for advances and any variances from the Policy must be documented in the project file; and that advances must be reconciled with actual expenses incurred on at least a quarterly basis if additional advances are to be made.

7.5.5. Performance Results Reporting

Program management has requested insufficient information to know what results are being achieved with the funding provided.

On an ongoing basis, management must evaluate their programs to assess whether they are effective in meeting planned objectives. To do this, information on the outcomes that are being achieved with the funding provided must be collected.

Funding agreements for CEOP and CSSP typically require recipients to submit reports as required by the FNRG. The requirements as set out in the FNRG have been inadequate, for much of the period since the programs were launched, to collect sufficient information on program outcomes.

For the 2005-2006 and 2006-2007 fiscal years, CEOP recipients were required to report on the activities carried out during the year, the extent of project completion, end of project results (only required if INAC has not committed any further funding), and results expected from the project in the future. The form was significantly redesigned for 2007-2008 and made available in a Portable Document Format (PDF) with drop down menus. While similar information is still required as before, quantitative performance indicators can now be selected from a drop down menu.

The reports submitted during the first two years of the program for those CEOP projects included in the audit sample focused on the activities undertaken and did not generally include performance indicators linked to the expected outcomes¹⁵.

Required reporting for CSSP is not expected to be in the FNRG until 2009-2010. Some regions have nonetheless implemented their own reporting requirements. Activity reports (e.g. what was carried out, how many participated) have been submitted but there are no details on potential performance measures aligned with planned program outcomes.

¹⁵ CEOP Project Status Reports for 2007-2008 were to be submitted by July 31, 2008.

There was no formal reporting of program results by the regions to headquarters. Headquarters relied on the information available in FNITP (or the Transfer Payment Management System, the predecessor to FNITP) and the Proposal Information Management System (PIMS). It was intended, at the outset, that PIMS would be a key source of information on economic development projects. It has the ability to collect information on the intended economic objectives and subobjectives and expected job benefits of the project. As part of the program review cuts made by the Economic Development Branch, resources devoted to PIMS maintenance were cut. We understand that resources for this purpose were restored early in 2008. In many of the regions visited as part of the audit, we were advised that PIMS was viewed as duplication to FNITP and was not kept up to date. Management and staff at headquarters indicated that they did not use the information in PIMS unless there was a question on a project or region that needed to be answered.

Based on the available electronic systems, headquarters had access to information on the number of projects funded, the total value of projects and the amount of funding provided by INAC. Input to the annual Departmental Performance Report (DPR) for 2005-2006 and 2006-2007 reflected the lack of solid performance information available.

Internal Audit is of the opinion that the quality of the information collected on performance makes it impossible at this time to determine the results achieved by CEOP and CSSP. Unless there is a concerted effort over the next year to collect this information, it will be difficult to demonstrate the results achieved by the program to support renewal of the terms and conditions when they expire March 31, 2010.

Recommendations:

The Director General, Community Partnerships Branch, should undertake to identify and record the outcomes achieved for all funded projects since program inception.

The Director General, Community Partnerships Branch, should develop reporting requirements for CSSP that can be included in funding agreements until such time as they can be included in the FNRG.

7.5.6. Financial Management and Reporting

An over reliance has been placed on audited consolidated financial statements from recipients such that recipient audits have not been undertaken.

When funding is provided as a contribution, as it is for CEOP and in some instances for CSSP, an accounting must be provided as to how it was spent.

CEOP and CSSP recipients provide audited consolidated financial statements as part of INAC's annual reporting requirements. Some regions have also implemented supplementary financial reporting requirements for CSSP projects. The financial statements include separate schedules of revenue and expenditure for the various programs and services described in the funding agreement. As noted in the *INAC Year-end Reporting Handbook for First Nations, Tribal Councils and First Nation Political Organizations*, the schedules do not need to be individually audited. Rather, the external auditor must provide an attestation on the overall balances that are included in

the summary/consolidated financial statements. Headquarters or Regional Funding Services, as appropriate, reviews the schedules with input from the regional or headquarters management responsible for the specific program. Management responsible for the program are asked to provide input on whether the nature of the expenditures is consistent with the type that would be expected to deliver the project, and if there is any reason to conclude that the terms and conditions of the funding provided have not been met.

We did find cases where appropriate follow-up action to the financial reports was taken; however, we found little evidence of budget discrepancies being challenged. Many departments place limits on the extent to which budgets for individual line objects can be reallocated without approval (generally changes are limited to 10 to 15 percent of the impacted line objects). In other cases, the reporting from the recipient made it clear that the funds were not dispersed in the appropriate fiscal year but rather the project, funded as a contribution, continued on to the next fiscal year. No action was taken even though this action is inconsistent with the funding agreement as written. A training program to provide staff responsible for delivering Economic Development programs with the skills required to fulfill their program delivery responsibilities, as already recommended, should reduce the likelihood of this occurring in future.

While financial statements provide some assurance of the overall financial status and financial accounting practices of the recipient, they provide no assurance that the expenditures allocated were in fact for the intended project. Other federal government departments use recipient audits to provide this assurance.

The June 2000 TBS *Policy on Transfer Payments* requires departments to develop a risk-based audit framework for the audit of contributions. No such framework has been developed for CEOP or CSSP. The approved program T&C indicated that “the audit process or criteria to be used for auditing Contribution recipients will be addressed through the Departmental Risk-Based Audit Framework”. According to the component profile included in the DRMAF/DRBAF “Information on the audit and evaluation coverage to be provided to this Program by the department’s Audit and Evaluation Branch will be outlined in INAC’s 2005-2006 Risk-Based, Strategic Audit and Evaluation Plan, which is currently under development.” Audits of contribution recipients are generally considered to be a program management responsibility and would not normally be included in the Audit and Evaluation Branch’s plan.

Internal Audit is of the opinion that program management should use recipient audits, following a risk-based approach, to confirm that the submitted financial reports accurately reflect how funds were spent.

Under a risk-based audit framework, recipients are selected for audit based on a number of risk criteria such as size of the contribution, quality of ongoing reporting, information gleaned through monitoring visits, etc. The funding agreements examined in the course of the audit required the recipient to provide INAC with reasonable access to its records to enable the department to confirm any data which has been reported by the recipient. The agreement did not explicitly give the Minister the right to conduct an

audit of a contribution agreement, even though an audit might not always be undertaken. The Minister, in a March 31, 2008 announcement, outlined INAC's intent to strengthen the audit clause in its funding agreements.

Recommendation:

The Director General Community Partnerships Branch should develop and implement a risk-based audit framework for CEOP and CSSP recipients.

7.5.7. Monitoring and Feedback

Little evidence was found of regular and systematic monitoring taking place.

The TBS *Guide on Grants, Contributions and Other Transfer Payments* outlines that "Program officers are expected to monitor regularly the progress and activities of recipients of contributions or other conditional transfers. Monitoring is a crucial element of a transfer program control framework." Monitoring includes ensuring that the recipient meets the terms and conditions in the funding agreement and reaches the milestones specified in the contribution agreement. They must also ensure that costs and expenses claimed for reimbursement correspond to the eligible costs and expenditures listed in the agreement and do not exceed the maximum authorized for each category.

The Economic Development Programs *Administration Manual* indicates that monitoring should normally be done by reviewing performance reports received from funding recipients and their financial statements, including audited financial statements where required. When reports are not provided on time, recipients are to contact the recipient and place a memorandum to file on what transpired. Where projects are perceived as "high risk", regional officials were to consider additional monitoring measures. Factors that create high risks for projects are described in the Manual. If site visits are undertaken, project reports were to have been prepared and placed on the project file.

We found little evidence of regular and systematic monitoring taking place. Internal Audit is of the opinion that this may be due to a lack of staff to undertake monitoring, which can be time consuming, or to not documenting the activities undertaken. Recommendations to address both of these issues have already been made.

Regional staff indicated that they are in regular contact with the recipients and do make site visits to their projects, perhaps not as often as they would like, however, due to time constraints. These activities are not always documented on the files.

As already noted, discrepancies were identified by the audit team based on the performance reports submitted that should have warranted follow-up action. There was no evidence on the file that this had occurred. We did, however, see copies of letters to recipients reminding them when reports were due and following up if they had not been received or to recover funds not spent.

By not monitoring projects on a more timely basis, corrective action may not be identified that could impact the outcome, and thus increase the likelihood that the intended results will be achieved.

8.0 Action Plan

Project Title: Audit of the Community Economic Development Funding

Region or Sector: Aboriginal Economic Development

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The DG Community Partnerships Branch should reassess the circumstances under which funding for CSSP projects should be provided through FTP, and advise the regions accordingly.</p>	<p>DG Community Investment Branch has directed that all CEOP and CSSP projects will be funded through a contribution arrangement. Funding through a flexible transfer payment is no longer permitted.</p> <p>A complete re-assessment of the circumstances of which funding for CSSP projects should be provided through FTP will be undertaken and included in updated program authorities.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p> <p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p> <p>March 31, 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>3. The Director General Community Partnerships Branch should develop one comprehensive Operations Manual for the Community Economic Development program for use by headquarters and across all regions.</p>	<p>Actions to Date: A single, comprehensive interim program guide has been developed for implementation across all regions and includes;</p> <ul style="list-style-type: none"> • New project approval documentation which includes an assessment of project risks; • A formal application and assessment process for CSSP projects, including enhanced reporting requirements; and • A new set of application, approval and payment forms. 	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>
	<p>A review of program interpretation bulletins will be conducted and adjustments will be made as necessary. Any regional material will require headquarter approval.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2009</p>
	<p>A complete, comprehensive Operations Manual will be developed in conjunction with the revised programming being explored in the context of the Aboriginal Economic Development Framework.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2010</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>5. The Director General Community Partnerships Branch should develop and deliver a training program for headquarters and regional management and staff responsible for delivering Economic Development programs that will provide them with the skills required to fulfill their program delivery responsibilities.</p>	<p>A comprehensive training program and related materials have been developed and a series of regional office training visits is currently underway and will be complete by the end of October.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>
	<p>Regional staff in the Business Development branch, familiar with the management of contribution agreements as being implemented, will be available to advise and assist regional staff.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2009</p>
	<p>Additional training, including refresher training will be administered by the branch, based on the results of branch quality assurance reviews that will be undertaken on a systemic basis.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>Annually</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>6. The Director General Community Partnerships Branch should undertake a formal review to update the CEOP and CSSP program risks and mitigation strategies and update it on at least an annual basis.</p>	<p>A risk management framework for these programs is being developed and will be updated on an annual basis.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2009</p>
<p>7. The Director General Community Partnerships should ensure that program policies and procedures include guidance on the measures to be taken to identify and mitigate project level risk on an ongoing basis.</p>	<p>New project assessment documentation has been developed which includes an assessment of project risks.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>8. The Director General Community Partnerships Branch should expand the existing procedures to provide more guidance to the regions on how projects are to be selected for funding.</p>	<p>New guidelines have been developed and built into the project assessment process that increases the challenge function on projects.</p> <p>Regional Investment Strategies are put into place to guide the selection of projects. Further guidance concerning project selection will be developed.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2010</p> <p>March 31, 2010</p>
<p>9. The Director General Community Partnerships Branch should implement a formal application process for organizations seeking CSSP funding and this process should be communicated broadly to potential applicants.</p>	<p>Based on the new guidelines, all regions require a formal application process that includes the receipt and assessment of proposals. This requirement is communicated to all applicants under the CSSP program. (CSSP applicants will be required to follow the newly developed application and reporting procedures).</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>10. The Director General Community Partnerships Branch should consider including other levels of government as an eligible recipient when the terms and conditions for the Economic Development Program are renewed or the terms and conditions for a successor program are put forward for approval.</p>	<p>Successor programming, currently under development will consider the inclusion of other eligible recipients (including other levels of government) in the revised program authorities.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2010</p>
<p>11. The Director General Community Partnerships Branch should explore with the regions other options for flowing funds to provincial governments under the terms of existing agreements, until such time as the T&C for the Economic Development Program permit it.</p>	<p>The program will explore with the regions other options for flowing funds to provincial governments. Specifically, a strategy is being developed for CORDA which includes a 1 year renewal and an evaluation of the agreement with the Province of Ontario.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>12. The Director General Community Partnerships Branch should ensure that training is provided to program officers on the importance of clearly describing planned project activities and outcomes, required reporting, and the time period over which these will occur in all CEOP and CSSP funding agreements.</p>	<p>Supplementary procedure documentation, approval documentation and training material has been developed that includes the requirement that planned project activities, outcomes, reporting requirements and the timing these activities are included in all contribution agreements.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>
<p>13. The Director General Community Partnerships Branch should develop a template for CSSP project approvals and provide it to the regions.</p>	<p>A template for CSSP project approvals has been developed.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>14. The Director General Community Partnerships Branch should direct Regional Directors General to review their practices for approving CEOP and CSSP payments and ensure that they are consistent with the requirements of the program T&C.</p>	<p>As a part of the training program developed, program officers are receiving training to ensure that projects are funded in compliance with the transfer payment policy including the cash management policy. In addition, new payment and claims processes, which include signoff by the appropriate delegated authority, have been implemented.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>15. The Director General Community Partnerships Branch should remind management responsible for CEOP and CSSP funding agreements: of the need to follow the cash management policy as set out in the 2000 TBS <i>Policy on Transfer Payments</i>; that the need for advances and any variances from the Policy must be documented in the project file; and that advances must be reconciled with actual expenses incurred on at least a quarterly basis if additional advances are to be made.</p>	<p>As a part of the training program developed, program officers are receiving training to ensure that projects are funded in compliance with the transfer payment policy including the cash management policy. In addition, new payment and claims processes, which include signoff by the appropriate delegated authority, have been implemented.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>October 1, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>16. The Director General Community Partnerships Branch should undertake to identify and record the outcomes achieved for all funded projects since program inception.</p>	<p>A file review of CEOP projects is currently underway to quantify the outcomes and benefits achieved as a result of these investments.</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>December 31, 2008</p>
	<p>An evaluation of all LED Economic Development programming is underway which will detail further outcomes and impacts.</p>	<p>Chief Audit and Evaluation Executive, INAC</p>	<p>December 31, 2008</p>
	<p>In any future version of this program, outcome reporting will be included as a project requirement.</p>		

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
17. The Director General Community Partnerships Branch should develop reporting requirements for CSSP that can be included in funding agreements until such time as they can be included in the FNRG.	The program will develop reporting requirements for CSSP that can be included in funding arrangements.	Director General, Community Investment Branch, Lands and Economic Development Sector	December 31, 2008
18. The Director General Community Partnerships Branch should develop and implement a risk-based audit framework for CEOP and CSSP recipients.	<p>The program will develop terms of reference for the audit of CEOP/CSSP recipients targeting 10% of projects annually.</p> <p>Recipient audits will be undertaken commencing next fiscal year</p>	<p>Director General, Community Investment Branch, Lands and Economic Development Sector</p> <p>Director General, Community Investment Branch, Lands and Economic Development Sector</p>	<p>March 31, 2009</p> <p>April 1, 2009</p>