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Audit of the Aboriginal Peoples' Program: Aboriginal Communities Component

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

December 2008



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Executive Summary

Introduction

The Aboriginal Peoples' Program (APP) is currently managed by the Aboriginal Affairs Branch within the Citizenship and Heritage Sector. The APP enables Aboriginal people to address the social, cultural, economic and political issues affecting their lives. Its aim is to increase the participation, and strengthen the cultural revitalization of Aboriginal people in Canadian society. These APP programming elements are structured under three distinct but complementary components: *Aboriginal Organizations*, *Aboriginal Communities* and *Aboriginal Living Cultures*. The *Aboriginal Organizations* component was transferred to the Department of Indian and Northern Affairs effective April 2007.

The programming elements within the *Aboriginal Communities Component* (ACC) include:

- *Aboriginal Friendship Centres* (AFC) (\$16.2M);
- *Urban Multipurpose Aboriginal Youth Centres* (UMAYC) (\$20.7M);
- *Young Canada Works for Aboriginal Urban Youth* (YCW) (\$1.5M);
- *Scholarships and Youth Initiatives* (SYI) (\$0.1M);
- *Post Secondary Scholarship Program* (PSSP) (\$10M); and
- *Aboriginal Women's Program* (AWP) (\$2.2M).

This audit of the ACC was conducted pursuant to the 2006-07 Audit Plan of the Audit and Assurance Services Directorate, Office of the Chief Audit and Evaluation Executive (OCAEE) that was approved by the Department of Canadian Heritage (PCH) Audit and Evaluation Committee.

The objectives of the audit were to provide PCH senior management with:

- Assurance that management control frameworks (systems, procedures, controls, and resources) and management practices are appropriate to ensure compliance, program effectiveness and financial integrity;
- Assurance that the management action plan addressing recommendations from previous program audits is implemented; and,
- Recommendations on management activities (controls, risk and governance) in order to improve the overall management of this program.

Key Findings

The audit team identified the following control strengths:

- A portion of the funding for UMAC and AWP delegated to Headquarters (HQ) is subsequently distributed to the regional fund centers. The balance is managed directly by HQ. This gives the regional fund centers the capability to provide prompt customer service since the regions have a better perspective of the demands from the recipients in their own area;
- The Aboriginal Youth Advisory Committees, representing youth from Aboriginal communities, are involved in the application assessment and monitoring processes for the UMAC programming element. By being directly involved in the community, the Aboriginal Youth Advisory Committee members have a good perspective on the projects that are being considered for funding and the requirement for the community; and
- Program eligibility criteria for applicants are applied in accordance with the Program's Terms and Conditions.

Recommendations

Here are the recommendations:

1. The Director General of the APP must develop and implement a formalized performance management and reporting process. The tools to establish a performance management and reporting process must include, but not be limited to, a performance reporting process with the Regions with the establishment of accountability between the Regions and HQ, performance targets specific to the ACC that derive from the umbrella Results-based Management and Accountability Framework (RMAF) of the APP as well as a project work plan for the contemplated program performance management database, if approved;
2. The Director General of the APP must establish a formalized risk assessment process specific to the ACC by identifying and assessing risks associated with governance, financial management and recipients. This would include, but would not be limited to, establishing a formal recipient / project monitoring process; establishing, assessing and monitoring activities of third party delivery organization management and processes to ensure that performance is documented on a regular basis; and ensuring, for control mechanism purposes, that the National Association of Friendship Centres (NAFC) has signed agreements with the ultimate recipients;
3. The Director General of the APP must establish a contingency plan in the event that a third party delivery organization is no longer capable of delivering the program;

4. The Director General of the APP must complete a comprehensive set of program management guidelines related to operating procedures and work tools with the intent of increasing awareness of program requirements, introduce consistency in program administration, and improve the effectiveness of program management;
5. The Director General of the Financial Management Branch (FMB) must establish clear guidelines for the determination and assessment of administration costs in proposals and in clauses of contribution agreements as well as the breakdown of the administration costs in the budget;
6. The Director General of the APP must implement standard proposal assessment grids / checklists for use by UMAC Aboriginal Youth Advisory Committees based on criteria that accurately reflect program objectives and requirements;
7. The Director General of the APP must develop guidelines for documenting program requirements to ensure that there is sufficient documented evidence of proposal assessment and due diligence in project files;
8. The Director General of the FMB must insert a clause in the contribution agreement with recipients that provide PCH with a provision for withholding funds related to the new agreement based on outstanding reporting related to prior year agreements; and
9. The Director General of the APP must include an eligibility criterion stating that the application for new funding can only be approved if, where applicable, all files older than one year from the recipient who is applying for funding, have no outstanding issues.

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 Aboriginal Communities Component of the Aboriginal Peoples' Program has moderate issues requiring management focus. Control weaknesses have been addressed in the recommendations.

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With the assistance of external resources

1. Introduction and Context

1.1 Authority for the Project

This audit was conducted pursuant to the 2006-07 Audit Plan of the Audit and Assurance Services Directorate, OCAEE, that was approved by the PCH Audit and Evaluation Committee.

1.2 Background

Prior to 2005, the Aboriginal Affairs Branch (AAB) had 15 programs and initiatives which were governed by 10 separate and distinct terms and conditions that predated the Treasury Board *Policy on Transfer Payments (PTP)*. In 2005, a new policy framework was approved that consolidated these programs and initiatives as the Aboriginal Peoples' Program for administration and reporting efficiencies and the ability to monitor and report on results strategically. The APP terms and conditions approved in October 2005 and the commitment to undertake a three year implementation strategy (2005-08) to effect the transition from the former administration of individual programs to the new APP.

The APP enables Aboriginal people to address the social, cultural, economic and political issues affecting their lives. Its aim is to increase the participation, and strengthen the cultural revitalization of Aboriginal people in Canadian society. These APP programming elements and initiatives are structured under three distinct but complementary components: *Aboriginal Organizations*, *Aboriginal Communities* and *Aboriginal Living Cultures*.

- The *Aboriginal Organizations* component provides key national, provincial, territorial, and regional Aboriginal organizations with the capacity to represent the interests of their communities. The programs under this component were transferred to the Department of Indian and Northern Affairs Canada effective April 2007.
- The *Aboriginal Living Cultures* component focuses on the development of strategies for the preservation, revitalization and promotion of Aboriginal languages and cultures.
- The *Aboriginal Communities* component, aims to strengthen Aboriginal cultural identity and participation in Canadian society, focusing on the unique challenges faced by Aboriginal youth, women and urban communities. The ACC pursues the achievement of its objectives through a number of programming elements. These elements support the initiatives of Aboriginal communities to develop innovative and culturally appropriate projects that address the social, cultural, economic and other obstacles impeding either Aboriginal community or personal prospects and that result in strengthened Aboriginal cultural identity and improved Aboriginal Peoples' participation in Canadian society.

ACC, which is the subject of this audit, comprises the following programming elements:

Aboriginal Friendship Centres

The AFC programming element supports the operations of a national and affiliated provincial / territorial associations (PTAs) and Aboriginal Friendship Centers (FCs), enabling the provision of a wide range of culturally appropriate programs and services directed at improving the lives and strengthening the cultural identity of urban Aboriginal people.

Urban Multipurpose Aboriginal Youth Centres

The UMAC program element supports community-based, culturally appropriate projects designed to improve the skills, knowledge and leadership of urban Aboriginal youth. Through access to culturally relevant programs and activities, Aboriginal youth strengthen their cultural identity and improve their participation in Canadian society.

Young Canada Works for Aboriginal Urban Youth

The YCW program element helps Aboriginal youth, aged 16 to 30 inclusively, explore career choices in the citizenship and heritage sectors by assisting them in getting the skills and knowledge required to participate in the labour force through summer work experiences, lasting 6 to 16 consecutive weeks.

Scholarships and Youth Initiatives/Post Secondary Scholarship Program

The SYI and the PSSP support scholarships and career fairs.

Aboriginal Women

Due to their common nature and the common management practices, the three programming elements related to Aboriginal Women were treated as a single programming element for purposes of this audit.

Women's Community Initiatives

The Women's Community Initiatives (WCI) programming element supports Aboriginal women's projects addressing issues affecting them and their families and strengthening their cultural identity and traditions.

Women's Self-Government Participation

The Women's Self-Government Participation (WSGP) programming element supports Aboriginal women's participation in self-government design and advancement.

Family Violence Initiative

The Family Violence Initiative (FVI) programming element supports community-based culturally appropriate approaches to addressing the issue of family and related violence within Aboriginal families, mainly off reserve.

The ACC actual funding amount is approximately \$40.7M per year. However, a one time \$10M grant was given to the National Aboriginal Achievement Foundation (NAAF) in 2006-07 under the PSSP. This funding is not included in this audit. Funding is administered by the Aboriginal People Program Directorate in Gatineau (APPD HQ) and by PCH Regional and District offices across Canada. It is delivered both through direct funding agreements with ultimate recipients and, via a third party delivery model in association with Aboriginal organizations. Funding under the third party delivery model is provided to organizations such as the NAFC who in turn further distribute the funding to ultimate recipients in support of program objectives. The Operating and Maintenance and Salary budget is set at the APP level.

The table below summarizes the administration and delivery of the ACC programming elements and indicates the actual amount by programming element for the fiscal year 2006-2007, which includes the one time \$10M grant to the NAAF:

Table 1: ACC Program Elements

ACC Programming Element	Delivery Method	Delivery Organization(s)	Amount of Funding
UMAYC	Direct	APPD HQ & Regional / District Offices	\$ 20.7M
	Third Party	Métis National Council and Provincial Affiliates	
	Third Party	Inuit Tapiriit Kanatami and regional affiliates	
	Third Party	National Association of Friendship Centres	
SYI	Direct	National Aboriginal Achievement Foundation	\$ 0.1M
PSSP	Direct	National Aboriginal Achievement Foundation	\$ 10M
AFC	Third Party	National Association of Friendship Centres	\$ 16.2M
YCW	Third Party	National Association of Friendship Centres	\$ 1.5M
AWP	Direct	APPD HQ & Regional / District Offices	\$ 2.2M
TOTAL			\$ 50.7M

2. Objective(s)

The objectives of the audit were to provide PCH senior management with:

- Assurance that management control frameworks (systems, procedures, controls, and resources) and management practices are appropriate to ensure compliance, program effectiveness and financial integrity;
- Assurance that the management action plan addressing recommendations from previous program audits is implemented; and,
- Recommendations on management activities (controls, risk and governance) in order to improve the overall management of this program.

3. Scope

The audit was conducted between April and December 2007. Audit work was carried out at APPD HQ in Gatineau, in the Prairie & Northern Region (PNR) and in the Western Region, more specifically in the Regional or District Offices in Winnipeg, Edmonton, and Regina, as selected by the OCAEE. To reduce travel cost, only those three offices were chosen based on the volume of funds provided and the amount of files managed. The audit scope covered the period from April 1, 2005 to March 31, 2007.

The audit examined the management control framework in place at PCH, both at HQ and the above noted Regional or District Offices during the period of audit. Program management and funding activities undertaken by third party organizations in the delivery of the ACC were excluded from the scope of this audit.

4. Approach and Methodology

The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing and the standards and requirements set out in the Treasury Board Policy on Internal Audit.

The audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. These audit criteria were derived primarily from the “Attributes of a Well-Managed Grant or Contribution Program” as set out in the Auditor General of Canada’s 1998 Report, Chapter 27, *Grants and Contributions*, “A Framework for Identifying Risk in Grant and Contribution Programs”, The Criteria of Control (‘CoCo’), as identified in “Guidance on Control” published by the Canadian Institute of Chartered Accountants, the PTP, July 2000, and, the “Canadian Heritage Grant and Contribution Management Policy”.

Work performed included:

- Review of relevant program documentation included, but was not limited to: Program Terms and Conditions (T&Cs), RMAF and Risk Based Audit Framework (RBAF), program Applicant Guidelines and, National and Regional Office policies, procedures

- and work tools for administration of the program;
- Interviews and discussions with program management at HQ and in seven out of 23 Regional or District Offices, located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Newfoundland/Labrador, during the Planning Phase to identify and document the management control framework;
- Risk assessment on key program component activities and processes during the Planning Phase;
- Site visits to and interviews with individuals responsible for program management and administration at HQ and in the PNR and Western Regional offices, more specifically in Winnipeg, Edmonton, and Regina;
- Detailed examination of a sample of project files administered at HQ, in the PNR and Western Regions; and
- Follow up on recommendations from the following program audits: Report on the Audit of the Aboriginal Friendship Centre Program (AFCP) (February 2004), Report on the Audit of the UMAC (February 2004), Report on the Follow Up Audit of the AWP (June 2003).

For purposes of the detailed examination of project files, a random sample was selected, covering the period of audit from April 2005 to March 2007. A total number of 81 approved project files were selected from a list of files downloaded from the Grants and Contributions Information Management System (GCIMS), of which 51 were approved during the period from April 1, 2006 to March 31, 2007, and 30 were approved during the period from April 1, 2005 to March 31, 2006. A sufficient file selection supports the accuracy of the opinion provided and contained in this report. Due to time constraints, the focus of this audit was on the Grants and Contributions Program and excluded the Financial Delegation Authority.

The sample selection of project files is summarized in the following table by ACC Sub-component and location of office(s) responsible for administration of the file(s):

Table 2: Sample of project files

	ALTA*	SASK*	MAN*	HQ **	TOTAL
UMAYC	16	23	18	5	62
AWP	5	5	3	4	17
AFC				1	1
NAAF/SYI				1	1
Total	21	28	21	11	81
* All regionally managed files represent funding provided 'directly' to ultimate recipients.					
** Of the 11 HQ managed files selected, three UMAC and four AWP files represent 'direct delivery' funding. The remaining four are files representing funding to third party organizations. The AFC and NAAF/SYI are only delivered by HQ.					

The above selected files represent approximately 27 percent of the total number of all projects approved and approximately 41 percent of the total project funding during the 2005-2006 and 2006-2007 fiscal years.

The detailed examination of projects also included the random selection of 14 project files (ten from Saskatchewan and four from Manitoba) that were rejected for funding to ensure that justification for the rejection was documented.

5. Observations, Recommendations and Management Response

5.1 Performance Management

A RMAF is in place for the APP that is linked to departmental objectives and includes a logic model, performance indicators, performance measurement strategy, roles and responsibilities. A new performance management database was being contemplated. However, the audit team found that:

- Performance targets necessary for evaluating program success of the ACC were not established; and
- A project work plan for the contemplated program performance management database was not completed and approved.

Analysis

The above observations were based on a review of relevant program documentation, interviews with program management, and the review of a sample of project files, both at HQ and the three Regional / District offices visited.

Performance Targets

The audit team reviewed the RMAF for the APP, that includes the ACC, and conducted interviews with program management, and found that performance indicators have been established for the APP. However, performance targets specific to the ACC, against which program performance can be measured, have not been established.

Performance Management and Reporting Process

From the review of project files, the audit team found that performance reports submitted to PCH by third party delivery agents and recipients were generally in the form of narrative activity reports that were inconsistent in format, depth and breadth. These reports often lacked quantitative results and are more focused on qualitative aspects such as 'success stories' or examples of positive outcomes.

Based on interviews, the audit team also found that performance reports were not submitted by the regions to HQ during the period of audit. The above observations can be attributed to the lack of a formalized performance management and reporting process,

including the establishment and documentation of accountability and roles and responsibilities.

Performance Management Database

From interviews with program management, the audit team found that the APP does not have the capability to track and report on performance for departmental programs and related components, including the ACC. As a result, performance information that was collected by PCH from recipients and third party delivery agents during the period of audit, which was primarily limited to narratives and 'success stories', were kept in individual project file.

To address the current deficiencies, the development of a program management database system, similar to one developed and currently being used by the NAFC, was being contemplated.

Risk Assessment

The absence of performance targets inhibits the ACC's ability to assess the relative success of the program resulting in the APP's capacity to report on the overall success of the APP. There is no benchmark against which program performance can be measured and evaluated. There is a risk that program objectives will not be met since without a formalized performance management and reporting process, there is no way of knowing what the program has achieved.

The absence of a formal project work plan for the contemplated program performance management database increases the risks that the database will not meet program requirements and will not be implemented on a timely basis.

Recommendation

1. The Director General of the APP must develop and implement a formalized performance management and reporting process. The tools to establish a performance management and reporting process must include, but not be limited to, a performance reporting process with the Regions with the establishment of accountability between the Regions and HQ, performance targets specific to the ACC that derive from the umbrella RMAF of the APP as well as a project work plan for the contemplated program performance management database, if approved;

Management Response

Accepted.

5.2 Risk Management

A Risk Based Audit Framework (RBAF) is in place for the APP. However, the audit team found that further to the RBAF, program management has not:

- Identified and assessed risks specific to the ACC, necessary for effective program risk management;
- Established a formalized recipient / project monitoring process;
- Ensured that the NAFC signs agreements with the ultimate recipients; and
- Ensured that evidence of the performance of assessments and monitoring of third party delivery agent management and processes was documented on file.

Analysis

The above observations were based on a review of relevant program documentation, interviews with program management, and the review of a sample of project files, both at HQ and in the three offices visited.

Risk Identification

The audit team reviewed the RBAF for the APP that includes the ACC, and found that identified risks were focused at the APP level and were not specific to the ACC. There is no risk assessment at the ACC level; risks that are specific to the ACC and its subcomponents have not been formally identified and assessed. Risks that have been identified at the APP level are not necessarily related to the ACC Program and visa versa. Therefore, the risks associated to the ACC program have not been identified in the RBAF.

This has an impact on the program because, without proper identification and assessment of the risks that are specific to the ACC, there is no mitigation strategy in place in the event that the ACC is faced with potential negative events. Furthermore, without a formalized risk assessment specific to the ACC, the risk of program requirements not being met by delivery organizations increases.

It is noted that more specific risk identification and assessment was recommended in previous audits. During the period covered by this audit, management has not addressed them, however, subsequent to this period, actions have been initiated. The additional work to be completed is incorporated into the management action plant for this audit.

Formalized Monitoring Process

From the review of the above noted RBAF, the audit team found that, as part of its risk management strategy, program management committed to developing monitoring plans for each individual funding arrangement with third party and recipients. From site visits to HQ, PNR and the Western Regions and review of a sample of project files, the audit team found that monitoring activities being undertaken during the period of the audit

generally were limited to the review of financial and activity reports. Also, monitoring activities were conducted in an inconsistent manner. Further, documentation of monitoring activities undertaken was inconsistent and not formalized both among Regions and within each Regional / District Office.

The above observations can be attributed to the lack of a formalized monitoring plan / process.

A formalized monitoring plan / process would be expected to address the following areas:

- Establishment and documentation of roles and responsibilities;
- Coordination and consolidation of monitoring activities at HQ and in the Regions;
- Identification of risks at the program element and project levels both for direct and third party delivery methods;
- Identification of appropriate monitoring strategies and approaches to address identified risks;
- Documentation and reporting of monitoring results; and
- Follow-up of monitoring recommendations.

Improvements to monitoring processes were recommended in previous audit reports. During the period covered by this audit, management has not addressed them, however, subsequent to this period, actions have been initiated. The additional work to be completed is incorporated into the management action plan for this audit.

Furthermore, as a follow-up to a recommendation from the Report on the Audit of the AFCP (February 2004), the audit team interviewed program management at HQ and found that funding agreements covering AFCP funding between the NAFC and the ultimate recipients remained unsigned. Ultimate recipients include PTAs and individual Friendship Centers.

Third Party Delivery Agent Management and Processes

A number of third party agreements have been in place for a number of years to deliver the AFCP and certain programming elements of UMAC on behalf of PCH. Decisions regarding the selection of these delivery organizations took place prior to the period of audit. The third parties are named in the T&Cs of the APP.

The audit team reviewed the APP terms and conditions and program guidelines, and identified the requirement for third party delivery organizations to submit to PCH on an ongoing basis, documentation on their management frameworks and processes in place to manage programming elements within their jurisdiction. From the review of the sample of files and the documentation pertaining to funding of third party delivery agents, the audit team did not find evidence of documentation and assessment of third party delivery organization management frameworks and processes in place. In addition, the audit team confirmed that no reassessments have been conducted on the third party delivery organizations.

Risk Assessment

Without ongoing identification and assessment of risks specific to the ACC, there is no mitigation strategy in the event that the ACC is faced with possible adverse event. While the overall program has developed a RBAF that includes a risk management strategy, at the APP level, the lack of a contingency plan for the potential loss of an existing critical partner increases the risk of failing to deliver on program objectives. There is a delivery risk associated with a single recipient used for Program delivery on behalf of PCH.

In addition, the absence of a signed agreement between the NAFC and the ultimate recipient increases the risks of the objectives and the requirements of the Program not being met.

Having no formalized recipient / project monitoring process and the assessing and monitoring of third party delivery organization management and processes on a regular basis increases the risks of not identifying and addressing delivery organizations that are unable to deliver the program. As a result, there is also the risk of program requirements not being met by delivery organizations.

Recommendations

2. The Director General of the APP must establish a formalized risk assessment process specific to the ACC by identifying and assessing risks associated with governance, financial management and recipients. This would include, but would not be limited to, establishing a formal recipient / project monitoring process; establishing, assessing and monitoring activities of third party delivery organization management and processes to ensure that performance is documented on a regular basis; and ensuring, for control mechanism purposes, that the NAFC has signed agreements with the ultimate recipients; and
3. The Director General of the APP must establish a contingency plan in the event that a third party delivery organization is no longer capable of delivering the program;

Management Response

Accepted.

5.3 Management Guidance

Departmental guidance for the management of grants and contributions programs and applicant guidelines for the APP, which include application guidelines for the AFCP, UMAC and AWP, are in place. However, the audit team found that:

- Documented program management guidance has been developed and disseminated on a piece meal basis and has not been organized into a comprehensive document; and
- Guidance for the establishment and verification of proposed budgeted amounts for eligible project administration costs is not clear.

Analysis

The above observations were based on a review of program guidelines and procedures, and on interviews with program management.

Comprehensive Program Management Guidelines

The audit team found that the development of guidelines and procedures are at various stages of completion and have been disseminated on a piece meal or stand alone basis, some of which took place subsequent to the period of audit. Documented guidance and procedures do not cover all areas, activities and processes of contribution program management and have not been accumulated and assembled into a comprehensive document. For example, guidelines for the monitoring of some third parties, such as UMAC, have not been completed.

The completion and dissemination of a comprehensive set of program management guidelines, including standard operating procedures and related work tools would increase awareness of program requirements, introduce consistency in program administration, and improve the effectiveness of program management.

Administration Clause in the Contribution Agreement

The audit team reviewed program guidelines and clauses of contribution agreements and found that guidance for the determination of eligible administration costs for ACC projects is not clear. Program guidelines and clauses of contribution agreements are not written the same way nor are they specific and therefore can be interpreted differently. More specifically:

- Program guidelines state that “administration costs will not exceed 15 percent of the total approved funding...”. Guidelines also provide a list of possible expenses that may be included as administration costs.
- Clauses found in the contribution agreements include the requirement that “the recipient agrees that it will use no more than 15 percent of the contribution amount provided by the Minister for administration costs related to the activities of the project” and “at no time shall administration costs exceed 15 percent of the eligible

project expenditures. Eligible administration costs will be calculated at a maximum of 15 percent of the expended budget”.

The audit team reviewed a sample of project files and found that proposed budgets for project administration costs were based on detailed schedules with cost categories and amounts in some cases, and were based on a flat percentage of total eligible project costs in other cases. Project file documentation generally did not include evidence of challenge for administration cost amounts. In the review of files, there was no evidence of the projects exceeding the 15 percent of the approved amount.

The different practices for establishing proposed budgets for project administration costs can be attributed to the unclear guidance in this area in program guidelines and clauses found in the Contribution Agreements.

Issues related to claims for administration costs were raised in the Report on the Audit of the UMAC (February 2004).

Risk Assessment

The absence of a comprehensive set of program management guidelines increases the risks that PCH, third party delivery agents and recipient managers and officers are not aware of program requirements.

The absence of establishment and dissemination of guidelines specific to the assessment of administration costs in proposals and clauses of contribution agreements, including file documentation, increases the risks of ineligible or excessive administration cost claims.

Recommendations

4. The Director General of the APP must complete a comprehensive set of program management guidelines related to operating procedures and work tools with the intent of increasing awareness of program requirements, introduce consistency in program administration, and improve the effectiveness of program management; and
5. The Director General of the FMB must establish clear guidelines for the determination and assessment of administration costs in proposals and in clauses of contribution agreements as well as the breakdown of the administration costs in the budget;

Management Response

Accepted

5.4 Proposal Assessment Processes

Applicant guidelines for the AFC, UMAC and Aboriginal Women (AW) programming elements that address program eligibility and proposal application requirements are in place. In addition, proposal assessment and due diligence processes, including assessments by Aboriginal Youth Advisory Committees for UMAC funding applications, are in place for the above programming elements. However, the audit team found there were inconsistencies in the documented evidence of proposal assessment and due diligence in project files in the following areas:

- Different versions of proposal assessment grids / checklists were used by UMAC Aboriginal Youth Advisory Committees; and
- The evidence supporting the assessment of certain program requirements was inconsistent.

Analysis

The above observations were based on a review of relevant program documentation, interviews with program management, and the review of a sample of project files, both at HQ and in the three Regional / District offices visited.

Proposal Assessment Grids / Checklists by UMAC Aboriginal Youth Advisory Committees

From the review of a sample of project files, the audit team found that different versions of proposal assessment grids / checklists were being used by UMAC Aboriginal Youth Advisory Committees in the three Regional / District offices visited.

Meeting Program Requirements

The audit team reviewed program applicant guidelines and clauses of contribution agreements and identified a number of proposal requirements for potential funding recipients.

From the review of a sample of project files, the audit team found that file documentation did not consistently provide sufficient evidence of the following proposal requirements:

- A description of how the PCH contribution will be recognized to ensure support awareness by the participants and, to the extent possible, the community at large;
- All documents being offered in both official languages;
- For UMAC proposals, justification of exceptions to the UMAC age requirement (15-24 years) for participants in the program; and
- Identification of the name(s) and title(s) of the person(s) with legal signing authority (e.g. to sign contribution agreements) on behalf of the applicant organization.

Issues related to file documentation supporting program requirements being met were raised in the Report on the Audit of the UMAC (February 2004), and the Report on the Follow Up Audit of the AWP (June 2003).

Risk Assessment

The absence of standard proposal assessment grids / checklists for use by UMAC Aboriginal Youth Advisory Committees increases the risks of an actual or perceived unfair proposal evaluation process.

The absence of file documentation guidelines for proposal assessments increases the risks that project proposals do not meet program requirements.

Recommendations

6. The Director General of the APP must implement standard proposal assessment grids / checklists for use by UMAC Aboriginal Youth Advisory Committees based on criteria that accurately reflect program objectives and requirements; and
7. The Director General of the APP must develop guidelines for documenting program requirements to ensure that there is sufficient documented evidence of proposal assessment and due diligence in project files.

Management Response

Accepted.

5.5 Management of Funding Agreements

Processes for the development and signing of contribution agreements, using departmentally approved templates, are in place for the AFC, UMAC and AWP programming elements. However, the audit found that:

- Contribution agreements with recipients do not provide PCH with the right to withhold funding on the basis of outstanding reporting requirements of prior years.

Analysis

The above observations were based on a review of PCH template contribution agreements, interviews with program management, and the detailed review of project files, both at HQ and the three Regional / District offices visited.

Outstanding Reporting Requirements

The audit team reviewed 81 files and found that there were 28 cases where the same recipient was approved for funding for the same project concept for at least two consecutive fiscal years. Out of these 28 cases, there were 17 cases where yearly contribution agreements are signed with recipients and payments are made pursuant to these agreements where there were outstanding reporting requirements related to prior

year agreements. Consequently, as per the contribution agreements, holdback payments for those project files was not issued to the recipients because outstanding reporting requirements related to those projects such as a Final Activity/Results Report or Consolidated Financial Report had not been received. Even though these files remain open, new funding is provided to the same recipients for new projects. Interviews with program management confirmed the existence of this practice in the regions.

The audit team reviewed contribution agreement templates and actual contribution agreements with recipients, and found that although agreements provide for a holdback of payment pending the receipt of requisite reporting in any given year, they do not provide for the withholding of funds for new projects based on outstanding reports of prior years. The agreements therefore obligate PCH to make current year payments, often based only on the requirement of projected cash-flow statements, where there are outstanding reports from prior years that may indicate recipient related risks which have not yet been assessed. Amounts payable from prior years related to outstanding reports remain in Payables at Year End (PAYE) until such time as the reports are received. As a result, money remains in PAYE accounts and the files are not closed. In some instances, funds have stayed in PAYE for as long as 7 years. PCH also has no way of knowing for sure if the money spent was according to what was requested and approved on the application form.

Risk Assessment

With no inclusion of clauses in contribution agreements that provide PCH with the right to withhold funds based on outstanding reporting related to prior year activities and agreements and/or an eligibility criteria stating that a recipient can only be approved for new funding if the file from two years prior to a new request for funding has been closed increases the risk that funding is provided to recipients that are unable to deliver the program or that have financial issues. There is also a risk of non compliance of the recipients related to outstanding reporting requirements related to prior year agreements resulting in the increase of open project funding agreement files and related PAYE amounts. In addition, there is an increased risk that program objectives are not met.

Recommendations

8. The Director General of the FMB must insert a clause in the contribution agreement with recipients that provide PCH with a provision for withholding funds related to the new agreement based on outstanding reporting related to prior year agreements; and
9. The Director General of the APP must include an eligibility criterion stating that the application for new funding can only be approved if, where applicable, all files older than one year from the recipient who is applying for funding, have no outstanding issues.

Management Response

Accepted

Appendix A – Audit Criteria

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

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

The following are the 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 were reported in the audit report, and the exposure risk is noted in the table below.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/ Observation
1	<i>The program design is consistent with the Treasury Board Transfer Payment Policy (TBS TPP) and is implemented in a manner that addresses program risks and performance efficiently and effectively.</i>	2	<ul style="list-style-type: none"> • RMAF/RBAF (APP level), • ACC level does not address risk and performance, • Terms and conditions (T&Cs) for the APP component address the TBS TPP
2	<i>Roles and responsibilities for program management are defined in a manner that addresses risks and performance.</i>	3	<ul style="list-style-type: none"> • RMAF/RBAF provides roles and responsibilities for management at high level, • RMAF does not address accountability between HQ and the Regions,
3	<i>Policies, guidelines, training, tools and processes for program management are in place and addresses risks and performance.</i>	3	<ul style="list-style-type: none"> • RMAF/RBAF (APP level), • Applicant Guide, • Centre of Expertise training, • No guide for monitoring
4	<i>Management of the program is organized with adequate financial, human and other resources to addresses risks and performance.</i>	2	<ul style="list-style-type: none"> • Resources are not adequate to permit sufficient monitoring and recipient audits
5	<i>A program performance management framework is in place that appropriately addresses program objectives and, financial and information systems and processes are established and implemented to track and report on program performance.</i>	3	<ul style="list-style-type: none"> • RMAF/RBAF (APP level), • No formal performance templates/targets at the ACC level, • No formal performance reports from recipients and third party delivery agents, • Plan for a new performance management database
6	<i>A risk management framework is in place that appropriately addresses program risks, risk management strategies, and monitoring and audit plans are developed and implemented in accordance with the program's risk management framework.</i>	4	<ul style="list-style-type: none"> • RMAF/RBAF (APP level), • No individual risk mitigation strategies/plans for ACC, • No recipient audit plan at the ACC level, • Monitoring activities are conducted at varying degrees and in an inconsistent manner
7	<i>Funding agreements with delivery agents and recipients address</i>	3	<ul style="list-style-type: none"> • Contribution Agreement, • File documentation did not

	<i>program risks and performance and, are consistent with program T&Cs, guidelines and with the TBS TPP.</i>		<p>contain evidence of review of compliance with agreement clause,</p> <ul style="list-style-type: none"> • Outstanding Reporting Requirements, • No signed agreements between NAFC and Friendship Centers
8	<i>Information is communicated to potential applicants to create awareness.</i>	1	<ul style="list-style-type: none"> • List of potential applicants, • Call for proposals, • Website
9	<i>Program eligibility criteria for applicants are applied in accordance with program T&Cs and guidelines.</i>	1	<ul style="list-style-type: none"> • Applicant Guide, • Recommendation and Approval Forms
10	<i>Evaluation of funding applications is undertaken with due diligence in a fair, consistent and timely manner.</i>	2	<ul style="list-style-type: none"> • UMAC Youth Committee (inconsistent eligibility assessment), • Eligibility assessment, • Standard application forms, • Recommendation for Approval Form, • Review and approval by management, • Ministerial approval letter, • Approval process longer than expected
11	<i>Payments to and recoveries from third party delivery agents and funding recipients comply with the relevant funding agreement clauses.</i>	1	<ul style="list-style-type: none"> • Contribution Agreements, • Holdbacks, • Verification of payments cash flow analysis
12	<i>Financial and program approvals comply with the FAA and with departmental signing authorities and policies.</i>	1	<ul style="list-style-type: none"> • Recommendation for Approval Form, • Ministerial Letter • Contribution Agreements