



**Canadian
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DEPARTMENT OF CANADIAN HERITAGE

FINAL REPORT

**AUDIT OF THE
CANADIAN ARTS AND HERITAGE SUSTAINABILITY
PROGRAM (CAHSP)**

February 24, 2005

Canada

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Executive Summary

The objective of the Canadian Arts and Sustainability Program (CAHSP) is to provide Canadians with the opportunity to experience high-quality cultural events by ensuring the growth and long-term survival of arts and heritage organizations. CAHSP aims to improve and consolidate the organizational, administrative and financial position of non-profit arts and heritage organizations. CAHSP utilizes two funding methods: contributions and “class grants”.

The objective of this audit was to provide program management with assurance on the soundness of processes and to identify opportunities to strengthen management practices. The audit of the CAHSP was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2003-2004. The scope of the audit covered the 2001-2002 and 2002-2003 fiscal years.

The audit team’s conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted between August 27, 2003 and January 20, 2004. In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework is adequate to ensure compliance, program effectiveness and financial integrity;
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH as set out in the program approval documentation.

The audit team did however identify some areas where management practices and compliance should be strengthened. Our recommendations for the Department are summarized as follows:

- 1. CAHSP management should work with the Financial Management branch to ensure that the program files contain detailed information on transfers of voted G&C funds.**
- 2. CAHSP management should ensure that all program changes are properly documented. This should include description of program changes, rationale for the changes and should demonstrate that proper authority was obtained when applicable.**



3. **CASHP management should ensure that a master file checklist which would specify the type of documentation to be collected and maintained from the commencement of the project through to final project evaluation is developed.**
4. **CASHP management should implement a process to ensure that prototype agreements are used and that when changes are made, they are properly approved and documented.**



1.0 Background

The objective of Canadian Arts and Heritage Sustainability Program (CAHSP) is to provide Canadians with the opportunity to experience high-quality cultural events by ensuring the growth and long-term survival of arts and heritage organizations. CAHSP aims to improve and consolidate the organizational, administrative and financial position of non-profit arts and heritage organizations.

CAHSP offers two complementary directions:

1. Support to community-based projects.
2. Support to institution-based projects.

On November 8, 2001, the implementation of CAHSP was approved, and is valued at \$78,000,000 for three years.

The program's Components

Two new class grants were created:

Grants to Stabilization Funds, to establish support mechanisms to help arts and / or heritage organizations to improve their management, build on a more solid financial basis and connect with their communities; and

Grants to Arts Organizations for Endowment Purposes, to encourage private donations to arts organizations' endowment funds.

And two new classes of contributions entitled:

Contributions to Arts and Heritage Organizations for Capacity Building Projects, to help management / governance related projects of arts and heritage organizations that cannot access a stabilization fund; and

Contributions to Canadian Cultural Communities, to foster the integration of cultural matters in municipal priorities and provide for the possibility of designation of "cultural capitals".

2.0 Audit Objectives and Scope

The purpose of the audit was to provide program management with reasonable assurance on the soundness of its processes and to identify opportunities to strengthen management practices. Accordingly, the audit addressed the following objectives:



Objective 1: Management control framework and due diligence

Management control framework (systems, procedures, controls and resources) and management practices are appropriate to ensure due regard to financial integrity and compliance.

Objective 2: Information used for decision-making

Information used for decision-making and reporting is timely, relevant and reliable.

Objective 3: Risk management strategies and practices

Risk management strategies and practices are suitable and deliver the intended results.

Objective 4: Program design and implementation

Program design and implementation reflects the objectives of PCH as set out in the program approval documentation.

The scope of the audit covered the 2001-2002 and 2002-2003 fiscal years.

3.0 Audit Approach

The audit was conducted in accordance with generally accepted auditing standards, and the standards and requirements set out in the TBS Policy on Internal Audit.

Work performed included:

- interviews with CAHSP program management and staff;
- interviews with representatives from PCH Finance Branch; and
- reviewing relevant program documentation.

The audit team looked at a sample of 30 applicant files that included documentation such as applications, supporting documents, recommendations for approval and for payments, contribution and / or grant agreements. The allocation of files sampled on a judgemental basis from the various components was as follows:

2001-2002 (note: the only active component was Endowment)



Component	Number of files reviewed	Total number of files recom. for approv.	% of files reviewed	Value of files reviewed ('000)	Total value of files recomm. for approval ('000)	% of value reviewed
Endowment incentives	2	33	6%	\$1,107	\$3,178	35%

2002-2003

Component	Number of files reviewed	Total number of files recom. for approv.	% of files reviewed	Value of files reviewed ('000)	Total value of files rec. for appr. ('000)	% of value reviewed
Stabilization	2	4	50%	\$1,580	\$2,245	70%
Endowment incentives	3	37	8%	2,148	8,280	26%
Capacity building (arts)	13	196	7%	732	5,724	13%
Capacity building (heritage)	7	66	11%	659	3,338	20%
Networking ¹	1	1	100%	250	250	100%
Cultural Capitals of Canada ¹	2	5	40%	926	2,500	37%
Total	28	309	9%	\$6,295	\$22,337	28%

¹Networking and Cultural Capitals of Canada are the two sub components created to replace the Canadian Cultural Communities component.



Our audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. The criteria are listed in Appendix A to the report.

4.0 Conclusion

The audit team's conclusions are based on the assessment of findings against the pre-established criteria as defined in Appendix A and reflect the audit work conducted between August 27, 2003 and January 20, 2004. In the audit team's opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework and management practices are appropriate to ensure due regard to financial integrity and compliance;
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH as set out in the program approval documentation.

The audit team did however identify some areas where management practices and compliance should be strengthened. The findings and recommendations that follow address these areas.

5.0 Findings and Recommendations

5.1 File Documentation

Findings

Transfer of funds

As the program materials, such as applications and guidelines, for the Stabilization, Capacity building and Canadian Cultural Communities components of CAHSP were not fully developed, there was no funding awarded to recipients in 2001-02. Therefore, CAHSP management transferred \$1,536,128 of grants and contribution funds from CAHSP to three other programs, within and outside the department (\$822,428 to Parks Canada, \$650,000 to Cultural Spaces Canada and \$63,700 to Canada Council for the Arts).



A similar operation took place in 2002-03 when CAHSP transferred \$874,635 grants and contribution funds to other programs (\$474,635 to National Arts Training Contribution Program and \$400,000 to Cultural Spaces Canada program).

Tracing supporting documents for transfers was a difficult exercise. Program management had a hard time to provide detailed information on the different transfers that occurred during the audit period.

Changes to program components

Program documentation for CAHSP, detailed the Grants and Contribution (G&C) and Operating and Maintenance (O&M) funding for four specific components of the program (Stabilization, Capacity Building, Endowment and Canadian Cultural Communities). In 2002-03, CAHSP management divided the Canadian Cultural Communities component into two sub components entitled Cultural Capitals Canada (CCC) and Networking.

Program management discussed these changes with TBS and were told that they did not require any type of authorization from them since program conditions were not affected. Those discussions were not documented in the program file.

File documentation

From our audit of 30 project files, we found that after searching through the files, the majority of required information was in the file.

However, we did not observe any requirements for information to be collected, documented and maintained in the recipient files to support decisions and provide an audit trail. For example, there was no master file checklist to ensure that all project information was captured in the recipient files.

Recommendation # 1

CAHSP management should work with the Financial Management branch to ensure that the program files contain detailed information on transfers of voted G&C funds.

Management Response

Recommendation accepted.



Arts Policy Branch has implemented a tracking system to document and maintain audit trails for transfers of voted G&C funds.

Recommendation # 2

CAHSP management should ensure that all program changes are properly documented. This should include description of program changes, rationale for the changes and should demonstrate that proper authority was obtained when applicable.

Management response

Recommendation accepted.

CAHSP management will ensure that all future program changes are properly documented. Following renewal for 2005-2006, CAHSP management is revising the Terms and Conditions of the program; these T&Cs will accurately reflect the programs as they exist. To be completed in April 2005.

Recommendation # 3

CASHP management should ensure that a master file checklist which would specify the type of documentation to be collected and maintained from the commencement of the project through to final project evaluation is developed.

Management response

Recommendation accepted.

CAHSP headquarters staff, in consultation with the Centre of Expertise, revised the Master file checklist in July 2004.

5.2 Establishment of Terms and Conditions of Agreements

CAHSP management designed prototype contribution agreements (for various levels of funding and for single or multiple years) that incorporated the terms and conditions of the program. The prototype included such terms as stacking provisions, repayment conditions including interest calculated on overdue accounts, maximum amounts of funding based on pre-set conditions, timing and conditions of advance payments and timing and maximum amount of annual funding for multiple year agreements. The multi-year prototype agreements specified the payment structure for each year covered under the agreement.



The audit team examined a sample of 20 contribution agreements for the purpose of testing their adequacy.

The results of the audit indicated that 10 out of the 20 signed contribution agreements audited were changed from the prototypes, for example, the provision against stacking of government funding and the clauses that indicated that interest would be charged on overdue repayment amounts have been eliminated in those 10 files.

For 9 contribution agreements covering multiple years out of 11 that were reviewed, the single year agreement was used thus eliminating the section relating to multi year payment structure.

Further review of the files, and discussion with management, indicated that there was no formal process for obtaining legal review and approval of the changes to the agreements. There was no supporting documentation in the files to show why the terms and conditions in the agreements were changed.

Recommendation # 4

CASHP management should implement a process to ensure that prototype agreements are used and that when changes are made, they are properly approved and documented.

Management response

Recommendation accepted.

Contribution agreements are now based on the Standard Templates developed by the Centre of Expertise. CAHSP headquarters staff, in consultation with regional staff, are creating more detailed Appendices to be included in these agreements to enhance the ability to monitor project progress from project commencement to evaluation. To be completed in April 2005.



Appendix A

AUDIT CRITERIA

Criteria applied for the conduct of the audit:

Management Control Frameworks and Risk Management

A management control framework should be comprehensive and reliable to ensure that a program's desired results and outcomes are achieved. The controls should be well designed to mitigate the identified risks. Program management should conduct appropriate monitoring and periodic review of the effectiveness of the controls in the reduction of the impact from the occurrence of risks.

For the delivery of a Grants and Contribution Program, the following key controls should be incorporated into the management control framework:

Program Planning - to provide assurance that overall planning and decision making processes are effective:

1. Clear and measurable program goals and objectives which are linked to the departmental strategic objectives.
2. Clear eligibility and selection criteria are established and applied in support of program goals and objectives.
3. Clear responsibilities and accountabilities, which are understood and followed.

Establishment of Terms and conditions - to ensure the terms and conditions meet governmental policies and directives and programs' objectives:

4. Terms and conditions in the agreements support the achievement of program objectives.
5. Terms and conditions are in compliance with Department and Government policies and directives.
6. Comprehensive contribution agreements and grant applications are utilized to document the requirements between the recipient and the department. Legal review of these agreements is undertaken if significant amendments are required.

Information Dissemination - to ensure the information on grant and contribution programs is made available to all potential recipients:

7. A communication process, which ensures that potential recipients are informed about the program and their ability to participate.

Review and Approval of Applications - To determine if the necessary controls are in place to ensure that applications are reviewed and approved in accordance with established procedures:

8. Comprehensive procedures are established.
9. Comprehensive controls are in place to ensure proper authorities approve applications.



10. Maintenance of adequate file documentation to support decisions and provide an audit trail.

Monitoring - To determine if the necessary controls are in place to provide reasonable assurance that program objectives will be achieved efficiently and effectively:

11. Ongoing Operational Monitoring is performed by qualified personnel.

12. Monitoring (desk audit), verification (financial audit) and reporting of financial results.

13. Formalized conduct of, and reporting on, post project evaluations.

Information Used by Management for Decision-making

Program managers are able to make sound management decisions based on financial and non-financial information that is timely, accurate, complete and reliable. This information could be generated from a number of systems, which incorporate the program's objectives and the managers' need for information.

Formalized systems are in place to ensure that information is reliable and meets the needs of management.

Program Design and Implementation

Program design and implementation should reflect the objectives of the Department and the Treasury Board Secretariat.