

Review of Grants and Contributions

presented to:

**Performance, Audit and Review Group
Parks Canada Agency**

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PARKS CANADA AGENCY REVIEW OF GRANTS AND CONTRIBUTIONS

INTRODUCTION

During the past year there has been a heightened interest in the activities undertaken through Grant and Contribution (G&C) Programs in the Federal Government, the focus of the interest being in the diligence of management of funding arrangements. In this respect, on June 1, 2000 Treasury Board of Canada Secretariat (TB) issued a Policy on Transfer Payments outlining policy and procedures relating to management practices for the funding Programs.

In light of the general increase in interest for G&C Program activity, most particularly from TB, and coupled with the fact that Parks Programs have not, in the recent past, been subject to audit or evaluation, Parks Canada decided to conduct an assessment of a number of grant and contribution files to determine if each file complied with:

1. Program Terms and Conditions (Ts&Cs);
2. Terms of the agreements; and
3. Good management practices.

BACKGROUND

The basic framework for G&C Programs is established through TB's approval of Terms and Conditions (Ts&Cs). Following are some general types of clauses that have been prevalent in Ts&Cs (the list is not meant to be exhaustive):

1. Description of the class(es) of recipients that may be eligible for funding.
2. Description of the types of expenditures that will be eligible for funding.
3. The maximum amount of any individual funding arrangement. Amounts in excess require separate TB approval.
4. The method of payment ... advances, reimbursements or other.
5. Termination clauses.
6. The right of the "Minister" to conduct audits on the recipient's accounts (contribution arrangements only).

During the course of a fiscal year, Programs enter into funding arrangements, generally through the following process:

1. Application/Proposal receipt and assessment resulting in approval of particular initiatives.
2. Formalization of the arrangement through an Agreement signed by the recipient and the Department. The Agreement is to address pertinent data as contained in the Ts&Cs.

3. Monitoring of the initiative/project by Program personnel including receipt of interim reporting data from the recipient and the issuance of payments.
4. Completion/closure of the arrangement including receipt of final reporting and issuance of final payments.

TB, in its recent Policy on Transfer Payments, has issued detailed directions that Programs are to follow in the future with respect to Ts&Cs and funding Agreements.

During the period 1996 to 2000 Parks Canada had three sets of Ts&Cs in effect:

1. One set relating to Miscellaneous Grants, Miscellaneous Contributions and Cooperating Associations.
2. Two sets relating to Cost-share agreements. One for Conservation arrangements while the other was pertinent to Conservation and Presentation activities.

SCOPE OF THE REVIEW

Over the past four fiscal years, 1996-97 through 1999-00, Parks Canada has entered into approximately 130 funding arrangements totaling approximately \$ 38.0 million, summarized as follows (in \$000s):

Category	96-97	97-98	98-99	99-00
Miscellaneous grants	\$22.7	\$22.7	\$22.7	\$3,222.7
Miscellaneous contributions	10,432.5	246.5	12,862.2	1,140.9
Contributions to cooperating associations	189.2	186.1	202.3	189.2
Contributions to cost-share agreements	1,416.5	2,525.5	3,214.3	1,869.0
Total	<u>\$12,060.9</u>	<u>\$2,980.8</u>	<u>\$16,301.5</u>	<u>\$6,421.8</u>

We were provided listings of recipients of funding for each of the four years. We analyzed these lists and selected a sample of 21 funding arrangements for assessment, the scope covering the four years and each of the four categories. Over 70% of the funding provided during 1996 to 2000 relates to four grant and contribution arrangements. A list of funding arrangements selected in our sample is attached as Appendix A. The salient point concerning the sample is that the total value of the funding arrangements selected was \$32.4 million, or 86% of all funding provided during the period. Within each category, the following % of funds were covered in our sample:

Miscellaneous grants	94%
Miscellaneous contributions	94%
Contributions to cooperating associations	29%
Contributions to cost-share agreements	69%

AUDIT METHODOLOGY

The assignment was completed through:

1. Conduct of initial interviews. We conducted interviews with subject matter experts (SMEs) within Parks Canada for the various funding arrangement categories, the purposes being:
 - a) to gain an understanding of the four Programs;
 - b) obtain copies of the current Ts&Cs; and
 - c) determine where pertinent data may be located for the conduct of the assessments.
2. Development of an Assessment Tool. We developed an assessment tool/audit program based on our knowledge of the federal government G&C environment, to an extent TB's current Policy on Transfer Payments and the current Ts&Cs for the Programs.
3. Secured the files. We obtained files for each funding arrangement from personnel located at headquarters. We determined in each instance that all required data was not contained in the headquarters files and in this respect we were referred to and made telephone contact with field personnel. Files from the field were in turn forwarded to us.
4. Completed the reviews/assessments. We reviewed information received from headquarters and the field.

OBSERVATIONS AND RECOMMENDATIONS

Completeness of Documentation

As indicated in the Audit Methodology section, we obtained information from files located both at headquarters and in the field. In no instances were we able to locate a "complete" file from a single location. In this respect our assessments were based on information obtained from some or all of the following locations:

- Headquarters
 - Parks Canada Finance
 - Representatives of the cost sharing or cooperating associations Programs
 - Individuals whom we were informed may have been involved in an arrangement
- Regional/field locations
 - Field Unit Superintendent offices
 - Park/site offices
 - Service Centers
- Department of Canadian Heritage Corporate Finance Branch

On average it was necessary for us to contact 3 locations, the lowest being 2 and in one case 6. In many cases we made multiple contacts at a particular location to obtain documents.

We conducted what we believe was an “exhaustive and diligent” search, however, we were not able to obtain data sufficient to permit us to conclude, in some instances, whether the arrangements were conducted in a diligent manner. For example, we have successfully located documentation supporting payments to Recipients, to determine if the payments were adequately supported and signed by a Parks representative with delegated authority in 18 or 86% of the funding arrangements reviewed. In instances where we could not obtain information to satisfy our requirements we have not concluded that payment documentation does not exist only that we were unable to obtain the necessary documents.

Recommendation

The Agency should develop and implement a process that will facilitate the compiling of critical documentation related to individual Gs&Cs on a timely basis.

Existence of an Application or Proposal

Typically funding arrangements commence with a third party submitting an “application” outlining as a minimum a description of the initiative and the dollar amount being requested. Funding requests we reviewed generally ranged from a detailed proposal for complex undertakings to a letter for low dollar value, straightforward initiatives.

From the sample of 21 funding arrangements we did not believe it was necessary that an application exist for 2 initiatives due to their nature (both arrangements were supported by separate TB approvals):

1. acquisition of lands with a Provincial government; and
2. a settlement with a private sector organization pursuant to a court judgement.

For the 19 arrangements where we believe some form of application should have existed, we were able to find the document in 17 or 89% of the cases. However, in two cases where an application was on file, the amount requested in the application was less than the actual amount funded. No supporting documentation was on file to justify these discrepancies.

Recommendation

The Agency should develop and implement a process that will ensure that all funding arrangements are supported by some sort of “application” for funding and the ensuing payments being the lesser of the amount requested or the amount approved following assessment of the application.

Existence of a Letter of Award from the Minister or Deputy Minister

The Delegated Signing Authorities Charts that were in effect for the years under review indicate that authority for “Approval of Grants and Contributions” rested with the Deputy Minister or, as an Agency, the Chief Executive Officer. In this respect we were informed that a letter informing the Recipient of the award of funding would be the most appropriate document authorizing approval for the

arrangement and further, that in most instances these letters were signed by the Minister.

Similar to the observation relating to the existence of an application or proposal we did not believe it would have been appropriate or necessary for a letter of award to be issued for either the land acquisition or the court settlement. In these instances it may have been appropriate for the delegated authority to issue an internal letter that would serve as authorization for Agency personnel to proceed with the funding arrangement. No such documentation was evident in the files.

For the 19 arrangements where we believe a letter from the Minister, Deputy Minister or Chief Executive Officer should have existed, we were able to locate a signed letter in 15 or 79% of the arrangements.

Recommendation

All funding arrangements should be approved by the delegated authority through either:

- 1) a letter of award issued to the recipient; or
- 2) an internal document authorizing Agency personnel to proceed with the funding arrangement.

Existence of a Signed Agreement

An Agreement between the parties to a funding arrangement serves to establish the responsibilities of each party from the commencement through completion of the project or initiative, which is confirmed through signatures thereon by appropriate individuals from each organization.

The Delegated Signing Authorities Charts that were in effect for the years under review indicate that authority for signing "Contribution Arrangements", a Contribution Agreement rested with:

- 3) the levels of Chief to the Deputy Minister for the period prior to Agency status being attained; and
- 4) under Agency status, the levels of Manager (reporting to a Field Unit Superintendent) to the Chief Executive Officer.

Our sample of 21 included 2 grant arrangements that were approved through separate TB decisions that did not call for agreements to be prepared.

For the 19 arrangements where Contribution Agreements should have existed, we were able to locate 18 (95%) of the documents. However, in two cases where a signed agreement was on file, the signatures on behalf of the Agency were by Members of Parliament not affiliated with the Department of Canadian Heritage.

Recommendation

No payments should be issued until the individual authorizing payment is in possession of an agreement signed by both parties and that the individual signing the agreement on behalf of the Agency possesses delegated authority.

Compliance of Agreements with Ts&Cs

We have indicated in the Scope of the Review section that an Agreement between the parties to the funding arrangement serves to establish matters that will result in compliance with the Ts & Cs approved by TB.

From the sample of 21 funding arrangements, we concluded that assessment of compliance was not pertinent in the 2 grant initiatives, as agreements did not exist, and the contribution relating to the settlement with a private sector organization pursuant to a court judgement.

For the 18 arrangements for which we conducted our assessment, we noted that 18 or 67% of the agreements were in compliance with the Ts&Cs.

Following are examples regarding instances where we have concluded that technical compliance with Ts&Cs was not met:

- 1) Certain Ts&Cs call for the recipient to be an incorporated entity. In one instance, notwithstanding the assistance of field personnel, we were not able to determine the status of the organization;
- 2) Certain Ts&Cs call for the following clauses which were not always present in the agreements:
- 3) Termination. The ability of the Minister to terminate the agreement if the recipient is in default of its obligations;
- 4) Indemnification. The recipient will indemnify and save harmless the federal government from claims, damages, lawsuits and other matters; and
- 5) Exclusion. No Member of the House of Commons to be admitted to any share of the agreement or any benefit arising from it.

Recommendation

The Agency should prepare a checklist for each Program category containing items for consideration that would ensure that all agreements are in compliance with the relevant Ts&Cs.

The Agency's Finance Branch has recently issued a document entitled "Parks Canada Contribution Checklist" which addresses matters associated with compliance with Ts&Cs along with other items regarding overall activities associated with management of a funding arrangement.

It is recommended that the "Parks Canada Contribution Checklist", or other type of enhanced checklist be used in all funding arrangements, with appropriate modifications for grant activities.

Interim Reporting

Our review of the agreements in our sample indicated that interim reporting clauses called for any of the following:

1. annual reports on expenditures for multi-year projects;
2. submission of invoices by the recipient with proof that expenditures had been incurred; and
3. an accounting on how advanced funds had been utilized prior to release of holdbacks

From the sample of 21 funding arrangements, we concluded that interim reporting was not pertinent in 5 instances:

1. the 2 grant arrangements;
2. the settlement with a private sector organization pursuant to a court judgement; and
3. 2 land acquisition initiatives (the one cited above and another).

For the remaining 16 arrangements, for 13 or 81% of the initiatives, interim reporting was provided by the recipient, as called for in the agreements. In the 3 instances where we were we did not find interim reports, we also did not find any evidence in the file (e.g., copies of letters to the recipient) that Parks Canada personnel had followed up on the matter.

Recommendation

Agency personnel responsible for management of a funding arrangement should develop a process that will ensure interim reports are provided by the recipient in accordance with requirements pursuant to agreements.

Authorization for Payments

Individuals in federal government organizations authorize or approve payments under Section 34 of the Financial Administration Act. This activity is commonly known as performance of "Section 34". Section 34 is completed:

1. by individuals that have authority pursuant to the organization's Delegated Signing Authorities Chart; and
2. upon completion of a review of supporting information to ensure that the recipient is entitled to receive a payment.

As payments were issued in each of our sample of 21 funding arrangements we examined all documentation provided to determine if Section 34s were adequately supported and performed by a Parks representative in accordance with the instrument of delegation. To complete this verification procedure we examined supporting documents

and presented Section 34 documents to various individuals at headquarters with “tenure” and based on their knowledge and the Delegated Signing Authorities Chart(s) our requirements were satisfied.

Our efforts to obtain appropriate evidence in this regard entailed:

1. examination of data in both the headquarters and field files;
2. numerous follow up telephone calls to field offices which frequently resulted in referrals to Service Center finance personnel; and
3. requests to and examination of documentation from the Canadian Heritage’s Finance Branch at headquarters.

In 18 or 86% of the arrangements, we were able to locate documentation supporting payment approval activities.

Recommendation

Agency personnel performing Section 34 activities should be in possession of and retain evidence in this regard, and that the evidence is readily available.

Final Reporting

Our review of the agreements in our sample indicated that clauses for final reporting called for any of the following:

1. reports on prior year expenditure activities for multi-year initiatives; and
2. annual financial statements for the recipient organization.

From the sample of 21 funding arrangements, we concluded that final reporting was pertinent in only 6 instances, the 14 non-pertinent arrangements being:

1. 2 grants where agreements were not made and therefore no reporting requirements;
2. 3 multi-year initiatives that have not been completed at this date;
3. 1 arrangement, the settlement pursuant to a direction from the court system; and
4. 9 agreements that do not call for any form of final reporting.

For the remaining 6 arrangements we located required reporting documentation in 5 or 83% of the reviewed funding arrangements. We did not locate the required report in 1 instance for a contribution in 1997/98 whereby the recipient was to provide a report on expenditures.

Concerning the 9 funding arrangements where final reporting is not called for in the Contribution Agreements, the reader is advised that the agreements are compliant with the Ts&Cs insofar as the Ts&Cs do not call for recipients to file annual reports.

We noted two instances where we believe the final reporting clauses in the agreements were not appropriate for the nature of the funding arrangements, both being the land acquisition initiatives. While the Ts&Cs did not call for final reporting, in one instance the agreement called for an annual report on expenditures while the other required financial statements and activity reports. We were not able to locate these reports but were able to satisfy the requirement through examination of legal transfer documentation whereby the land title was transferred to the Agency. In our opinion it would have been more appropriate for the final reporting clause to stipulate that the recipient provide an accounting for the use of funds, supported by appropriately described legal documentation.

Recommendation

Agency personnel responsible for management of a funding arrangement should develop a process that will ensure that final reports are provided by the recipients in accordance with requirements pursuant to agreements and that the form of reporting is appropriate for the circumstances.

Conduct of Audits of the Contributions

The Agency's Ts&Cs, for contribution arrangements, call for the Minister to establish the right to conduct audits on the accounts and records of the recipient to ensure that funds provided were used for the intended purpose.

From the sample of 21 funding arrangements, we concluded that the Minister's right to audit was not pertinent in 5 arrangements:

1. the 2 grant initiatives, as past TB policy does not require this activity in granting situations;
2. the 2 land acquisition arrangements; and
3. the contribution for the settlement pursuant to a direction from the court system.

For the remaining 16 arrangements, the required audit clause was found in all the agreements. It should be noted however that the right to audit has never been exercised.

Recommendation

The Agency should develop an audit framework for contribution funding arrangements.

Conclusion(s)

We reviewed twenty-one files against seven steps in the G&C process. Not all steps applied to all funding arrangements. For each step we were unable to locate the necessary documentation for some of the files, as follows:

Step	Number of files expected to have	Number of files having
Application from recipient	19	17 ¹
Letter from Minister	19	15
Signed agreement	19	18 ²
Technical compliance with Ts&Cs	18	12
Interim reporting	16	13
Authorization of payments	21	18
Final reporting	6	5

1. Two of the applications were for less than the amount funded with no supporting documentation

2. Two of the agreements were not signed on behalf of Parks Canada by appropriate representatives of the organization

We recommend that the Agency develop a process that will ensure all relevant documents will be readily accessible in the future. In this respect we offer the following two suggestions:

1. Complete files be maintained at headquarters. As many/most funding arrangements require extensive regional involvement this is not a solution of our choice, as it will, more than likely, result in excessive paper burden and a duplication of effort.
2. A clear definition of roles and responsibilities between headquarters and regional operations and that a process is in place that ensures that information is available on a timely basis and that the location of the information is clearly documented and easily accessible. The "Parks Canada Contribution Checklist" addresses accountability issues and may serve as the basis for documenting roles and responsibilities in maintaining information.

In completing the audit we were pleased to note that, for the cost-share agreements and the funding provided to the cooperating associations, there are currently two Program leads for these Programs at National Office and were able to provide a lot of the relevant documentation related to the Gs&Cs that we assessed. The lack of central focus for the miscellaneous grants and miscellaneous contributions at National Office made it difficult to assemble the data to complete the assessments. We recommend that the Agency consider assigning the headquarters' responsibilities for miscellaneous grants and miscellaneous contributions to one or more individuals.

APPENDIX A

**PARKS CANADA – GRANTS & CONTRIBUTIONS
FUNDING ARRANGEMENT VERIFICATION SAMPLE**

Recipient	Funding Type	Total Project Funding (\$000)
Kakivak Association	MG	\$3,000
International Peace Garden	MG	32
Shawinigan Heritage Society	MC	25
Fort Henry Heritage Foundation	MC	5,000
Pacific Marine Heritage Legacy	MC	15,940
Nature Conservancy of Canada	MC	700
Canadian Parks Partnership (Kids)	MC	150
Gulf of Georgia Cannery Society	MC	429
South Moresby Forestry Compensation	MC	499
St. Anne's Church	MC	400
Friends – Bethune Memorial House	COOP	23
Friends – Sault Ste. Marie Canal	COOP	15
Info Nature Maurice	COOP	26
Parks and People Association	COOP	16
City of Port Alberni – McLean Mill	CS	2,600
City of Hamilton – Hamilton	CS	549
Waterworks		
Rainy River 1 st Nation – Manitou Mounds	CS	800
St. Patrick's Church	CS	599
Ville de Chicoutimi – Vielle Pulperie	CS	686
Saskatchewan Heritage Foundation – Claybank Plant	CS	452
St. Georges Anglican Church	CS	<u>499</u>
Total		<u>\$32,440</u>

LEGEND:

MG – Miscellaneous Grants

MC – Miscellaneous Contributions

COOP – Cooperation Associations

CS – Cost Sharing

MANAGEMENT RESPONSE

The Agency agrees with the recommendations of this audit and has taken action to deal with the majority of the recommendations. The Agency acknowledges a need for improved records management and has embarked on a five year plan to improve the quality of its information holdings under the direction of the Chief Information Officer.

With regard to the specific missing documents and the need for clear definitions of roles and responsibilities the Agency has prepared a number of tools to assist managers. In November 2000 the Agency's Finance Branch issued the "Parks Canada Contribution Checklist, followed by the "Park Canada Grants Checklist" and "Parks Canada Grant Application Form". The checklists outline the documentation, disclosure, approval and reporting required at each stage of the application process and define the roles and responsibilities of the National Office and Field Units and Service Centres at each step. These documents are intended to help ensure managers are clear on their accountability to maintain all appropriate documentation with respect to applications, notice of awards, agreements, sign-off for payments and interim and final reporting.

These new tools provide the new control framework for all transfer payments, with the exception of those which require a separate Treasury Board Approval Process. The control framework, for those requiring a separate submission, are outlined in the new TB policy which provides for stringent disclosure, and tracking.

All of these documents were distributed electronically by the Senior Financial Officer and are readily available on the Parks Canada Website.

In addition, the Chief Administrative Officer for Parks Canada has written to all superintendents reminding them of their obligations with respect to grants and contribution agreements and referencing the electronic availability of these tools. Managers have been specifically advised that contribution agreements should not exceed the amount requested in the application and that only employees of Parks Canada with delegated authority are empowered to sign contribution agreements on behalf of the Agency.

Parks Canada is also committed to a program of periodic audits of grants and contribution agreements beginning in 2002.

Finally, the Agency agrees that it requires a lead focus in national office for the miscellaneous grants and contributions. In the future, the Chief of Accounting Operations will have responsibility for ensuring that all miscellaneous grants and contribution files are reviewed for completeness before any payments are issued. Additionally a procedure will be implemented where-by the Chief of Accounting Operations will ensure that closed files are reviewed to ensure that adequate reporting, and information are on file and to ensure that recovery procedures have been initiated if required.