



Regional Development Agencies Internal Audit of Receivables Management for Contribution Programs

Published: 2015-00-17

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Published by Treasury Board of Canada, Secretariat
90 Elgin, Ottawa, Ontario, K1A 0R5, Canada

Catalogue Number: BT66-68/2015E-PDF
ISBN: 978-0-660-25705-1

This document is available on the Government of Canada website, Canada.ca

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Aussi offert en français sous le titre : Agences de développement régional Audit interne de la gestion des
comptes débiteurs des programmes de contributions



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Regional Development Agencies Internal Audit of Receivables Management for Contribution Programs

Final Report

January 2015

Office of the Comptroller General

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Executive Summary

The objective of this audit was to provide reasonable assurance that selected Regional Development Agencies (RDAs) have established and implemented a management

control framework [1] over receivables resulting from contribution programs in compliance with Treasury Board policies and Treasury Board of Canada Secretariat directives, guidelines, and related regulations.

Why This Is Important

Receivables are debts due to the Crown. Across government, receivables involve billions of dollars and a wide range of transactions. The sound management of receivables is vital to ensuring that the government achieves its overall objective of responsible fiscal management. The Treasury Board of Canada *Policy on Transfer Payments* and the Treasury Board of Canada Secretariat *Directive on Receivables Management* also set the expectation for program managers to manage transfer payments in a manner that respects sound stewardship and the highest level of integrity, transparency and accountability.

In the context of the RDAs and their mandates, receivables result from providing repayable contributions to recipients, which can represent significant amounts. The purpose of these contributions is to create opportunities for economic growth in regions by helping small and medium-sized businesses become more competitive, innovative and productive. Contributions made to for-profit businesses that are intended to allow them to increase profitability or their value are required to be repayable – either conditionally [2] or non-conditionally. [3]

Given their regional economic development mandates, RDAs support, in many cases, projects that are inherently high-risk that may not otherwise be funded by commercial financial institutions (e.g., banks). As such, RDAs may face a higher inherent risk of not being able to collect repayment for their contributions in the event of recipient default. Therefore, it is essential that RDAs implement effective governance, risk management and internal control to help manage the inherent risks. It is also important that RDAs maintain accurate and complete accounting records to ensure that receivables are accounted for and reported in compliance with government accounting policies and regulations. Performing these activities will help ensure that RDAs comply with the Treasury Board *Policy on Transfer Payments*, the Treasury Board of Canada Secretariat *Directive on Receivables Management*, and other applicable policies, directives, guidelines and regulations.

Key Findings

The scope of this audit included the Atlantic Canada Opportunities Agency (ACOA), the Economic Development Agency of Canada for the Regions of Quebec (CFDQ), and the

Federal Economic Development Agency for Southern Ontario (FedDev Ontario).

The audit examined the management control framework over contribution receivables within the above RDAs. This included an examination of the RDAs' governance, risk management and internal controls over receivables resulting from contribution programs. The audit also examined the extent to which RDAs have implemented the established controls over the receivables management life cycle. RDAs' financial recording of accounts receivable related to repayable contributions was also examined to assess compliance with related Treasury Board policies, directives, guidelines and regulations.

Overall, most RDAs have established governance, risk management and internal controls over receivables management that are generally compliant with Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulations. All three RDAs have established and communicated roles and responsibilities for the management of receivables, and have developed a risk-based approach for the management of receivables. However, opportunities for improvement were noted relating to the governance structure and the internal control framework within FedDev Ontario. Specifically, it was found that Industry Canada's provision of independent, third-party advice and recommendations related to write-offs was not clearly articulated within the terms of reference for the FedDev Ontario committee responsible for recommending the approval of receivable applicants and write-offs. Clearly articulating this role would help demonstrate compliance with the Debt Write-Off Regulations. In addition, weaknesses related to internal controls were noted within FedDev Ontario's current receivables management processes.

The three RDAs have implemented the established controls over the management of the contribution receivables life cycle related to the stages of selection, recording, collection/recovery and closure in accordance with Treasury Board policies and Treasury Board of Canada Secretariat directives and related regulations. Some opportunities for improvement were noted relating to the stage of monitoring for ACOA and FedDev Ontario. The three RDAs have established procedures to assess applicants' financial viability and ability to repay contributions during the selection stage, with a clear conclusion on repayability more consistently evident within the most recent files reviewed. In terms of conditionally repayable contributions, the audit found that ACOA and CFEDQ clearly indicated the conditions for repayment; however, the rationale supporting how the repayment conditions were determined was not always evident. All three RDAs have established monitoring procedures; however, opportunities for improvement were noted for ACOA and FedDev Ontario with regard to strengthening the implementation of monitoring policies and procedures over contributions receivables to ensure compliance with departmental policies and procedures.

Overall, for each of the three RDAs, financial recording of accounts receivable related to repayable contributions was generally compliant with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulations. The audit found that most RDAs reconcile financial information related to accounts receivable for repayable contributions between the transfer payment and financial systems; however, opportunities for improvement were noted for FedDev Ontario with respect to reconciling information between the two systems. The audit also found that the RDAs' practices of charging interest and applying administrative fees vary, with opportunities for improvement noted in both CFDQ and FedDev Ontario. All three RDAs estimate and record an allowance for doubtful accounts for accounts receivable to support accurate financial reporting of receivables from contribution programs. As well, all three RDAs have established and implemented procedures for managing the write-off of accounts receivable.

Conclusion

Overall, the selected RDAs have established and implemented management control frameworks over receivables resulting from contribution programs, and are generally in compliance with Treasury Board policies and Treasury Board of Canada Secretariat directives, guidelines, and related regulations. Some opportunities for improvement were noted for each RDA.

Conformance With Professional Standards

This audit engagement conforms with the *Internal Auditing Standards for the Government of Canada* as supported by the results of the quality assurance and improvement program.

Hugo Pagé, CIA, CPA, CA

Acting Assistant Comptroller General and Chief Audit Executive
Internal Audit Sector, Office of the Comptroller General

Audit Objective and Scope

The objective of this audit was to provide reasonable assurance that selected RDAs have established and implemented a management control framework over receivables

resulting from contribution programs in compliance with Treasury Board policies and Treasury Board of Canada Secretariat directives, guidelines, and related regulations.

[4]

The audit examined the management control framework over contribution receivables within the three selected RDAs: ACOA, CFEDQ and FedDev Ontario. This included, but was not limited to, an examination of the RDA's receivables management governance, risk management and internal controls throughout the contribution receivables life cycle which includes recipient selection, recording of receivables, monitoring, collection and recovery, and closure of receivables. In addition, the RDAs' financial recording of accounts receivable resulting from repayable contribution programs was examined.

The audit testing included funded projects from the repayable contribution programs of each selected RDA from the past four fiscal years (2010-11 [5] through 2013-14, ending December 31, 2013) for which funding recipients should have begun repayment of their contributions within this time period. The audit testing included both conditionally [6] and non-conditionally [7] repayable contributions, as well as projects that have been amended, sent to recovery or written-off. The audit scope excluded non-repayable contributions and receivables generated from sources other than repayable contributions.

The lines of enquiry and audit criteria are provided in Appendix B.

Detailed Findings and Recommendations

Finding 1: Governance

Governance is a process through which organizations set strategic directions, define and assign responsibilities, assess risks, and establish internal controls to help achieve outcomes consistent with established objectives. When governance has been clearly articulated, the likelihood increases that objectives will be successfully achieved in consideration of accountability and risks.

The audit examined the extent to which the RDAs have established governance, risk management, and internal controls over receivables management, in compliance with the Treasury Board *Policy on Transfer Payments* and the Treasury Board of Canada Secretariat *Directive on Receivables Management* and *Debt Write-off Regulations*.

All three RDAs have established governance to support receivables management; however, opportunities exist in one RDA relating to the terms of reference for the committee responsible for recommending the approval and write-off of receivables.

Each RDA has developed a governance framework, which includes a number of oversight and advisory committees to support receivables management. These committees include participants at various levels (i.e., senior management and program representatives). The committees provide governance, advice, and recommendations related to contribution programs and receivables, which assist senior management in decision-making.

The audit found that the terms of reference for the FedDev Ontario committee responsible for recommending the approval of receivable applicants and write-offs do not clearly articulate Industry Canada's provision of independent, third-party advice and recommendations related to write-offs. FedDev Ontario has a Memorandum of Understanding with Industry Canada for the management of contribution receivables in default. Specifically, Industry Canada provides FedDev Ontario with external, objective reviews and recommendations related to write-off decisions. The Deputy Head of FedDev Ontario is ultimately responsible for approving the write-offs, thus providing an additional layer of oversight for the write-off decisions. The *Debt Write-off Regulations* [8] require that the committee responsible for recommending debt write-offs consist of at least three public officers, with at least one who has not been involved in the creation or establishment of the debt that is proposed to be written off. Clearly articulating the role of Industry Canada would help demonstrate compliance with the *Debt Write-Off Regulations*.

All three RDAs have established and communicated roles and responsibilities for the management of receivables.

All three RDAs have established and communicated roles and responsibilities for the management of receivables. The audit found that roles and responsibilities are communicated through the Agencies' policies and procedures. RDA management and program officers stated that roles and responsibilities are also communicated through performance agreements and training, which help to support RDA staff in the performance of their duties.

All three RDAs have developed a risk-based approach for the management of receivables.

The Treasury Board *Policy on Transfer Payments* states that deputy heads are responsible for ensuring that the administrative requirements for recipients are proportionate to the risk level. In addition, the Treasury Board of Canada Secretariat *Directive on Transfer Payments* requires organizations to establish a risk-based approach for the design of transfer payment programs.

All three RDAs have developed a risk-management strategy for the management of receivables. At the agency level, RDAs have developed corporate risk profiles that align to operational objectives and identify some risks related to receivables management at the corporate level. At the program level, risks related to repayable contributions are managed by program staff through the implementation of policies and procedures related to risk management that are specific to each RDA.

Most RDAs have implemented internal controls to support the management of repayable contribution programs.

The Treasury Board of Canada Secretariat *Directive on Receivables Management* requires departments to ensure that internal controls for the administration of accounts receivable are in place.

ACOA and CFDQ have established and implemented internal controls, and regularly test these controls to support the management of repayable contribution programs. However, weaknesses related to internal controls were noted within FedDev Ontario's current receivables management processes, including inappropriate segregation of duties and lack of reconciliation between transfer payment and financial systems. These findings are discussed in greater detail under Finding 3 as they relate to financial recording. FedDev Ontario is working toward finalizing new processes to address these control weaknesses.

The implementation of an internal control framework supports the effective management of receivables and demonstrates compliance with the Treasury Board of Canada Secretariat *Directive on Receivables Management*.

Overall, most RDAs have established governance, risk management and internal controls over receivables management that are generally compliant with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulation.

Opportunities for improvement were noted relating to the governance structure and internal controls within FedDev Ontario.

Recommendation 1

FedDev Ontario should ensure that Industry Canada's role in recommending debt write-offs is clearly articulated in the terms of reference for the committee responsible for recommending the approval and write-off of receivables.

Recommendation 2

FedDev Ontario should finalize its internal control framework related to receivables management in order to ensure, among other things, the proper segregation of duties and the reconciliation of financial information.

Finding 2: Contribution Receivables Management Life Cycle

The Treasury Board *Policy on Transfer Payments* requires that contribution programs be managed with integrity, transparency and accountability in a manner that is sensitive to risks and designed and delivered to address government priorities in achieving results for Canadians.

The audit examined the extent to which the RDAs effectively managed the contribution receivables life cycle to support compliance with Treasury Board policies and Treasury Board of Canada Secretariat directives and related regulations. In the context of this audit, the contribution receivables life cycle consists of five stages:

1. Recipient selection (assessing applicants' repayability, selecting recipients for conditionally or non-conditionally repayable contribution programs);
2. Recording (recording the receivable and repayment information in transfer payment system);
3. Monitoring (monitoring recipients' compliance, and amendments affecting funding agreement terms and conditions);
4. Collection and recovery (seeking repayment of funding for accounts in arrears or in default); and,
5. Closure (closing recipient accounts in accordance with the funding agreement and RDA procedures, including write-off of uncollectible amounts).

All three RDAs have established procedures to assess applicants' ability to repay contributions.

The Treasury Board *Policy on Transfer Payments* includes the requirement for transfer payment programs to be managed in a manner that takes into account risk and that clearly demonstrates value for money.

Each of the RDAs has established policies and procedures to assess repayability of applicants. The procedures require the assessment and analysis of an applicant's ability to repay the contribution so that due diligence in the assessment is demonstrated. This helps support the RDAs in meeting the policy requirements and in managing risks related to transfer payment programs.

Through the review of files, it was noted that all three RDAs conducted assessments of applicants' ability to repay during the selection phase; however, a clear conclusion on repayability was not always evident. Specifically, the audit found that the analysis of applicants considered financial information (e.g., financial ratios); however, the assessments sometimes lacked a clear concluding statement on the applicant's ability to repay. This may be due to a lack of explicit departmental procedures to this effect (i.e., templates do not include a specific requirement or field to provide a concluding statement on repayability). The file review noted improvements in the most recent files reviewed with regard to clear conclusions on repayability being more evident within the assessments. Having a clear conclusion on the applicant's ability to repay would support a high quality assessment and would demonstrate due diligence in decision-making and stewardship of public funds by the RDAs.

Determination of repayment conditions was not documented for conditionally repayable contributions.

The Treasury Board of Canada Secretariat *Directive on Transfer Payments* states that where contributions are to be repayable, conditionally or non-conditionally, the factors that determine whether repayment is to be made, the amount of the repayment and the terms of repayment are to be included within the contribution agreement terms and conditions.

Conditionally repayable contributions are intended to encourage innovation such as helping businesses develop and bring new products and services to market, or lead the creation of research and commercialization partnerships. These are generally considered higher risk contributions due to the fact that the typical applicant is a start-up company without significant financial history. As such, the RDA shares the risk with the recipients. Common conditions for conditionally repayable contributions are a set percentage of sales of new products.

Based on the files examined for ACOA and CEDQ, ^[9] the conditions for conditionally repayable contributions were indicated within the contribution agreements. The rationale supporting how the repayment conditions were determined was, however, not evident on file (e.g., reason for the specific percentage of sales being requested, how the percentage was determined, etc.). Neither RDA has established requirements for documenting the determination of the conditions. Documenting the determination of repayment conditions helps provide justification for decisions related to conditionally repayable contributions, and demonstrates due diligence in the determination of repayment conditions.

All three RDAs accurately record contribution receivables in the transfer payment system.

The Treasury Board of Canada Secretariat *Directive on Receivables Management* states that the Department is responsible for recording and reporting all receivable transactions accurately in the departmental accounts.

The audit found that all three RDAs accurately recorded recipient repayable terms and conditions (including amendments) in the transfer payment system consistent with the receivables information in the contribution agreements.

All three RDAs have established monitoring policies and procedures; however, the implementation of such procedures could be improved.

The Treasury Board of Canada Secretariat *Directive on Transfer Payments* includes the expectation that organizations establish a risk-based approach for the design of transfer payment programs, including the development of recipient monitoring requirements.

All three RDAs have developed policies and procedures related to the monitoring of contribution receivables. However, the audit found that not all RDAs have implemented departmental monitoring policies and procedures.

Specifically, for ACOA, the audit found for files having a high number of amendments, the recipient's project monitoring frequency was not adjusted to take into consideration changes to the recipient's risk rating. The Agency has advised that they have undertaken improvements in this area.

For CEDO, the audit found that with the exception of one file reviewed, there was evidence of review of recipients' reporting provided to the Agency, such as financial statements, including an evaluation of the recipients' ongoing ability to repay their contribution.

The file review also found that FedDev Ontario's monitoring practices were not always performed as per the Agency's policy and procedure requirements. In particular, there was a lack of evidence that the Agency performed monitoring activities as required, such as conducting updates to recipient risk profiles, following-up on required reporting, and clearly documenting reviews of recipient reporting.

The RDAs are encouraged to continue working toward improving the implementation of monitoring procedures. Monitoring practices, which are fully implemented as per departmental monitoring policies and procedures that are consistent with Treasury Board policies and directives, support the RDAs' ability to effectively manage and mitigate risks, and demonstrate due diligence for public funds.

All three RDAs have implemented controls over the collection/recovery of the contribution receivables.

The Treasury Board of Canada Secretariat *Directive on Transfer Payments* outlines the expectation that receivables are recognized promptly and are pursued, and that recoveries are maximized.

Each of the RDAs has established recovery units (also referred to as Special Accounts Units), which are responsible for pursuing receivables and maximizing recoveries for files in default or when financial hardship affecting repayability is evident. The audit found that each of the RDAs has implemented processes and procedures to pursue the recovery of receivables, in compliance with Treasury Board requirements. A good practice was noted at CEDQ where a framework, including policies and procedures, for the management of files in recovery has been developed and describes the roles and responsibilities of the various Agency representatives in the management of files in recovery (e.g., Operations, Finance, Recovery, Legal services, and the Agency Write-off Committee).

Furthermore, within each RDA, the transfer of files to collection and recovery were appropriately supported with required Agency documentation, including evidence of review and approval by management.

All three RDAs have implemented controls over the closure of the contribution receivables.

The Treasury Board of Canada Secretariat *Guideline on the Common Financial Management Business Process* [10] makes reference to properly managing the closure of recipient files.

The RDAs have developed and documented project closure procedures to help ensure that recipient files are closed with no outstanding obligations due. The file review found that each of the RDAs closed files in accordance with Agency procedures, contribution agreement requirements, and the Treasury Board of Canada Secretariat guideline.

It was also noted as a good practice that ACOA has developed a Project File Closure Checklist, in addition to their guidance and procedures, which helps program officers ensure that the appropriate close-out procedures are performed on the contribution receivable files.

All three RDAs have implemented the established controls over the management of contribution receivables life cycle related to the stages of selection, recording, collection/recovery and closure.

Opportunities for improvement were noted relating to the contribution receivables life cycle stage of monitoring for ACOA and FedDev Ontario.

Recommendation 3

ACOA and CEDQ should ensure that the rationale for determining repayment conditions for conditionally repayable contributions is explicitly documented to support compliance with the Treasury Board of Canada Secretariat *Directive on Transfer Payments*.

Recommendation 4

ACOA and FedDev Ontario should continue to strengthen the implementation of monitoring policies and procedures over contribution receivable to ensure compliance with the Treasury Board of Canada Secretariat *Directive on Transfer Payments*.

Finding 3: Financial Recording of Accounts Receivable Related to Repayable Contributions

Financial recording of accounts receivable for repayable contributions supports financial reporting of accounts receivable, and is guided by the Treasury Board *Policy on Allowance for Valuation of Assets and Liabilities*, the Treasury Board of Canada Secretariat *Directive on Receivables Management*, and federal regulations such as the *Interest and Administrative Charges Regulations* and the *Debt Write-Off Regulations*.

The audit assessed the extent to which the RDAs' financial recording of accounts receivable related to repayable contributions are compliant with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulations.

Financial reporting of accounts receivable for repayable contributions relates to the following key activities: recording and reconciling receivables transactions, administering the application of interest and administrative charges for delinquent accounts, recording estimates for the allowance of doubtful accounts, and the writing-off of recipient accounts deemed unrecoverable. Accurate financial recording contributes to effective receivables management, and supports compliance with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulations.

Most RDAs reconcile financial information related to accounts receivable for repayable contributions between the transfer payment and financial systems; however, opportunities exist in one RDA.

The Treasury Board of Canada Secretariat *Directive on Receivables Management* states that the department is responsible for recording and reporting all receivable transactions accurately in the departmental accounts.

All three RDAs use both transfer payment and financial systems to record financial activities related to receivables. Each of the RDAs has established procedures to ensure that transactions related to contribution receivables are recorded in both systems to support departmental reporting.

Opportunities for improvement were noted for FedDev Ontario with respect to reconciliations between its two systems to ensure accuracy of the financial information related to contribution receivables. Specifically, the files examined revealed some discrepancies between information recorded within the RDA's transfer payment and financial systems. At the time of the audit, FedDev Ontario did not have procedures in place to reconcile this data.

Without proper reconciliation performed between the two systems, there is a potential risk that the information recorded may not be accurate or complete, which could result in incorrect information being reported and used for decision-making. Proper reconciliation helps to ensure that information from the financial system used to develop the departmental financial statements is accurate, and demonstrates the Agency's compliance with the Treasury Board of Canada Secretariat directive. Following the audit scope period, FedDev Ontario recently developed internal control guidance and processes.

Practices for charging interest and applying administrative fees vary across the three RDAs.

According to the *Interest and Administrative Charges Regulations*, interest should be charged with respect to a repayable contribution every day on which a scheduled repayment is to be made in accordance with the terms and conditions of the contribution. The Treasury Board of Canada Secretariat *Directive on Receivables Management* states that the department is responsible for applying authorized interest and administrative charges.

The audit found that ACOA accounted for interest and administrative charges on delinquent accounts in a timely manner and for the correct rate and amount. ACOA performs a daily interest calculation and charges it to the recipient. The Agency has also implemented procedures to ensure interest waived is approved appropriately.

CFDQ's charging practices for interest and administrative fees are not consistent with the requirements of the Treasury Board of Canada Secretariat directive and the *Interest and Administrative Charges Regulations*. For example, CFDQ calculates interest on a biweekly basis, and invoices the recipient once the principal has been paid off (except for the accounts that are in default; in this case, the interest would be calculated and charged by the recovery unit), rather than charging interest on a daily basis, as required.

FedDev Ontario charges interest and administrative fees on delinquent accounts, however, it does not charge interest as required by the applicable directive and regulation. Specifically, it was noted that during the audit scope period, interest was calculated manually within an Excel spreadsheet on a monthly basis, rather than on daily basis, as required. FedDev Ontario has advised that since March 1, 2014, it has implemented an automated interest calculation program in collaboration with Industry Canada, which calculates interest owed with respect to a repayable contribution for every day after a scheduled principal due date.

Ensuring the accuracy of interest and administrative charges supports the sound management of money owed to the Crown and demonstrates stewardship of public funds and compliance with the Treasury Board of Canada Secretariat directive and regulation.

All three RDAs estimate and record an allowance for doubtful accounts to support accurate financial reporting of receivables from contribution programs.

The Treasury Board *Policy on Allowance for Valuation of Assets and Liabilities* requires that receivables related to contribution programs are assessed against appropriate criteria. The criteria guide the estimation and reporting requirements related to the allowance for doubtful accounts.

Each of the RDAs has adopted varying approaches for the calculation of the allowance for doubtful accounts. For example, ACOA has adopted a weighted-risk approach and performs a calculation for the allowance twice per year. This was noted as a good practice as it allows the Agency to have a timely calculation taking into account the most recent information. CEDQ and FedDev Ontario have similar approaches to one another in terms of basing their calculation on two types of accounts (regular files and default files). CEDQ prepares the estimate for the allowance of doubtful accounts once per year (in March), and FedDev Ontario prepares the estimate twice per year.

Although each RDA has adopted a slightly different approach, the audit found that each approach is in compliance with the Treasury Board policy.

An appropriate estimation of an allowance for doubtful accounts supports financial management and decision-making for the RDAs and ensures that assets are reported on the departmental financial statements in an accurate manner.

All three RDAs have established and implemented procedures for managing the write-off of accounts receivable.

The Treasury Board of Canada Secretariat *Directive on Receivables Management* states that the Department is responsible for taking action on a timely basis for any write-off of debts when a receivable is not settled in full. In addition, the *Debt Write-Off Regulations* outline the requirements for the write-off of accounts receivable deemed unrecoverable, and includes criteria for the assessment of unrecoverable accounts.

The audit found that each of the RDAs has established and implemented procedures for managing the write-off of accounts receivable, including the establishment of debt write-off committees. The audit found that the RDAs debt write-off practices were consistent with requirements outlined in the *Debt Write-Off Regulations*. However, as noted in Finding 1, an opportunity for improvement related to the segregation of debt write-off authorities was found for FedDev Ontario.

The audit found that the write-off files examined had been assessed against the appropriate criteria outlined in the *Debt Write-Off Regulations* prior to initiating the write-off process, and that the files were approved by the authorized authority and supported by appropriate documentation. The audit also found that all three RDAs recorded the amounts written-off in the departmental annual financial statements.

Timely actions taken for debt write-off support the accuracy of the departmental financial statements by ensuring accurate recording of the RDAs' financial positions, and supports compliance with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulation.

As noted above, all three RDAs have established procedures for the reporting of financial information related to accounts receivable for repayable contributions within the departmental accounts, as required by the Treasury Board of Canada Secretariat *Directive on Receivables Management* which states that the department is responsible for recording and reporting all receivables transactions accurately in the departmental accounts.

Overall, all three RDAs' financial reporting of accounts receivables related to repayable contributions are generally compliant with the Treasury Board policy and the Treasury Board of Canada Secretariat directive and related regulations.

Opportunities for improvement were noted with respect to CFDQ and FedDev Ontario's practices of charging interest and applying administrative fees.

Recommendation 5

CEIQ and FedDev Ontario should ensure that departmental policies and procedures related to the charging of interest and administrative fees are consistent with *Interest and Administrative Charges Regulations*.

Conclusion

Overall, the selected RDAs have established and implemented management control frameworks over receivables resulting from contribution programs, and are generally in compliance with Treasury Board policies and Treasury Board Secretariat of Canada directives, guidelines and related regulations. Some opportunities for improvement were noted for each RDA.

Management Response

The findings and recommendations of this audit were presented to ACOA, CEIQ and FedDev Ontario management.

Management has agreed with the findings included in this report and will take actions to address all recommendations applicable to their RDA.

Appendix A: List of the Policies, Directives, Guidelines, and Regulations Used to Assess Compliance

Treasury Board Policies

- [*Policy on Transfer Payments*](#)
- [*Policy on Allowances for Valuation of Assets and Liabilities*](#)

Treasury Board Secretariat of Canada Directives

- [*Directive on Receivables Management*](#)
- [*Directive on Transfer Payments*](#)

Treasury Board Secretariat of Canada Guidelines

- [*Guideline on the Common Financial Management Business Process*](#)
- [*Guideline on Interest and Administrative Charges*](#)

Federal Regulations

- [Debt Write-off Regulations, 1994](#)
- [Interest and Administrative Charges Regulations, 2014](#)

Appendix B: Lines of Enquiry and Audit Criteria

Line of Enquiry

1. Governance

The RDAs have established governance, risk management and internal controls over rec

2. Receivable Management Life Cycle

The RDAs have implemented effective controls over the receivables management life cyc

3. Financial Recording

RDA financial recording of accounts receivable related to repayable contributions is comp

Appendix C: Recommendations by Regional Development Agency and Priority Ranking

Recommendations

Recommendation 1

FedDev Ontario should ensure that Industry Canada's role in recommending debt write-off

Recommendation 2

FedDev Ontario should finalize its internal control framework related to receivables mana

Recommendation 3

ACOA and CFEDQ should ensure that the rationale for determining repayment conditions t

Recommendation 4

ACOA and FedDev Ontario should continue to strengthen the implementation of monitori

Recommendation 5

CFEDQ and FedDev Ontario should ensure that departmental policies and procedures rela

Footnotes

1

For this audit, a management control framework includes the governance, risk management and management practices and controls within the RDAs. As defined by the Treasury Board's internal control policy suite, management practices and controls are "policies, processes, procedures and systems that enable a department to operate its programs and activities, use its resources effectively, exercise sound stewardship, fulfill its obligations and achieve its objectives".

2

Accounting Standard 3.2 - Treasury Board Policy on Transfer Payments: For some contributions, all or part of the amount may be repayable if conditions specified in the funding agreement come into effect.

[3](#)

Accounting Standard 3.2 - Treasury Board Policy on Transfer Payments: For these contributions the recipient is expected to repay all or part of the amount. The terms and conditions of the funding agreement may specify a repayment schedule and the amounts.

[4](#)

Refer to [Appendix A](#) for a list of the policies, directives, guideline and related regulations.

[5](#)

As [FedDev Ontario](#) was established in late 2009, its repayable contributions portfolio did not reach repayment status until the 2011-2012 fiscal year. Therefore, for [FedDev Ontario](#) the audit testing included projects in repayable status from 2011-12 onward.

[6](#)

Accounting Standard 3.2 - Treasury Board Policy on Transfer Payments: For some contributions, all or part of the amount may be repayable if conditions specified in the funding agreement come into effect.

[7](#)

Accounting Standard 3.2 - Treasury Board Policy on Transfer Payments: For these contributions the recipient is expected to repay all or part of the amount. The terms and conditions of the funding agreement may specify a repayment schedule and the amounts.

[8](#)

Refers to section 8.3 of the *Debt Write-Off Regulations, 1994*

[9](#)

[FedDev Ontario](#) does not have conditionally repayable contribution programs.

[10](#)

Section 6.1 Management Grants and Contributions

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