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Canada Community Investment Plan

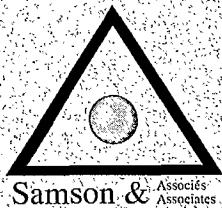
Review of the Control Framework

Entrepreneurship & Small Business Office

INDUSTRY CANADA



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Canada Community Investment Plan

Review of the Control Framework

Entrepreneurship & Small Business Office

INDUSTRY CANADA

By: Samson & Associates
January 23, 2001

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1.0 Mandate and objectives

Our mandate consisted of reviewing the control framework in place for the Canada Community Investment Plan (CCIP). The general objective of this review was to determine if proper tools were in place for project and financial information for both project monitoring (tools, processes, reports) and overall program/Secretariat planning and management. This included an assessment of the projects lifecycle (initial enquiry, formal application, project assessment, recommendation/approval process, letter of offer/agreements, payments of the contribution and project monitoring).

2.0 Approach of our analyse

Our assessment included an assessment of the financial and management control framework currently in place. More specifically, this included the following:

- Attend preliminary meetings and inventory existing project and financial information systems, including a review of the agreements/projects and relevant subsidiary documentation, e.g., applicant's submission and/or other representations;
- Interview program officers to gain enough information to flowchart the process followed for application, approval and control of agreements and for reporting expenditures against the contribution project;
- Interview the Branch Financial Officer and CCIP Program staff to determine if other systems exist for managing contribution programs, (i.e., link to SAP G&C module);
- Review systems in place to maintain timely, accurate and relevant financial records and information; and
- Provide a preliminary report on the findings, including an action plan to provide adequate tools for project monitoring and overall program and financial planning and management.

3.0 Introduction

Twenty-two communities served by Canada Community Investment Plan pilot projects have already helped raise millions of dollars in risk capital to foster the growth of their most promising small businesses.

The CCIP is a seven-year program designed to improve access to risk capital by growth-oriented Small & Medium Enterprises (SMEs). The CCIP comprises two main related initiatives:

- Twenty-two communities across Canada are implementing various innovative strategies aimed at facilitating access to risk capital by their SMEs.

- An investment skills development initiative aims to demystify the nature of risk capital for SMEs. *The Steps to Growth Capital* website and training workshops provide a tool for communities.

In 1996, Canadian communities located far from financial centres were invited to participate in a national competition by submitting feasible and innovative proposals to facilitate access to risk capital by SMEs by linking entrepreneurs and investors. The proposals were evaluated by a panel of private sector experts in the field of venture capital and local economic development.

The panel selected twenty-two community-based economic development groups across the country to highlight innovative strategies to facilitate investment in local fast-growth firms. The 22 pilot projects will receive up to \$600 000 each over a five-year period and act as intermediaries between local businesses and local, regional and national sources of risk capital. One of the purposes of the program is to identify successful investment facilitation approaches, and to develop policies that foster access to equity financing by growth-oriented SMEs.

CCIP is a grassroots program and the investment facilitation strategy of each community is unique. For instance, some communities are developing databases of growing firms in their economic areas that are potential recipients of risk capital. Some are fostering the development of networks of angel investors. Some are organizing investor forums. Others are screening proposals from SMEs looking for risk financing before presenting them to investors. Others are making their entrepreneurs investor-ready by explaining the needs of investors and by offering coaching services and seminars.

The best practices and the lessons learned by these pilot projects are being disseminated throughout Canada for the benefit of all communities looking to implement their own investment facilitation strategy for SMEs.

4.0 Control Framework

We assessed the Canada Community Investment Plan control framework in four sections: a) establishment of the program, b) elaboration of agreements with the communities, c) management of the agreements and d) reporting to senior management. Appendix "A" provides the flowcharting of activities for each of the sections.

4.1 Program Authority

The authority for the program derives from the Department of Industry Act, paragraph 4.1(b), 4.1 (m), 5.a, 5.f, and 6.c. In November 1995, a submission was presented to Treasury Board for the approval of the CCIP. The approval in principle, received on December 14, 1995 (TB-823595), was to get the program underway with the component identified as the National Call for Demonstration Projects. The amended Treasury Board decision, on June 6, 1996 (TB-824162), added two more components; the Skills Development and Toolkit, and the Information Exchange components.

The amended Treasury Board agreement also required Industry Canada (IC) to provide an evaluation framework by June 30, 1996. The Evaluation framework was the basis for the Mid-term review performed March 31, 2000.

The Mid-term Review revealed that achievement of overall program objectives has been quite good. Furthermore, the review noted very positive feedback regarding the level and appropriateness of IC's support to community projects, particularly the coordination of bi-annual conferences and regional teleconferences.

4.2 Community agreements

In 1996, Canadian communities located far from financial centres were invited to participate in a national competition and to submit feasible and innovative plans to facilitate access to risk capital for small and medium-sized business by building better bridges linking entrepreneurs and investors. The call for proposals attracted 99 submissions of which a composition of regional and national jurors selected 22 projects based on their business plans and the potential to be successful. To ensure a fair process across the country, the regional jury selected five or six plans from each region for review by the national jury. Of these projects, 11 were selected the first year (1996-97) and 11 the second year (1997-98).

The 22 demonstration projects above are receiving up to \$600 000 each over a five-year period and are acting as intermediaries between local businesses and local, regional and national sources of risk capital. One of the purposes of the program is to identify successful investment facilitation approaches, and to develop policies that foster access to equity financing for growth-oriented SMEs. Appendix "B" provides a list of the Projects by region.

Development of the Agreements

The development of the agreement followed a standard process for a legal document binding both parties. The Policy Advisors provided the Small Business Policy Branch (SBPB) with the information required to draft the agreement. Legal Services also provided legal advice on the content and wording of the agreements.

The standard format of the agreement was used for each of the 22 communities.

Approval of the Agreements

The delegated authority to enter into agreements less than \$500,000 rests with the Director General of SBPB and those over \$500,000 are submitted for approval to the Program and Services Committee. Annex A of each agreement spells out the particulars of each community.

4.3 Program Control

A detailed review of the CCIP was performed in order to assess whether the required controls are in place and the program is managed in an efficient manner. Our assessment included the following areas:

- Activity reporting from the communities
- Analysis of reporting by SBPB
- Reporting to Senior Management
- Reception and processing of claims from the communities
- Site visits by SBPB officers to monitor the program results
- Approval of program expenditures
- Reconciliation of program expenditures with the Departmental Financial System (IFMS)
- Audit of community financial statements

4.3.1 Activity reporting from the communities

Activity reports, are required quarterly with claims. They are completed and submitted via the Internet. Each community has restricted access to a secure website located on *Strategis*, the main Industry Canada website. Each community only has access to their particular site and the CCIP program clerk. Communities are required to answer a series of non-financial questions, which are related to statistical and narrative information covering recent events. Completed reports are submitted to the program clerk, who analyzes the information, summarizes, and consolidates the reports to different levels of management. The information is also used for posting on the website and for bi-annual meetings. A summary of each activity report is attached to the claims as proof of program delivery.

Conclusion: This control point appears to be very effective for tracking activities of the communities and for backing-up the claimed amounts. The only improvement required is the access to CCIP on Strategis, the site is difficult to find and would benefit from a better identification of the program on the first page of the Strategis.

4.3.2 Analysis of reporting by SBPB

In addition to the activity reports mentioned previously, the 22 communities are required to send to Industry Canada, on a quarterly basis three different reports. These are; the claim form (IC-1217), the detailed revenue and expenses, and the financial forecast for the next quarter (IC-1218). These documents, together with the activity reports provide detailed information of all activities done within the community and the financial information backing-up the claims.

These reports allow managers of the CCIP to monitor the status of each project and if needed contact the communities for clarifications. The website appears to be well appreciated by the communities for its user-friendly format.

4.3.3 Reporting to Senior Management

The Quarterly Activity Report Overview (QAR) is compiled by the CCIP program clerk. This report contains information on the status of the 22 communities. It contains a highlight of each of the communities, a list of the proposals submitted to investors, the transactions closed for the

quarter; public awareness events, and upcoming events. This report along with different statistical reports form the information required by the different levels of management for decision-making.

The process to extract the information, however, needs to be refined. A data-base presently exists for each of the last three fiscal years and data is manually extracted for entry into the statistics program (SPSS). Furthermore, a student provided with very little documentation or specifications presently operates this program.

Conclusion: This manual extraction creates extra work and increases the risk of errors. The automation of the data transfer into the SPSS program must be done as soon as possible. A detailed description of the steps required to issue the reports are needed.

4.3.4 Reception and processing of claims from the communities

On a quarterly basis, the communities send, to the CCIP Policy Analyst, a claim form (IC1217) accompanied by detailed revenue and expenses reports for the quarter as well as a financial forecast for the next quarter (IC-1218). The Policy Analyst is responsible to ensure that the forms are properly completed and that calculations are exact and in compliance to the agreement. The Policy Analyst will then enter information in the reserved area for the claimed amounts, requested advances, and verifies if there are any notes on file regarding overpayments or issues stemming from the verification or audits of financial statements.

The Policy Analyst uses a checklist (IC-2055) to verify the completeness of claims under the headings; Progress of the project, Satisfaction of contractual obligations, Advance Payment, and Final Payment. The checklist also refers to information in the audit reports carried out by an independent auditor, and if any particular reasons for restrictions are noted.

The Administration Officer verifies claimed amounts to date in CMIS and enters claim's information. The claims are then committed electronically in the Departmental financial system (IFMS). CMIS is used to maintain information about all payments sent to the communities since 1997 and is linked to IFMS. However, the information contained in CMIS is incomplete since it does not contain payments made prior to 1997-98 fiscal year.

The agreements also require that communities provide, audited financial statements within 120 days of the year-end. These audited financial statements are compared to quarterly claims to ensure that amounts claimed correspond to reported amounts. The process of verification is complex because the presentation of information is not standardized between the communities. For example, recording of advances is different from one community to another. Furthermore, the process of verifying the Financial Statements is presently contracted out and there are no procedures in place to transfer the knowledge if ever the responsibilities are to be performed internally.

Conclusion: The information provided by the communities is not a guarantee that the amounts are correct; however, there is a clause in the agreement that allows Industry Canada to audit the

claimed amounts. Industry Canada has exercised this option for three communities to date, which has resulted in adjustments to claims.

4.3.5 Site visits by SBPB officers to monitor the program results

An important element of the control over program results is the site visits. These visits allow CCIP to determine if communities are operating as intended, (i.e., as per the agreement), and monitor the results of the different sections of the program. The students responsible for the information gathering prepare a binder for the visits. A site visit report is prepared for each visit using a template developed with specific queries. Visits are limited to the availability of staff, rather than based on a set plan.

Conclusion: Site visits are an important element of the control framework over the program. However, to be effective, they must be well planned and structured. A site visit plan must ensure that all communities are covered and that problematic communities be re-visited to ensure compliance to the agreements. Furthermore, the query sheet prepared for the site visit must link directly to the program reporting system and be included as a reporting element in the QAR.

4.3.6 Approval of program expenditures

Once the claims are received and the elementary controls have been performed, a financial file is prepared for approval and payment. This file contains a transmission sheet that confirms the different information-providing backup to the payment (Sec.34). The Policy Analyst prepares the file and sends it to the CCIP Senior Policy Advisor who initials the document before sending it to the Manager of the Financing Unit for verification. The Director General of the SBPB does the final sign-off for section 34, before sending it to finance for payment (Section 33).

Conclusion: This process, although important, seems to be cumbersome. We noted four levels of controls in place to provide a signature under section 34, stating that services are rendered as per the agreement. It is our opinion that the process needs to be streamlined to provide the sec. 34 authority to the Manager of the Financing Unit. The role of the Director General should be limited to the review of the overall budget of the program and not to each individual community.

4.3.7 Reconciliation of program expenditures with the Departmental Financial System (IFMS)

CMIS is the information system used to track and control the program. More specifically, it serves to manage each component of the program and each project (community). Quarterly claims are entered into CMIS; the commitments of funds are uploaded to the IFMS and document numbers are recorded in the financial files.

Conclusion: It is therefore important that information contained in the CMIS be reconciled to the Departmental Financial Information System (IFMS) on a monthly basis.

4.3.8 Audit of community financial statements

The audit clause contained in the agreements provides Industry Canada with the option to audit the claims made against the program. To date, three of the 22 community programs have been audited by an independent accounting firm. Taking into consideration the other controls outlined above, the decision to perform an audit must be based on a risk assessment. The following criteria can be used to determine the level of risk:

- Quality of information provided by the communities on the projects
- Quality of information provided with the quarterly claims.
- Notes/information provided by the audited financial statements.
- Assessment performed by SBPB of the annual financial statements.
- Results of site visits done by the Policy Advisors.

Conclusion: An audit plan needs to be prepared and updated on an annual basis. The information gathered through the different control elements identified above should serve as the criteria to determine the level of risk and to determine the priority. Appendix "C" provides selection criteria for the audits of the communities.

4.4 Reporting

The management report is presently composed of seven types of information. These are:

- Committed amounts as per contribution agreement as of April 1, 1998
- Committed amounts as per contribution agreement (up to date)
- Lapsed funds
- Committed amounts per regions per contribution agreement
- Expended amounts to date
- Expended amounts in the current fiscal year
- Lapsed amounts per region, per year

These reports are prepared by the Policy Analyst and compiled from information extracted from the IFMS, the CMIS and the community files.

The mid-term review of the Canada Community Investment Plan, dated March 31, 2000 evaluated the effectiveness of the program and mechanisms put in place by Industry Canada to attain the CCIP program objectives. The mid-term review focused mainly on the implementation processes and monitoring mechanisms required to adequately deliver the program. The final evaluation, to be conducted at a later date, will assess the level of success of the program in attaining the CCIP objectives.

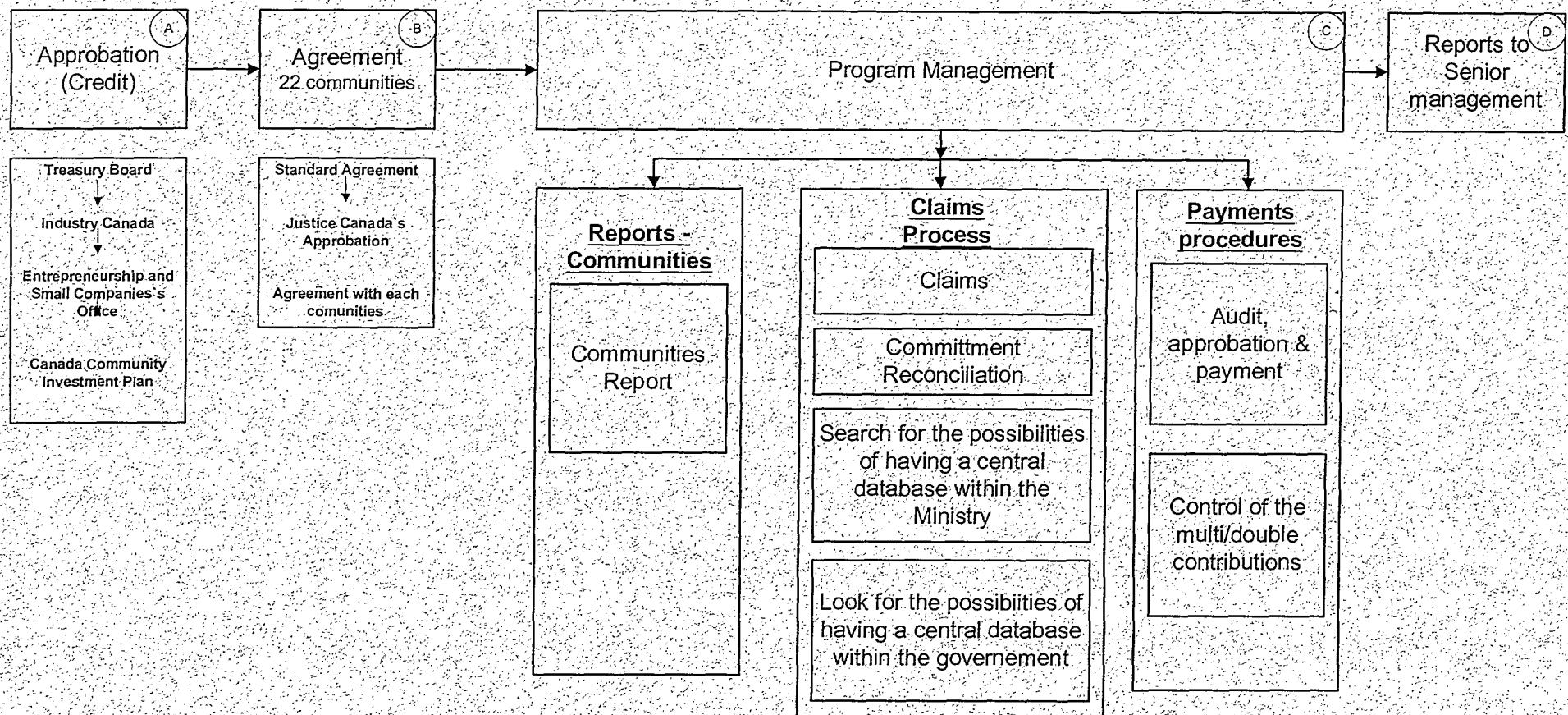
Conclusion: The level and quality of reporting appears to be sufficient and provides a good level of control of the achievement of the program.

Appendix “A”

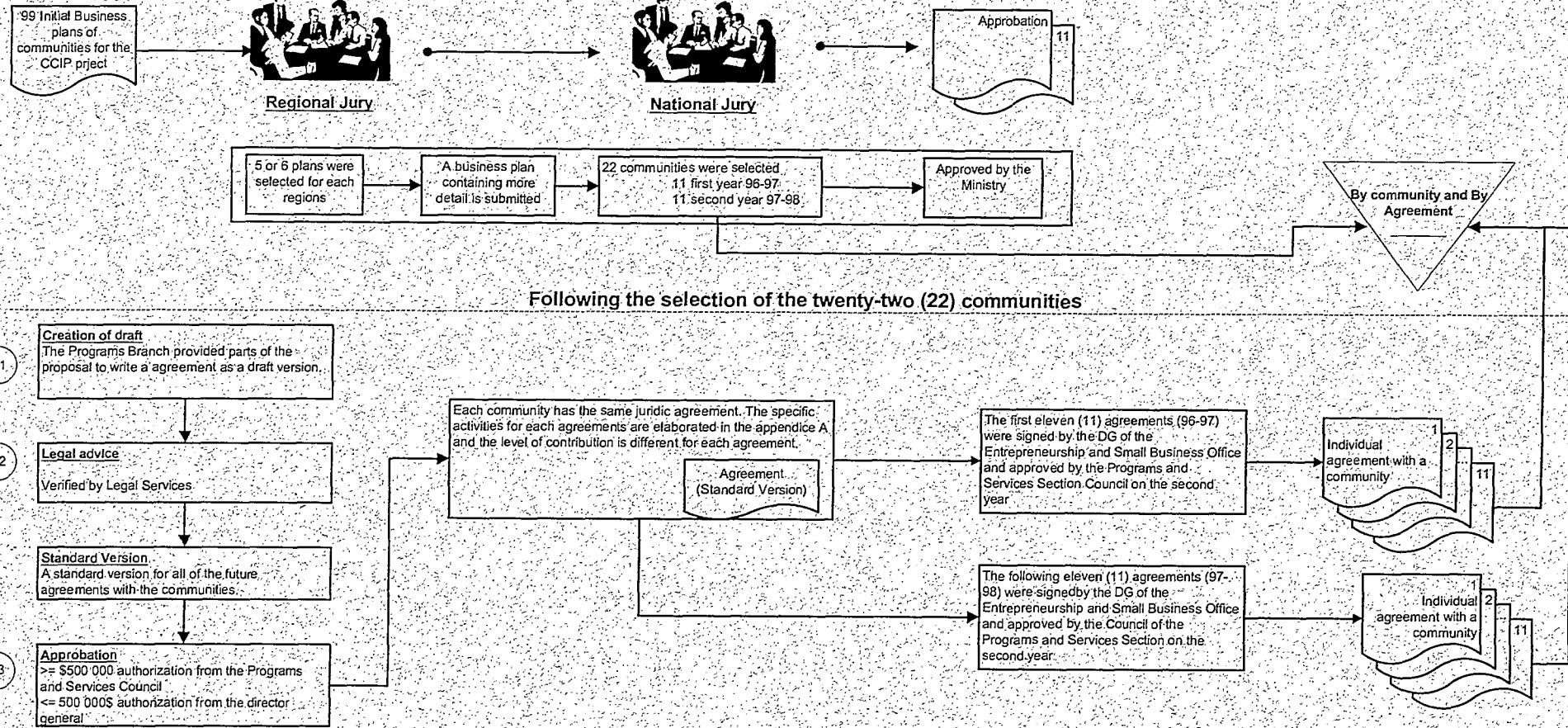
Flowcharting of Activities

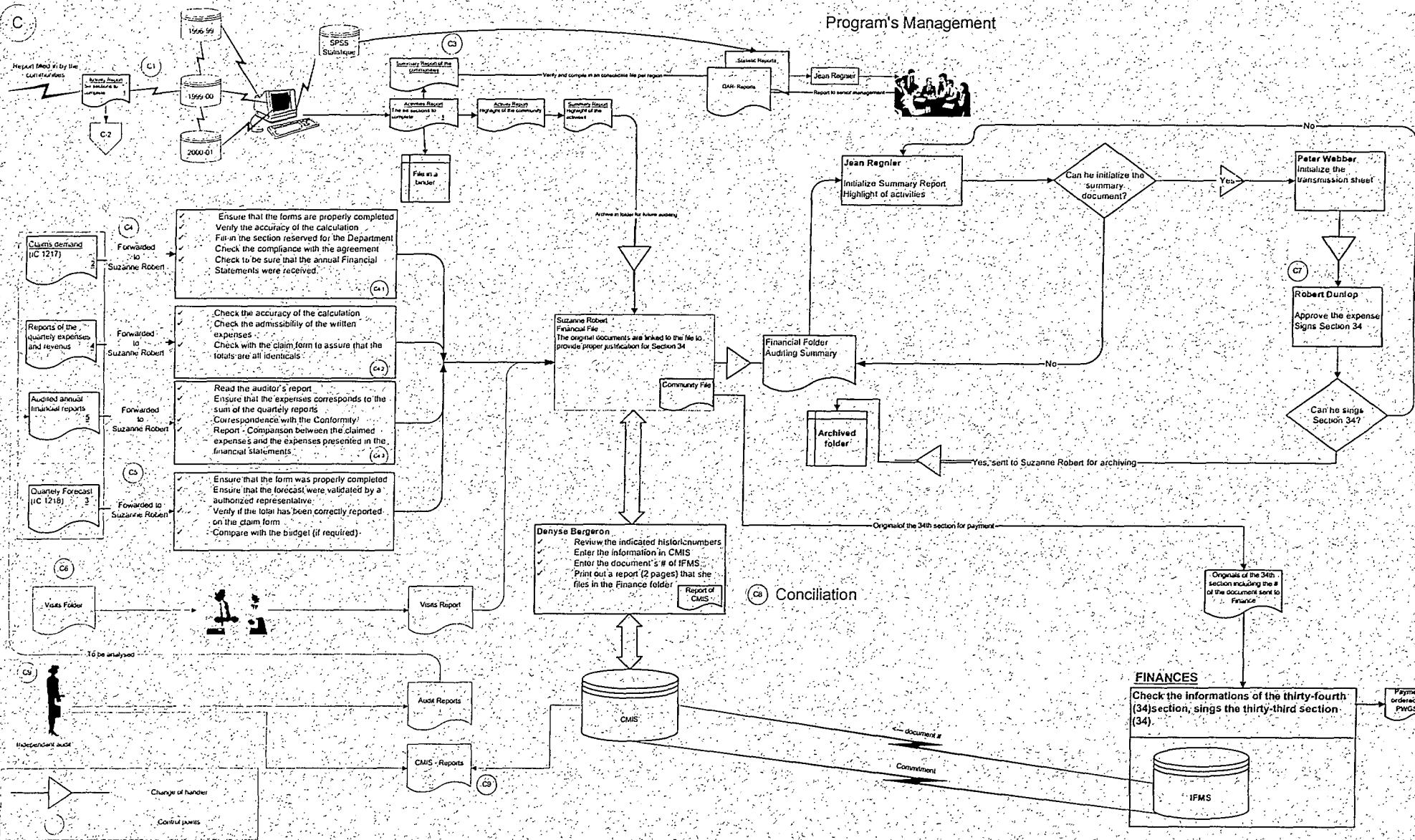
Canada Community Investment Plan

Summary



Agreement





C-2

The communities complete the activities reports via Internet



IBM Compatible

New Clients

Information on the new client during that quarter

Financing Agreement

Information about the financing presented to the investors during that quarter

Details on the financing

Detailed information on the enterprises that received financing during that quarter

Events

Detailed information on all the events that were held during that quarter

Other activities

Information on all of the other activities that the community could hold during that quarter

General Comments Quarterly

Comments on the lecons or on the best practices learned during that quarter

End of Year

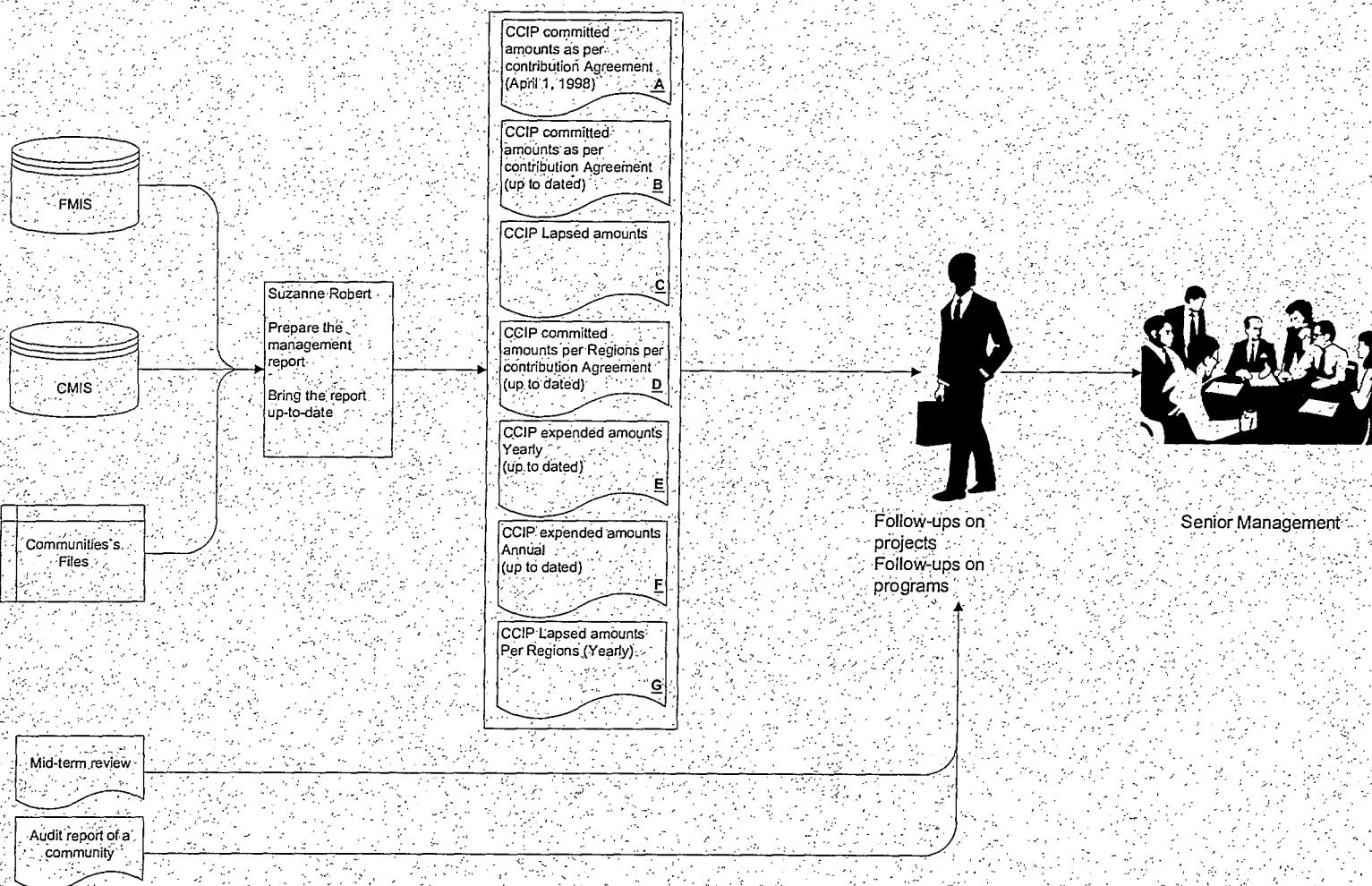
A resume of the reported successes and of the achieved goals during the year

Audit of the compliance with the agreement
File this document in the Finance folder

C

Community Investment Plan of Canada

Report to Senior Management



Appendix "B" List of Community Projects

Alberta Contact(s):

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Appendix "B" List of Community Projects

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Appendix “C” Selection of Criteria for the Audits of Communities

Communities ↓	Criteria ↗	Activity Reports			Claims			Annual Financial Reports			Site visits				
		Risk level			Risk level			Risk level			Risk level				
Canmore, Alberta	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							
The Opportunity Capital Corporation SE Medicine Hat, Alberta	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							
Community Futures Development Corp. Penticton, BC	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							
Vancouver Island Advanced Technology Centre (VIATEC) Victoria, BC	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							
Greater Fredericton Economic Development Corp. (GFEDC) Fredericton, NB	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							
Regional Investment Corporation Inc. Moncton, NB	Complete Goals achieved Best Practices	H	M	L	H	M	L	Auditor's report	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
					Complete Accurate Compliant Forecast			Compares to claims Notes							

Appendix “C” Selection of Criteria for the Audits of Communities

Communities	Criteria	Activity Reports			Claims			Annual Financial Reports			Site visits					
		Risk level			Risk level			Risk level			Risk level					
Mount Pearl CCIP Inc. Mount Pearl, Nfdl	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
Greater Halifax Partnership, Halifax, NS	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
Burlington Community Development Corporation Burlington, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
London Venture Group Inc. London, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L
The Niagara Enterprise Agency Niagara-on-the-Lake, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Optain1/3 Other issues	H	M	L

Appendix “C” Selection of Criteria for the Audits of Communities

Communities	Criteria	Activity Reports			Claims			Annual Financial Reports			Site visits					
		Risk level			Risk level			Risk level			Risk level					
Bayway Community Investment Corp North Bay, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Sarnia-Lambton Council for Economic Renewal Sarnia, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Rapids Community Investment Sault Ste. Marie, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Communitech Association Inc. King Street North Waterloo, Ontario	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Le Groupe FORCE Shawinigan, Quebec	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	L	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L

Appendix “C” Selection of Criteria for the Audits of Communities

Communities ↓	Criteria →	Activity Reports			Claims			Annual Financial Reports			Site visits				
		Risk level			Risk level			Risk level			Risk level				
		H	M	L	H	M	L	H	M	L	H	M	L		
Société de développement économique de la région sherbrookoise Sherbrooke, Quebec	Complete Goals achieved Best Practices				Complete Accurate Compliant Forecast			Auditor's report Compares to claims 1/3 Financing Notes			Activités Organization Difficulties Obtain 1/3 Other issues				
Groupe d'aide aux industriels maskoutains Industry Canada St-Hyacinthe, Quebec	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activités Organization Difficulties Obtain 1/3 Other issues	H	M	L
Développement économique Thérèse-De Blainville Thérèse-de-Blainville, Québec	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Société de crédit commercial autochtone (SOCCA) Wendake, Quebec	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L
Quest Management Inc. Swift Current, Saskatchewan	Complete Goals achieved Best Practices	H	M	L	Complete Accurate Compliant Forecast	H	M	Auditor's report Compares to claims 1/3 Financing Notes	H	M	L	Activities Organization Difficulties Obtain 1/3 Other issues	H	M	L

Appendix “C” Selection of Criteria for the Audits of Communities

Communities	Criteria	Activity Reports			Claims			Annual Financial Reports			Site visits							
		Risk level			Risk level			Risk level			Risk level			Risk level				
		Complete	H	M	L	Complete	H	M	L	Auditor's report	H	M	L	Activities	H	M	L	
		Goals achieved	3			Accurate				Compares to claims				Organization				
		Best Practices				Compliant				1/3 Financing				Difficulties				
						Forecast				Notes				Optain 1/3				
														Other issues				
Däna Nâye Ventures Whitehorse, Yukon																		

For each of the criteria noted above, determine if they are met. If they are not met determine the level of risk or impact on the credibility of the information provided.

A rating scale of 3, 2 and 1 can be used for High, Medium and Low risk. The highest rated community represents the highest risk and therefore should be considered for on site audits or close monitoring by the program officer.

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Samson & Associates
Canada Community Investment

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