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Audit of the Control Framework of the Endowment Incentives Component of the Canada Cultural Investment Fund

Office of the Chief Audit Executive
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List of acronyms and abbreviation

Acronym or abbreviation	Definition
CCIF	Canada Cultural Investment Fund
EDI	Equity, Diversity and Inclusion
EI	Endowment Incentives component of CCIF

Context

As an element of one of the Department of Canadian Heritage's programs, the Endowment Incentives component (EI) of the Canada Cultural Investment Fund (CCIF) encourages private donors to contribute to endowment funds for not-for-profit professional arts organizations to diversify their revenue streams and help them realize their artistic goals. The government provides matching funds of up to one dollar for every dollar raised from private donors. Annual funding is shared among all eligible applicants, on a ratio basis. The matching ratio was 54.5% for 2021-22 and 66.4% for 2020-21.

Applications to the EI must be submitted jointly by a not-for-profit professional arts organization and an associated publicly registered charitable foundation, both applicants must meet the respective eligibility criteria. The foundation is the recipient of the matching funds, and the not-for-profit professional arts organization is the final beneficiary of the income generated from the foundation-managed investment. Matching funds, together with the equivalent sum raised from private donors, must be capitalized in perpetuity.

The Endowment Initiative was reconfirmed by the Government of Canada in 2013-14, at which time \$22 million in grants and contributions was confirmed for CCIF on a permanent basis for all components of the CCIF. The grant ceiling of CCIF is \$20M. In Budget 2013, the Government raised the maximum lifetime contribution from \$10 million to \$15 million, and in 2018 the lifetime maximum was eliminated. This placed no additional cost for the fiscal framework and sought to support Canada's major arts organizations in their efforts to raise private sector capital.

What the Audit Examined

The objective of the audit was to assess the design and effectiveness of the controls of the EI for ensuring that the determination of recipient eligibility and distribution of funding is in accordance with the approved program direction and Program Terms and Conditions. The scope included the controls of the EI for assessing applicant eligibility and allocating funds to the pool of eligible applicants.

Audit Opinion and Conclusion

Based on the criteria established, the audit team found that the Program had clear and rigorous assessment processes, including secondary review processes, to ensure the approved recipients were eligible. The team found that the Program proactively updated its guidelines and processes to ensure it faithfully implemented the program in accordance with the mandate, applicable authorities, and policies. Some minor opportunities for improvement were identified to enhance eligibility criteria and assessment to ensure that all funded organizations demonstrate the governance rigour, financial viability, and sustainability that are generally expected of charitable organizations and non-profit professional arts organizations.

Statement of Conformance

In my professional judgment as Chief Audit Executive, this audit was conducted in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and with the Policy and Directive on Internal Audit of the Government of Canada, as supported by the results of the quality assurance and improvement program. Sufficient and appropriate audit procedures were conducted, and evidence gathered, to support the accuracy of the findings and conclusion in this report. The findings and conclusion are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management and are only applicable to the entity examined and for the scope and time period covered by the audit.

Original signed by

Bimal Sandhu

Chief Audit Executive

Department of Canadian Heritage

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Appendix A — Management Action Plan

Recommendations	Management Assessment and Actions	Responsibility	Target Date
<p>1. The Director General, Arts Branch (or the Director, Arts Infrastructure and Investment) should conduct an analysis of the Endowment Incentives component of the Canada Cultural Investment Fund (CCIF) to ensure that it is responsive of all segments and to better understand why some target segments are not accessing the Endowment Incentives component at the same level as others (e.g., arts organizations targeting under-represented populations and smaller arts organizations are not accessing as much as large established arts organizations). This analysis should include analysis of both needs and barriers to access.</p>	<p><i>Management agrees with this recommendation</i></p> <p>In Spring 2022, program staff have informally consulted with recipient associated foundations to understand the barriers for equity deserving organizations to apply to the Endowment Incentives component and the lack of philanthropic funding available for these groups.</p> <p>The CCIF is currently participating in the third cohort of the Department’s Equity, Diversity and Inclusion (EDI) Review, and its final report will include recommendations related to how the program can better address the needs of equity deserving communities. The EDI review will also provide potentially other recommendations. This report will be issued towards April-May 2023.</p> <p>The program is currently developing an approach to provide an additional incentive for organizations that are led by or mandated to serve equity deserving groups (such as Indigenous, Black, , Other Racialized, 2SLGBTQIA+, Deaf/Disability, OLMC) and who are often faced with limited capacity and resources as a way to incentivise donors to help safeguarding their sustainability. The proposal would require a</p>	<p>Director, Arts Infrastructure and Investment, Arts Branch</p>	<p>September 2023</p>

Recommendations	Management Assessment and Actions	Responsibility	Target Date
	modification to the terms and conditions which was discussed with the Treasury Board Secretariat.		
<p>2. The Director General, Arts Branch (or the Director, Arts Infrastructure and Investment) should review and update the guidelines of the Endowment Incentives component of the CCIF to evaluate the financial viability and sustainability of applicants and give due consideration to the diversity of applicant financial contexts. Consideration should be given to guidelines for diversity of revenue sources, and measures for assessing capitalization, liquidity, and operational effectiveness.</p>	<p><i>Management agrees with this recommendation</i></p> <p>On August 19, 2022, the program posted on its website revised guidelines for the Endowment Incentives component and the 2022-2023 Application Form for its annual deadline of December 1, 2022.</p> <p>A financial health definition was added in the glossary with the explanation that the Program assesses the financial health of not-for-profit professional arts organizations through their financial statements, which must demonstrate three (3) years of active involvement in professional arts activities and diversified operating revenue sources that are aligned to the landscape of the arts sector. Applicant arts organizations must be able to demonstrate revenue diversification as a mix of earned, public and private sector revenues which is a characteristic of the Canadian arts sector.</p> <p>The revenue breakdown, provided as part of the financial health definition, reflects aggregated data that are used by the Program as a guide when assessing financial health. (Source: Statistics Canada, 2018 and 2020 Performing Arts Survey.)</p>	<p>Director, Arts Infrastructure and Investment, Arts Branch</p>	<p>Completed and revised guidelines posted in August 2022</p>

Recommendations	Management Assessment and Actions	Responsibility	Target Date
<p>3. The Director General, Arts Branch (or the Director, Arts Infrastructure and Investment) should introduce additional program eligibility requirements to the Endowment Incentives component of the CCIF to ensure that beneficiary arts organizations approved for matching funds demonstrate minimum expectations for the independence of decision making by their Boards of Directors. This could be achieved by requiring that all applicants conform to the Income Tax Act definition of a charitable organization when they are approved for funding.</p>	<p><i>Management agrees with this recommendation</i></p> <p>Clarifications were added to the Endowment Incentives component Guidelines section <i>Who can apply - Beneficiary Arts Organization</i> in August 2022. It now specifies that to be eligible, the not-for-profit professional arts organization must be registered, or operate as a charitable organization as per the Income Tax Act. In addition, the not-for-profit professional arts organization must have reached a certain degree of financial health and demonstrated commitment to its long-term sustainability. Financial health and sustainability of arts organizations must be demonstrated through revenue diversification and sound organizational structure and governance which must be at arm's length.</p>	<p>Director, Arts Infrastructure and Investment, Arts Branch</p>	<p>Completed and revised guidelines posted in August 2022</p>