

# ***AUDIT OF CONTRIBUTIONS MADE IN SUPPORT OF THE AFRICAN GREAT LAKES ACTION PLAN***

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# *Table of Contents*

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Executive Summary ..... 1

Scope and Objectives ..... 2

Overview of Great Lakes Contribution Program ..... 3

Observations by Area ..... 6

Recommendations ..... 7

# *Executive Summary*

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The Internal Audit Division (SIV) undertook an audit of the Peacebuilding and Human Security Division (AGP) Peacebuilding Program, in the fall of 1999, as part of its review of Departmental Grants and Contributions. During the course of the audit of the Peacebuilding Program, SIV learned that contributions made under the African Great Lakes Action Plan were charged to the Peacebuilding code vote. As a result, SIV undertook this audit of the contributions under the African Great Lakes Action Plan.

On April 23, 1997, the Departmental Executive Committee approved the African Great Lakes Action Plan to respond to the crisis in the African Great Lakes area. The African Great Lakes Contributions Program is currently managed by a rotational officer in the West and Central Africa Division (GAF).

The audit focussed on the propriety of financial transactions. As well, financial audits of two recipients were conducted.

Generally, payments were found to be properly made and unused portions of a particular contribution were returned, where warranted. A review of the financial transactions for the two selected recipients, however, revealed that the recipients are not aware of what constitutes an eligible expense particularly with respect to appropriate determination of per diem fees for services, the salary cost of employees and the ineligibility of profit as set out in the Treasury Board Policy on Transfer Payments. However, the recovery of these amounts claimed by recipients is not recommended as the contribution agreements are silent on this matter. It is recommended that future contribution agreements be more explicit.

The audit team also found that funds allocated for the Program contributions were largely unspent, were returned late in the fiscal year and, therefore, could not be reallocated to another contribution program within DFAIT.

The audit also revealed that, in one instance, a small but inappropriate interest payment was made to a recipient which resulted in an overpayment of the contribution. The contribution agreement was not amended to reflect the increased amount.

# *Scope and Objectives*

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In the fall of 1999, the Internal Audit Division (SIV) undertook an audit of the Contributions made under the Peacebuilding Class of contributions as they relate to the African Great Lakes Action Plan. The Action Plan was approved on April 23, 1997 by the Departmental Executive Committee to respond to the crisis in the African Great Lakes areas. As the Action Plan objectives were consistent with those in the Peacebuilding submission, its contributions were charged to the Peacebuilding Program code vote. The only links to the Peacebuilding Program are the use of the unused spending ceiling of the Program and the use of the same Treasury Board Terms and Conditions.

Based on our preliminary survey, it was decided that detailed audit work would focus on two areas:

- the propriety of payments, and
- the financial audit of two recipients, [Harker Associates](#) and the [Institute on Governance](#), which are reported on separately.

It was also decided to exclude, from further audit work, the selection process for the Great Lakes Contributions Program and the administrative systems and processes of the Program due to the small number of projects which had received contributions, the relatively low expenditures incurred during the life of the Program and the conclusion of the Program scheduled for March 31, 2000. It was believed that little benefit would be provided through additional audit examination.

# *Overview of Great Lakes Contribution Program*

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As a result of the November/December 1996 crisis in the African Great Lakes Region, the African Great Lakes Region Action Plan was developed and approved by the Minister of Foreign Affairs and International Trade and the Secretary of State (Latin America and Africa) in February 1997. Approval of the Action Plan was granted in recognition of the fact that implementation of the Plan would require incremental funding. The Africa Bureau could not support the total cost of the initiative. Funding for the initiative came from two sources: the annual carry-over and the temporary savings resulting from the closing of the Lagos Mission. When the Great Lakes Action Plan sought its own spending authority from Treasury Board, Treasury Board recommended that it use the unused spending ceiling of the Peacebuilding Program which was resourced at \$1 million but had a ceiling of \$2.5 million.

The African Great Lakes Region Action Plan is scheduled to sunset on March 31, 2000.

The Great Lakes Contribution Program is currently managed by a rotational officer in the West and Central Africa Division (GAF). The contributions portion of the initiative is charged to the Peacebuilding Program class of contribution.

## **GREAT LAKES CONTRIBUTION PROJECTS**

	<b>PROJECTS</b>		<b>CONTRIBUTION</b>	
	<b>PLANNED</b>	<b>ACTUAL</b>	<b>PLANNED</b>	<b>ACTUAL</b>
<i>1997/98</i>	4	3	\$ 525,000	\$ 289,400
<i>1998/99</i>	6	2	\$ 860,000	\$ 300,000
<i>1999/00</i>	5	1 *	\$ 1,013,600	\$ 75,000 *

\* to September 30, 1999

These contributions are charged to the Peacebuilding class of contributions as the objectives of the Great Lakes contributions are consistent with the objectives of the larger DFAIT/CIDA Peacebuilding Initiative which are:

- to assist countries in conflict in their efforts towards peace and stability; and
- to promote Canadian Peacebuilding capacity and Canadian participation in international peacebuilding activities.

### Type of contributions

The contributions were generally made to support training, capacity building, conferences and non-DFAIT policy development. Funding was provided to three projects in 1997/98 and two projects in 1998/99. Five projects have been approved for 1999/00 but only one was underway by mid-year. It is not clear if the remaining four projects will proceed.

### Project Review, Approval and Monitoring Process:

Project proposals for the Program come into GAF generally from the NGO/academic community, the Minister's office (MINA) and other DFAIT divisions. The Program is not formally known to the public and, therefore, the number of projects proposed is low. While there is no tracking of proposals submitted and rejected, GAF estimates that approximately 28 projects have been discussed over the course of the Program.

Both written and oral proposals are received by GAF. They are reviewed by GAF for relevance with respect to the broad Peacebuilding initiative objectives. Projects that do not address the objectives are rejected at this point.

Projects which are consistent with program objectives are then reviewed by an Interdepartmental Committee (CIDA/DFAIT) to assess the relevance to the joint DFAIT/CIDA objectives and approach to the Region and to determine appropriate mechanisms for funding the project. No specific selection criteria were established at the onset of the Program. The selection criteria are continually refined throughout the selection process.

Due dates for financial and narrative reporting are then established with the recipient of the contribution and the draft contribution agreements are vetted through the Corporate Financial Policy, Training and Reporting Section (SBRP).

Approved contribution agreements are then forwarded to the Director General of the Africa Bureau and the Assistant Deputy Minister, Asia-Pacific and Africa for signature.

Partial payments are used for some projects but, for the most part, the funds are paid in full to the recipients within 30 days of the signing of the contribution agreement. While reports are received in GAF, no verification of the recipients' accounts has taken place.

# Observations by Area

## Control of Contribution Budget

Due to the volatility of the situation in the African Great Lakes areas at the time of the Contribution Program, many projects which had been approved were either deferred or cancelled. As a result, very few projects ever took place. GAF attempted to reallocate the funds to other projects but was unsuccessful. Consequently, in the first two years, the unused funds were returned in the 4<sup>th</sup> quarter of the fiscal year. At the 1999/00 mid-year review, only one of the accepted projects had started. As a result, it would appear that the contribution budget will not be fully utilized this fiscal year.

A review of the financial transactions for selected recipients for 1997/1998 and 1998/99 was conducted. Generally, payments were properly made and unused portions of a particular contribution were returned, where warranted. However, the overall budget allocated to contributions was largely unspent, returned late in the fiscal year and, therefore, could not be reallocated to another contribution program.

The audit team found a number of issues relating to the propriety of financial transactions following financial audits of two recipients, including inadmissible or unsupported expenses and an overpayment of a contribution.

## Inadmissible or Unsupported Expenditures

The audit team found in one case that expenditures were charged to projects for the use of the recipient's staff. The amounts billed to the project were based on daily billing rates for each staff member, some as high as \$1,100 per day. However, staff were all salaried employees.

The Treasury Board Policy on Transfer Payments, stipulates that, as a minimum, contribution agreements should include a listing of the allowable costs or the types or classes of expenditures eligible for reimbursement. It also notes that profit to the recipient is not a "cost" or an "expense" and, therefore, may not be included. This contribution agreement did not contain any details on admissible expenses.

It is clear that a rate of \$1,100 per day includes a significant amount of profit. The recipient did not provide details of how the daily rate was calculated. However, the contribution agreement did not clearly express that only actual salary costs plus a reasonable mark-up for overhead could be charged. Consequently, proceeding with recovery action from the recipient of the inadmissible profit claimed is not recommended.

## Contribution Overpayment

One of the contribution agreements audited provided for payments to be made in three installments. The first payment was made on April 17, 1998. The second invoice was received on May 15, 1998 and the final invoice for the third payment was received on May 25, 1998.

Due to problems with the Department's financial system (IMS), there were significant delays in making the second and third payments. Both installments were paid through the same cheque on August 12, 1998. As a result of the late payment, a decision was taken by GAF to pay interest on the payment. Interest of \$1,775 which represented 8 percent interest for 89 days (May 15 to August 12) was calculated and paid to the recipient. GAF files contained no justification for this payment.

The payment request from GAF was received by Headquarters Accounts Payable section (SBRH) and the payment of the interest was questioned. Upon receiving further information from GAF, SBRH decided to process the payment, including the \$1,775 in interest.

SBRH believed at the time, that the payment of the interest would not exceed the agreed upon amount of the contribution. However, SBRH did not tabulate all the payments made under the contribution in the fiscal year and therefore did not notice that the payment of interest exceeded the total amount of the contribution. No amendment was made to the contribution agreement to reflect the new amount. The contribution agreement provided for the timing of the payments but was silent on the issue of interest payments in case of late payments. However, it was agreed between GGD, SMFG and SIV that it would not be cost effective to recover the funds in question.

## **Recommendations to GGD**

- 1. Review the remaining projects which have been approved for the fiscal year and assess which projects will actually be completed in order to reallocate surplus contribution funds as soon as possible.**
- 2. Ensure that future contribution agreements contain detailed listings of admissible and inadmissible expenses in accordance with Treasury Board policies.**
- 3. Review financial reports from recipients to ensure all expenses claimed are allowable.**

## **GGD Responses**

- 1. This review has already been conducted by the Bureau. We would note that early in the current fiscal year, the Bureau asked for, and received funding in the amounts of \$361,000 in operational funds and \$538,000 in Grants and Contribution funds. In January 2000, as a result of Ministerial interest and commitments, the Bureau requested additional G & C funding in the amount of \$805,000 reduced to \$772,375 shortly thereafter. As it became clear that one of the planned projects for which we had requested funds could not be implemented prior to the end of the fiscal year, we returned funds in the amount of \$50,000 on February 18, 2000.**

**There are two remaining initiatives to be funded during the current fiscal year: a contribution of \$500,000 to the Joint Military Commission following the commitment made by MINA during the UNSC special meeting on the DRC in January 2000. The Bureau is confident that the agreement will be signed and the funds disbursed and expended by March 31, 2000. The second and final contribution is for a regional conflict resolution conference which is being organized by Parliamentarians for Global Action. The agreement has been signed and the first tranche disbursed in preparation for the Conference which will be held in Lusaka, Zambia from March 20-22, 2000.**

- 2. Agreed.**
- 3. Agreed. While financial reports and invoices for payment were reviewed by GAF, PAM and SMF prior to payment, greater clarity in the agreements on admissible and inadmissible expenses would have facilitated both financial accounting by the recipients and departmental screening of the financial reports. The Bureau will ensure in future that all expenses claimed are allowable.**