AUDIT

OF

DEPARTMENTAL CONTRIBUTIONS

IN SUPPORT OF THE

PEACEBUILDING PROGRAM (PBP)

April 2000

Audit Division (SIV)

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Internal Audit Division (SIV) undertook, in the fall of 1999, an audit of the Peacebuilding and Human Security Division (AGP) Peacebuilding Program (PBP) as part of its review of Departmental Grants and Contributions.

In a Treasury Board decision dated August 27, 1997, authority was given to create a new class of contributions in support of the DFAIT Peacebuilding Program. The contribution budget for the Peacebuilding Program was $1 million per year and was funded through a transfer from DFAIT's operating base. No new money was provided by Treasury Board. The Terms and Conditions also provided the authority to disburse up to $2.5 million per year. A revised Treasury Board submission was approved on October 14, 1999, increasing the amount of the contribution budget to $3 million with a ceiling of $5 million. The audit of the contributions under the Great Lakes Action Plan has been excluded from this report as that audit will be reported on separately.

The Peacebuilding and Human Security Division (AGP) delivers DFAIT's Peacebuilding Program. The Program is managed by one rotational Program Manager who is assisted by a new Program Officer.

The audit focussed on the following areas: the AGP administrative systems and processes related to the Peacebuilding Program and an audit of three recipients. The detailed audits of the three recipients are reported on separately.

The Peacebuilding Program is well managed. Administrative systems and processes are in place but the size of the Program did not warrant the formalization of systems and processes. However, as a result of the increase to the Program spending authority, there is now a need to develop formalized administrative systems which incorporate project tracking, budget control and management reporting in order to ensure the continued effective management of the Program.

All contribution agreements contain a clause which provides for the audit of the recipients' accounts with respect to any given contribution. The Peacebuilding Program has not availed itself of this clause and consequently, no financial audits had previously been conducted. Periodic reviews should be instituted if for no other reason than to minimize the risk of misused funds by sending a message to the recipient community.

Financial audits of three recipients were conducted. The audits revealed that generally the expenditures were properly supported and justified. However, overall, the contribution agreements could be enhanced with clauses relating to establishing of a ceiling for administrative costs, the apportioning of fixed administrative costs and the calculation of interest revenues in the refund of a surplus. The contribution agreement clauses should also be consistent with approved Treasury Board Terms and Conditions.

SCOPE AND OBJECTIVES

The Internal Audit Division (SIV) undertook, in the September 1999, an audit of the Peacebuilding and Human Security Division (AGP) Peacebuilding Program (PBP) as part of its review of Departmental Grants and Contributions. As part of this audit, a preliminary survey was conducted to gain an understanding of peacebuilding activities and processes in the Department so audit issues could be identified, documented and assessed. As a result, detailed audit work focussed on two issues:

- AGP's administrative systems and processes related to the PBP; and
- Financial audit of selected recipients.

On April 23, 1997, the Departmental Executive Committee approved the Great Lakes Action Plan 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. An audit of the contributions under the Great Lakes Action Plan has been conducted but the results are excluded from this report as that audit will be reported on separately.

OVERVIEW OF PEACEBUILDING PROGRAM (PBP) ACTIVITIES

The DFAIT Peacebuilding Program was established by a Treasury Board decision in August 1997 at the level of $1 million per year as a complementary mechanism to the Peacebuilding Fund which is managed by CIDA. Both mechanisms were created to support the implementation of the Canadian Peacebuilding Initiative, a joint undertaking of the two Departments. The Peacebuilding and Human Security Division (AGP) delivers DFAIT's Peacebuilding Program. The Program is managed by one rotational Program Manager. A new Program Officer position has been created and staffed to assist the Program Manager. A revised Treasury Board submission was approved for 1999/2000 on October 14, 1999 at a level of $3 million per year up to a ceiling of $5 million.

<u>PBP Budget Overview by Fiscal Year</u>

1997/98 $650,000 contributions plus $350,000 operating

1998/99 $850,000 contributions plus $150,000 operating

1999/00 $2.55 million contributions plus $450,000 operating

The Peacebuilding Program contributions are to support the objectives of the Peacebuilding Initiative which are:

- to assist countries in conflict in their efforts towards peace and stability; and,

- to promote Canadian Peacebuildling capacity and Canadian participation in international peacebuilding activities.

Potential projects are analyzed in terms of relevance to the following programmatic areas of activity which include consultation with stakeholders, advocacy, applied research/policy development, negotiation and mediation, and training /capacity building.

<u>Types of contributions</u>

AGP funded 13 projects in 1997/98, 20 projects in 1998/99 and 19 projects have been approved to date for 1999/00.

<u>Overview of the Project Selection, Approval and Monitoring Process:</u>

Project proposals for the Peacebuilding Program come into AGP from five sources: NGO/academic community, the Peacebuilding unit at CIDA, AGP Division, other DFAIT divisions and the Minister's Office (MINA).

Proposals are reviewed by the Program Manager for relevance with respect to the Program objectives. Projects which do not address the Program objectives are rejected at this point or referred to CIDA or other funding sources as appropriate.

A one page description of the relevant proposals is forwarded to the Director of AGP for approval.

Approved one page descriptions are then sent to the Interdepartmental Peacebuilding Working Group comprised of representatives from DFAIT and CIDA, to other relevant DFAIT Divisions and to MINA. All questions should be addressed at this point in the process. If after five days, there are no objections to the proposed project, a memo recommending project approval is forwarded to MINA for final approval.

Once approved, draft contribution agreements are vetted through the Corporate Financial Policy, Training and Reporting Section (SBRP). The contribution agreements are signed by the Director of AGP and the funds are provided.

Included in the contribution agreement is a due date for the recipient to provide financial and narrative reports. The Program Manager reviews the reports when they are received and determines whether they have met the objectives of the Program.

The Program Manager uses a manual system to monitor the available budget. Project tracking and follow-up of outstanding reports is done in conjunction with regular budget monitoring.

OBSERVATIONS BY AREA

1. AGP management systems and processes related to the PBP

Project tracking and financial tracking has been done informally. This approach has been adequate and effective. However, the Program budget increase from $1 million to $3 million this year will result in a substantial increase in workload. There is now a need to develop more formalized administrative systems which incorporate project tracking, budget control and management reporting in order to ensure the continued effective management of the Program.

Project Tracking System

Project tracking is done by the Program Manager who knows when reports are due from a recipient and follows-up on any outstanding items. The Program Manager also maintains a manual running tally of the Program budget. This will prove to be more difficult in future given the anticipated increase in project volume and the TB policy of paying contributions in installments. A formalized program management system which includes project and budget tracking may result in improved management effectiveness. For example, tying in the payment of installments to the receipt of reports could prove to be a more effective way of ensuring timely receipt of reports from the recipients. It could also provide more effective control over the Program and respective contribution budgets and ensure that the reports meet with the Program Manager's approval prior to the payment of the next installment. It will facilitate the transfer of responsibility and management of the Program given the rotational nature of the officer position.

Basic elements for a project tracking system should include:

- name of the proposal,
- source of the proposal,
- date on which the proposal is received,
- date on which the proposal is referred,
- date on which the proposal is accepted,
- date on which the proposal is rejected,
- project funding level,
- other sources of funding and respective amounts i.e. co-funding arrangements
- date of funding request from IAM,
- date funding is received,
- date funding is to be provided to the recipient,
- date funding is provided to recipient,
- date of the agreement,
- report due dates,
- date of receipt of reports,
- date of installment payments, and
- amount of installment payments.

The audit team looked at two contribution management software programs during the course of the audit. The program used by Youth and Personalities Exchange (ACEE) section was determined to best meet with AGP's requirements and a demonstration of the program was given to AGP.

A review of AGP's current management reports revealed that reporting is done on an ad hoc basis. All information is compiled manually. One of the major outputs of the project tracking system will be the provision of timely and comprehensive reports to management.

Recommendation for AGP

1.   AGP should put a contribution management system in place.

AGP Response

1.   We are pleased to report that this recommendation has already been fully integrated. In November, 1999, we adopted a new system for project tracking, selecting computer software recommended and demonstrated by SIV (the File Maker Pro system). The new project management system will complement, but not replace, the comprehensive accounting which we already provide to management at the end of the fiscal year of all expenditures under the Program, supported by periodic status reports throughout the course of the year. It should also be noted that we provide an update of the balance of contribution funds in each project approval memorandum sent to the Minister. We also intend to institute the publication of an annual report on the Program, for public communications purposes, and the new project management system will be of assistance to us in undertaking this activity.

2. Audit of selected recipients

All AGP contribution agreements contain clauses relating to the audit and accounting procedures of recipients. However, prior to this audit, AGP had not availed itself of this clause. On-going use of this clause would minimize the risk of misuse of Departmental funds by sending a message to the recipient community, keep AGP current on the recipient's practices and enable AGP to assess areas for improvement in its systems.

Recommendation for AGP

2.   AGP should institute a program of periodic verification of recipients. This could be accomplished by AGP performing periodic reviews, by requiring the submission of audited financial reports by the recipient or by contracting the review work to an agent.

AGP Response

2.   We fully agree with this recommendation. While AGP does review all final financial reports from funding recipients, we do not have the capacity in-house to conduct formal audits. In the future, we will request select recipients to submit audited financial reports, and will work in consultation with SIXE and SIV to identify possible recipients for audit each FY, to be contracted to an agent. It should be noted that at AGP's request, SIXE undertook an evaluation of a recipient in March/April, 1998, which included a review of the recipient's accounts and operating procedures. While not strictly a financial audit, one of our objectives in commissioning the evaluation was to verify the effective and appropriate use of contribution funds.

The audit team conducted financial audits of three recipients to provide assurance that the financial reports being submitted are accurate. As a result, the audit team makes the following general recommendation.   Specific recommendations relating to the three selected recipients are contained in separate reports.

Recommendation for AGP

3.   The Terms and Conditions of all future contribution agreements should include:

   a)   a ceiling percentage for administrative costs related to the project;

   b)   a clause which ensures the equitable apportioning of fixed administrative costs among the various projects administered by the recipients, if relevant;

   c)   a clause which provides for the calculation of interest revenues in the refund of a surplus, if applicable; and

   d)   all of the Terms and Conditions approved by Treasury Board for this class of contribution.

AGP Response

3.   a)   We will ensure that all future contribution agreements include reference to a ceiling percentage of 20% for administrative costs.

       b)   Where appropriate, we will ensure the inclusion of such a clause.

       c)   Where appropriate, we will ensure the inclusion of such a clause.

d) We will ensure that a copy of our Terms and Conditions are appended to all future contribution agreements.

The specific contribution agreement to which this recommendation refers was concluded in the first year of the Program. All of our more recent Program contribution agreements set a specific date for the receipt of final financial and narrative reports on the use of the contribution funds, in accordance with year-end provisions.