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**AUDIT**

**OF THE**

**CONTRIBUTION AGREEMENT WITH**  
**HUMAN RIGHTS INTERNET**  
**FOR THE PRODUCTION OF THE 2000 VERSION OF**  
**“FOR THE RECORD: THE UNITED NATIONS HUMAN RIGHTS**  
**SYSTEM”**

**NOVEMBER 2001**

**Audit Division ( SIV )**

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## EXECUTIVE SUMMARY

The Internal Audit Division's (SIV) Audit of the Contribution to Human Rights Internet (HRI) is part of its review of Departmental Grants and Contributions. HRI is a not-for-profit NGO and a leader in the exchange of information within the worldwide human rights community.

The primary focus of the audit was the contribution (\$378,000) made in the 2000/2001 fiscal year, for the production of the 2000 version of "For the Record: The United Nations Human Rights System" (FTR). The Agreement is managed by DFAIT's Human Rights, Humanitarian Affairs and International Women's Equality Division (AGH).

The orientation of the audit comprised two elements: the audit of the Agreement between DFAIT and HRI and the audit of DFAIT's efforts to manage the Agreement. Overall, we found that HRI has complied with the terms and conditions of its Agreement with DFAIT and that program management within DFAIT has exercised due diligence and effectively managed the Agreement on the Department's behalf.

Based on an examination of HRI operational documentation and interviews with HRI personnel, we found that:

- HRI has a strong system of financial controls to ensure the proper allocation of costs (salaries, production expenses, overhead, etc.) to the FTR project and the accuracy of financial reports.
- HRI uses funds with a high degree of prudence and economy, deriving additional cost savings in areas such as salaries and travel, whenever possible.
- The final narrative and financial reports produced by HRI for the FTR report indicate that the production of FTR was successful. These reports do not comment on the benefits and utility of FTR from the perspective of its users.

Based on an examination of Departmental documentation within AGH and interviews with program management, we concluded that:

- Repeated changes in the program used to fund the contribution towards the production of the FTR report has posed an unnecessary administrative burden on HRI and DFAIT. Expected approval of a three-year agreement under the Peacebuilding and Human Security Division (AGP) should reduce the administrative requirements to HRI and DFAIT.

- The Contribution Agreement is in compliance with DFAIT's policy on transfer payments.
- DFAIT's current monitoring practices provide assurance the FTR report is produced with economy and efficiency.
- The reporting requirements DFAIT imposes on HRI should be amended to include information on the value and utility of FTR, as perceived by its users.
- There are sufficient controls surrounding the claims verification process to ensure that funds were spent as intended and value is received.

## INTRODUCTION

### 1.1 Overview

1.1.1 “For the Record: The United Nations Human Rights System” (FTR) is a bilingual (English/French) electronic annual report produced by the Human Rights Internet (HRI) and made available online through the HRI homepage and on CD-ROM. This electronic publication has been produced since 1997 with support from the Department of Foreign Affairs and International Trade’s (DFAIT) Human Rights, Humanitarian Affairs and International Women’s Equality Division (AGH) with additional financing from the Canadian International Development Agency (CIDA).

1.1.2 The FTR covers human rights developments at the intergovernmental level for a full calendar year, both on a country-by-country basis and by theme. UN documentation is summarized including:

- state reports to Treaty Bodies;
- reports of the Special Rapporteurs, Special Representatives and Working Groups of the Commission on Human Rights and the Sub-Commission; and,
- all relevant resolutions and decisions adopted in UN fora.

1.1.3 HRI attempts to draft summaries that are objective, with easy-to-understand terms, and are free from editorial comments. All summaries contain a “hyperlink” to the official UN source report.

1.1.4 The FTR project is directed by an International Advisory Committee which is chaired by DFAIT. This committee is composed of experts in the field from the non-governmental and intergovernmental communities and sets the policy direction for the FTR and addresses questions of format and distribution.

1.1.5 Founded in 1976, HRI is dedicated to the empowerment of human rights activists and organizations, and to the education of governmental and intergovernmental agencies and officials and other actors in the public and private sphere, on human rights issues and the role of the civil society. HRI has its headquarters in Ottawa, Canada. From Ottawa, HRI communicates by phone, fax, mail and the Internet with more than 5,000 organizations and individuals around the world working for the advancement of human rights.

## **SCOPE AND OBJECTIVES AND METHODOLOGY**

### **2.1 Scope and Objectives**

2.1.1 The Internal Audit Division's (SIV) audit of the Contribution to Human Resources Internet (HRI) was part of its review of Departmental Grants and Contributions. The primary focus of the audit is the contribution made in the 2000/2001 fiscal year (\$378,000) for the production of the 2000 version of For The Record (FTR).

2.1.2 The orientation of the audit comprises two elements: audit of the Agreement between DFAIT and HRI; and, audit of DFAIT's efforts to manage the Agreement.

### **2.2 Audit of the Agreement between DFAIT and HRI**

2.2.1 The scope and objectives of this component were as follows:

- Assess the integrity of the financial controls surrounding the Agreement and attest to the credibility of the financial reports provided by HRI in accordance with the Agreement.
- Determine if funds paid out under the Agreement have been used as intended and prudently with due regard for cost effectiveness.
- Determine if value for money has been received by establishing the extent to which results have been achieved as outlined in the Agreement.
- Assess the nature of problems faced by HRI as a result of the *ad hoc* funding method followed by DFAIT in its efforts to support FTR.

### **2.3 Audit of DFAIT's Efforts to Manage the Agreement**

2.3.1 The scope and objectives of this component are as follows:

- Determine if the Agreement was prepared in accordance with DFAIT's policy on transfer of payments.
- Assess the efforts made by DFAIT to ensure funds paid out under the Agreement were spent by HRI as intended and prudently.
- Assess efforts made by DFAIT to ensure value for money was received.
- Identify opportunities for improvement as a service to management.

## 2.4 Methodology

2.4.1 The methodology of the audit comprised:

(1) An examination of HRI operational documentation:

- Monthly financial forecasts and claims for previous advances.
- Expense claims and supporting documents.
- Narrative and financial reports.
- Supporting transaction documents for financial reports.
- Other relevant documents.

(2) Interviews with HRI personnel regarding operations and processes in relation to its Contribution Agreement with DFAIT.

(3) Interviews with Human Rights, Humanitarian Affairs, International Woman's Equality (AGH) personnel regarding efforts made to manage DFAIT's Contribution Agreement with HRI.

(4) An examination of AGH operational documentation in relation to managing the Agreement:

- Contribution Agreement between DFAIT and HRI.
- Project expense claims and supporting documentation submitted by HRI.
- Narrative and financial reports submitted by HRI.
- Other relevant documentation pertaining to results achieved and benefits derived from HRI activities (value for money).



## **DETAILED OBSERVATIONS**

### **3.1 Overview**

3.1.1 Our detailed observations are presented consistent with the two areas outlined in the audit scope:

- Audit of the Agreement between DFAIT and HRI.
- Audit of DFAIT's efforts to Manage the Agreement.

### **3.2 Audit of the Agreement between DFAIT and HRI**

#### **Project Budget**

3.2.1 FTR Project budgets are prepared each year by HRI and approved by DFAIT in accordance with the Contribution Agreement. These budgets are then used by HRI as a monitoring tool to ensure project expenses stay within approved budgeted amounts. Review of HRI's Draft Final Financial Report for FTR (April 30, 2001) indicates that overall actual expenses equalled the overall budgeted amounts and individual line item expenses varied from budgeted amounts between 2.8% and 3.3%. This indicates that HRI is using its project budget as an effective control tool.

3.2.2 HRI researches its project costs in preparing a budget for FTR. Costs incurred by other NGOs in producing similar projects are used as benchmarks. HRI's project costs are generally less than market as HRI is able to negotiate favourable rates with researchers, writers, editors, translators, and web masters for work on FTR. In addition, HRI has access to youth internship programs which allow HRI to employ interns at no charge to the project.

3.2.3 Additional savings to the budget arise from the decision not to print a hard copy of the FTR report and cost reduction measures for travel expenses (these will be discussed in a later section: Use of Funds - Travel). Without all these cost savings the budget to produce FTR would increase significantly.

#### **Cost Allocation**

3.2.4 HRI has a system of financial controls in place to ensure the proper allocation of costs to the FTR project. Invoices are received at HRI through the Executive Assistant who codes them by general ledger (G/L) account and by project. The invoice coding is then approved by the Executive Director who gives them to the accountant for review and posting to the G/L.

3.2.5 Generally, one invoice pertains to one project, for example translation, and layout services. Where an invoice contains expenses relating to several different projects, such as general office supplies, the items listed on the invoice are coded to the appropriate G/L and project account. Invoices for the phone, fax and photocopy machine are automatically broken down by project. Each time HRI employees use these devices, they enter a project code which enables the service provider to produce invoices with expense amounts charged to individual projects based on employee usage.

3.2.6 Control is maintained over employees' use of postage and courier services, using postage and courier control sheets, detailing the quantity used and the relating project. These control sheets are used to assign costs to the appropriate projects.

3.2.7 With respect to salary allocation, with the exception of three individuals, the staff who work on FTR do so full time. Halftime staff include the web master and the web assistant, and there is a part time administrative assistant. These individuals have half or a portion of their salaries (as necessary) assigned to FTR. Management works closely with the part time staff on a day-to-day basis and is confident that these salary allocations are appropriate.

### **Credibility of Financial Reports**

3.2.8 In order to attest to the correctness of HRI's financial reports for FTR, a random sample of 30 invoices were successfully traced to the FTR G/L to ensure they were posted correctly and 30 entries were traced from the FTR G/L back to the original invoices to ensure these entries were justified. The results of these tests provide reasonable assurance that the financial reports produced by HRI for FTR are credible.

### **Use of Funds**

3.2.9 Through the course of the audit, the use of funds paid out under the Contribution Agreement was assessed to determine if funds were spent prudently with due regard for cost effectiveness. In conjunction with this, management was asked to provide an explanation and justification for its spending practices relating to the FTR project.

### **Salaries**

3.2.10 The full time salaried employees involved with FTR include: a director, a coordinator, senior and junior project writers, and a research assistant. Halftime employees include a webmaster, a web assistant, and an administrative support person. Market salary surveys are used as a reference tool when calculating wages.

## **Benefits**

3.2.11 An analysis of benefits paid to HRI employees revealed that all employees with contracts of a term less than 12 months receive 12% in lieu of benefits and permanent employees are paid benefits at a rate of 18.8%. These benefit rates are comparable to Government standards.

## **Travel**

3.2.12 The travel policies followed by HRI employees are detailed in the "Human Rights Internet Employee Policy 1999" handbook. Travel expenses allowed by HRI are less than Treasury Board (TB) regulations as HRI cannot afford to incur the expense allowances permitted by TB. Employees are reimbursed for travel expenses upon submission of a travel claim form and original receipts. HRI follows cost reduction measures, such as staying at the residences of members of HRI's network, instead of hotels, when staying in expensive cities.

## **Equipment**

3.2.13 HRI has very few equipment expenses, these include web costs, computer upkeep and an Optical Disk. HRI surveys the prices of several vendors to ensure it receives good value for a good price.

## **Overhead**

3.2.14 HRI's overhead allocation rate of 15% was mandated by the Finance Committee of the Board of Directors. It was established by bench marking other similar NGOs and Government organizations. The overhead allocation rate used by HRI compares favourably with actual overhead incurred by HRI. Overhead expenses include:

- a portion of the salaries of the executive director, the administrative staff and the accountant;
- rent;
- equipment rental;
- photocopy machine;
- office supplies; and,
- repairs and maintenance.

## **FTR Production Expenses**

3.2.15 Layout and translation are the main production expenses for the FTR project. In 1999 these expenses were assumed directly by DFAIT. In 2000 they were paid by HRI. HRI used the same contractor at the same pay rate, to perform layout

services, as did DFAIT, and paid a full time translator a salary consistent with the base salary of translators at DFAIT.

### **Related Party Transactions**

3.2.16 HRI has a U.S. affiliate, Human Rights Internet, Inc. HRI's management has indicated that although HRI Inc. has very few transactions each year, its existence is important. HRI must have a U.S. presence (bank account and PO Box) in order to retain charitable status in the U.S. This is crucial because some American organizations will only give to American foundations.

### **Performance Measurement (Value for Money)**

3.2.17 The final narrative and financial reports produced by HRI for the FTR project indicate that the production of FTR was successful. The reports comply with the requirements of the contribution Agreement. They show that funds were spent as intended and planned outputs (electronic and CD-ROM versions of FTR 2000) were achieved.

## **3.3 Audit of DFAIT's Efforts to Manage the Agreement**

### **Application and Approval Process**

3.3.1 Repeated changes in the program used to fund the contribution towards the production of the FTR report has posed an unnecessary administrative burden to HRI and DFAIT. To date, HRI has been required to prepare a new proposal for funding each year to accord with the fund source available. Expected approval of a three-year agreement under the Peacebuilding and Human Security Division (AGP) should reduce the administrative requirements to HRI and DFAIT.

## **3.4 The Agreement**

3.4.1 The Contribution Agreement complies with DFAIT's Policy on Grants and Contributions.

3.4.2 The Contribution Agreement identifies:

- the conditions of the contribution;
- the expected results to be achieved;
- the obligations of both DFAIT and HRI;
- the conditions for payment;
- DFAIT's right to audit the accounts and records of HRI; and,
- monitoring provisions, including final and interim accounting and narrative reports.

3.4.3 The Agreement requires the final report to include a description and analysis of:

- the activities and achievements of the project;
- problems encountered;
- actions taken;
- results and lessons learned;
- conclusions and recommendations; and,
- a detailed distribution plan for FTR.

### **3.5 Claims Verification and Payment**

3.5.1 In accordance with the Contribution Agreement, total funding in the amount of \$378,000 is paid to HRI in the form of five installment payments and a final payment. The payment process commences when HRI faxes an invoice for payment and supporting documentation to DFAIT. The supporting documentation includes:

- an account for the previous payment;
- a revised budget; and,
- an interim narrative report, to AGH.

3.5.2 Program management reviews the supporting documentation for suitability, ensuring payment conditions have been met as specified in the Contribution Agreement, and issues a payment to HRI.

### **3.6 Monitoring and Reporting**

3.6.1 Program management's monitoring of the FTR is ongoing throughout the life of the project. DFAIT has representation on the International Advisory Committee which meets once a year. Program management is also in regular contact with HRI's management regarding the progress of the FTR, and HRI submits interim and final narrative and accounting reports as specified by the Contribution Agreement. Program management uses the original FTR budget submitted by HRI as a tool when reviewing HRI's summary accounting statements.

3.6.2 The reports produced by HRI show that funds were spent as intended and that the desired results were achieved with respect to the output to the FTR report. The reports do not contain information on the use and utility of FTR from the perspective of its clients. This presents an opportunity for AGH to include a requirement for performance measurement (outcomes and impacts) information in final reports.

3.6.3 The primary clients of FTR are:

- Human Rights activists and "grass roots" organizations;
- UN staff and delegates;

- Missions and Foreign Embassies;
- State Governments;
- academics and students; and,
- the general public.

3.6.4 HRI currently measures the perceived value and utility of FTR to its clients through:

- user testimonials;
- questionnaires sent to clients and purchasers;
- online surveys;
- phone surveys of UN professionals;
- assessment forms by academia (i.e., legal educators, UN scholars);
- frequency of matches on generic search engines;
- networking discussions at meetings which HRI participates in;
- number of hits to the FTR website; and,
- number of request for CD-ROMS and number of CD-ROMs distributed free.

3.6.5 These measures of the value and utility of the FTR are currently not summarized by HRI collectively, in the form of a report. A performance report that documents the benefits and success of the FTR project and the positive impact perceived by clients could be used by AGH to evidence the value that is being derived from the contribution to HRI.

### **Recommendation for AGH**

**3.6.6 Amend HRI's reporting requirements to include information on the use and utility of FTR based on the perceptions of the report's users.**

### **AGH Response**

**3.6.6 We understand that HRI is developing multiple feedback mechanisms to complement existing methods of feedback. In future Contribution Agreement(s), AGH will ensure that a provision is included that will require HRI to report, on a regular basis, on the feedback they receive. We will also assist them in developing more effective feedback mechanisms.**