AUDIT

OF THE

CANADIAN INTERESTS ABROAD

CONTRIBUTION PROGRAM

SEPTEMBER 2002

Audit Division (SIV)

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EXECUTIVE SUMMARY

The Internal Audit Division (SIV) conducted an audit for a Class of Contributions in Support of the Canadian Interests Abroad Program (CIA Program). The objective of the CIA Program is to provide limited funding to institutions, organizations and individuals in Canada and abroad in instances where such funding provides clear and immediate benefit and support to the priorities of Canadian foreign and international trade policy. This Program is administered by the Planning, Program Analysis and Budgeting Division (SMP) in conjunction with managers from other divisions across the Department.

Overall, we found that SMP had taken reasonable measures to ensure Program objectives were met. Shared responsibility in the administration of the Program poses inherent difficulties in the ability to achieve economies expected of this class of contributions and to fully assess the benefits derived.

Through the course of the audit, we noted the following:

- The roles and responsibilities of SMP versus managers from other divisions, while clearly defined, are not always adequately understood. Differences of opinion exist regarding respective duties and obligations, which has contributed to gaps and delays in the follow-up with recipients.

- CIA Contribution Program funds are being made available consistent with the eligibility requirements, as defined by the Program's Treasury Board approved terms and conditions. Improvements are required in the documentation of the assessment and selection of projects.

- Funds provided to Program recipients were spent in accordance with the terms and conditions set out in the Contribution Agreements. While SMP has made considerable effort to obtain complete information for all files, with particular emphasis on copies of receipts and project reports from divisions accessing Program funding, some files were not complete.

- Post-project assessments have not been carried out for every project by the divisional managers responsible for dealing with recipients. Without this type of assessment, it is difficult to determine whether the funded projects achieved expected objectives and to assess, on a global basis, the value-added derived from this Program.

BACKGROUND

1.1 Overview

1.1.1   In February 1994, DFAIT received the authority to establish the Class of Contributions in support of Canadian Interests Abroad. The purpose of this Program is to fund requests of up to $50,000 for projects that warrant assistance because they directly support the priorities of Canadian foreign policy. This includes support for hosting and participating in meetings, workshops and conferences, publications, visits, institutional, individual endeavours that promote Canadian interests abroad, and other initiatives where adequate funding cannot be provided under the authorities of other existing transfer payment programs.

1.1.2   The Program is intended to enable Program Managers to access contribution program funding on an "as needed" basis. Expected benefits of this class of contributions included increased flexibility to Program Managers to enter into Contribution Agreements on an opportunity basis, the elimination of administration associated with up to 50 annual Treasury Board Submissions that would otherwise be required for relatively small, one time and event-focussed contribution programs, and shorter response times without any loss of accountability.

1.1.3   The Program is funded by the Department through the exchange of a division's operating funds (Vote 1) for CIA Program contribution funding authority (Vote 10). Under the authorities of this Program, the annual budget is set at $600,000, although the Department can spend up to $1,500,000. Should the demand for the Program exceed the original budget, availability permitting, supplemental funds may be provided to allow the Program to respond to as many qualifying proposals as possible. During the 1999/2000 fiscal year, Departmental spending under the CIA authorities totalled $962,385.

OBJECTIVES, SCOPE & METHODOLOGY

2.1 Objectives

2.1.1   The overall objective of this audit was to review the SMP administrative and operational frameworks surrounding the Canadian Interests Abroad Program to:

- ensure compliance with the Treasury Board Policy on Transfer Payments;
- determine the effectiveness of program administration practices; and,
- identify opportunities for improvement as a service to management.

2.2 Scope and Sampling Strategy

2.2.1   The audit comprised a review of 16 of the 52 projects (31%) funded from the Fiscal Year 1999/2000 and 5 of the 16 projects (31%) funded from the Fiscal Year 2000/2001.

2.2.2   For the Fiscal Year 1999/2000, SMP expenditures for the audit sample totalled $371,430 (39% of the total value of SMP projects for that fiscal year). For the Fiscal Year 2000/2001, SMP expenditures for the audit sample totalled $98,900 (41% of the total value of SMP projects).

Fiscal Year	Vote	Total Projects for Period	Sample Projects Selected	Total Value of Program Projects	Total Value of Sample Projects	% of Total Program Value
1999/2000	10	52	16	$962,385	$371,430	39%
2000/2001[1]	10	16	5	$241,600	$98,900	41%

2.3 Methodology

2.3.1   The methodology comprised:

- the review of a sample of project files against the File Review Checklist (Annex A). This checklist was developed by SIV in consultation with SMP and incorporates TB policy;
- interviews with SMP regarding the CIA process; and,
- interviews with managers from other divisions for selected projects: Human Rights, Humanitarian Affairs and International Women's Equality Division (AGH); Aboriginal and Circumpolar Affairs Division (AGA); and the Latin American and Caribbean Bureau (LGD).

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[1] As at December, 2000.

DETAILED OBSERVATIONS AND RECOMMENDATIONS

3.1 Overview

3.1.1　　　Our detailed observations are presented in accordance with the program management life cycle and are organized as follows:

- Roles and Responsibilities;
- Project Eligibility, Review and Approval;
- Program Payments; and,
- Project Assessment and Reporting.

3.2 Roles and Responsibilities

3.2.1　　　The roles and responsibilities for participants in the CIA Program are outlined in SMP's report to the Executive Committee for the FY 1999/2000, and are as follows:

SMP is responsible for:

- developing the program budget;
- approving projects;
- approving transfers of funds;
- reviewing files to ensure project deliverables were met and accounted for;
- preparing an annual program assessment report based on project reports;
- reporting on the class of contributions to the Executive Committee; and,
- maintaining CIA Program records.

Managers accessing program funding are responsible for:

- receiving and evaluating proposals from applicants;
- authorizing and establishing Contribution Agreements with recipients;
- disbursing funds to recipients;
- ensuring contribution recipients comply with agreements;
- ensuring receipt of required deliverables, such as a final report from participants;
- ensuring that payment details are correct and cover only qualifying expenses conforming to TB transfer payment policies;
- evaluating the results; and,
- taking action to recover funds in cases of default.

3.2.2　　　SMP has recognized that, given the nature of the CIA Program, clearly understanding the respective roles and responsibilities is an ongoing issue. In response to this challenge, SMP undertook an internal review of the administration and

procedures of the CIA Program in the fall of 1999. A number of measures were introduced for the FY 2000/2001, which included:

- the provision of a comprehensive set of instructions (guidelines) to all Departmental managers seeking access to the CIA Program, including a list of required documents, the Treasury Board transfer payment policy and the terms and conditions governing this class of contributions;

- the requirement that SMP will not transfer contribution funds until it has received a signed Contribution Agreement, which complies with Treasury Board transfer payment policy and is approved by the Deputy Director, Financial Management Services (SMFF); and,

- a revised SMP Authorizing Memorandum, which reinforces the required documents, underscores the divisional manager's responsibility for managing the contribution and requires that a full set of documents and project reports be sent to SMP at the conclusion of the process.

3.2.3   While our comparison of files from the FY 1999/2000 to the FY 2000/2001 indicated that these measures have had a positive impact, challenges still appear to exist. Interviews with managers from divisions showed some confusion and difference in interpretation of the respective roles. Examples of this were most evident in the later stages of the program management life cycle, specifically the post-project assessment stage and in case of taking recovery action pertaining to a recipient in default. In both of these situations, actions were not taken or responses were delayed because divisional managers incorrectly assumed that SMP was responsible.

3.2.4   Face-to-face discussions with managers from divisions and follow-up enquiries with other divisions, especially those not familiar with the CIA Program, should be considered to ensure understanding of roles and responsibilities.

Recommendation for SMP

3.2.5   SMP should take additional steps to ensure that managers from other divisions clearly understand the respective roles and responsibilities for the administration of this Program.

SMP Response

3.2.5   In addition to issuing an Authorizing Memorandum that clearly sets out the divisional manager's responsibilities, SMP staff also meet with managers to further clarify their responsibilities.

3.3 Project Eligibility, Review and Approval

3.3.1 Each year, various divisions within the Department receive requests for funds for a wide variety of projects. Requests are submitted by institutions, Non-Governmental Organizations (NGO), organizations and individuals in Canada and abroad. Divisional managers review these funding requests and determine whether the related projects complement the objectives and priorities of their division.

3.3.2 The division also assesses whether it has available funds in its Vote 1, Operating Budget to be exchanged for funds from SMP's Vote 10, Grants and Contributions Budget. If divisional Program criteria are met, managers then review the proposal to ensure it falls within the authorities of the CIA Program, as set out by Treasury Board (TB) governing this class of contributions. SMP makes the CIA Program terms and conditions document available to interested divisions.

3.3.3 Projects considered eligible by divisional managers are then forwarded from the Director of the division, through the division's Director General, to the Planning, Program Analysis and Budgeting Division (SMP) for approval.

3.3.4 We reviewed selected files assessing consistency of approved projects with the eligibility criteria and examining the files for evidence of required project approvals. From the files reviewed, it is apparent that CIA Program funds are being made available consistent with eligibility requirements. However, we found that the justification of the selection of projects was poorly documented. For 7 of the 21 files reviewed, no documentation of the assessment of a project's merits in comparison with Program criteria was found.

3.3.5 We observed one notable exception. One of the 21 files reviewed included a pre-approval assessment form completed by the requesting division. This was a good initiative on the part of the division, as it clearly showed that a formal review had occurred and it presented justification for the project's recommendation for approval. An assessment form of this nature attached to each project application to SMP would be a useful tool in the approval process. In addition to facilitating the documentation of SMP's approval, such documentation has the advantage of clearly defining a project's objectives against which post-project assessment could be made. The pre-approval assessment form could include elements such as:

- a brief description of the project;
- an evaluation of the risks associated with the successful completion of the project; and,
- a statement of benefits expected to the division sponsoring the project.

3.3.6 In our review of the Treasury Board Submission, we observed that Contribution Agreements under this Program require the approval of the Executive Committee. In 1995, the Executive Committee delegated its authority for the CIA

Program to Corporate Finance, Planning and Systems Bureau (SMD). We understand that this change in the Department's approval process will be addressed in the pending Treasury Board Submission for the renewal of the Program.

Recommendation for SMP

3.3.7   SMP should ensure the assessment and selection of projects is appropriately documented by divisional managers.

SMP Response

3.3.7   SMP will not approve projects proposed by divisions that have failed to provide proper documentation for the assessment and selection of projects. This measure will ensure that divisional managers provide comprehensive documentation on their projects.

3.4 Program Payments

3.4.1   Once the approval has been granted, the division receives contributions funds (Vote 10) from SMP in exchange for an equivalent amount of operating funds (Vote 1), which is transferred into the Departmental Reserve. Managers from other divisions are responsible for ensuring that the ensuing payments are consistent with the payment schedule outlined in the Contribution Agreement. SMP does not review the individual payments relying instead on the officers from the responsible divisions to ensure claims for reimbursement are in accordance with the Contribution Agreement and on financial officers associated with that division.

3.4.2   At the completion of the project, recipients are required to submit a budget report of the project to the responsible division. This budget report details all of the expenses incurred and is supported by receipts or other documentation to demonstrate that the money was spent in a manner consistent with the terms of the Contribution Agreement. Any portion of the contribution that was not used or not accounted for is recovered. Managers accessing Program funding are required to provide copies of budget reports and supporting documentation to SMP.

3.4.3   From our review of the files, we found that for the FY 1999/2000, 9 of the 16 projects reviewed showed that advances were made for the full amount of the Contribution Agreement at the beginning of the project. Six of these 9 advance payments were not consistent with TB Policy[2], at that time. This is an issue for both the

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[2] Prior to June 2000, TB Policy stated that advance payments could not exceed 75% of the total amount, where the amount was between $25,000-$99,000. The current policy states that total contribution amounts of $24,999 or less can be paid in an advance payment of up to 90%. From $25,000 to $50,000, a 90% advance is acceptable if the project duration is less than 4 months. If the duration is longer than 4 months, then the advance payment can be no higher than 75% of the total amount of the contribution.

Program Manager and SMFF which approves the contribution agreement and requisitions the payments.

3.4.4 SMP is now aware of this issue and now requires SMFF to review a schedule of the proposed payments to the recipient prior to approving any disbursements to recipients. As part of this process, the maximum allowable advance payment is calculated and included in SMP's Authorization Memorandum.

3.4.5 Memoranda explaining policy requirements are provided to managers in receipt of Program funding. This change should provide reasonable assurance that the resultant payment schedules and advances made to recipients adheres to the TB Policy on Transfer Payments. Because the project files for the FY 2000/2001 were still in process at the time of the audit, we were unable to confirm the impact of this change on the payment of advances.

3.4.6 In our review of recipient claims, we found that the Program funds were spent in accordance with the terms and conditions set out in the Contribution Agreements, for those project files containing sufficient information. Similar to our observations under "Project Eligibility, Review and Approval", gaps in documentation exist. Budget reports and/or supporting receipts were not on file for a significant number of project files. SMP has taken considerable efforts to follow up with managers in receipt of Program funding to obtain required documentation, including issuing three memoranda to program Managers and contracting for the services of a consultant dedicated to this task. Despite these efforts, gaps in information remain.

3.4.7 Without adequate information on how Program funds are being spent, it is difficult for SMP to offer assurance of compliance with the Program's terms and conditions. As noted earlier, under "Roles and Responsibilities", managers accessing Program funding may not fully understand their obligations. The efforts of SMP to clarify roles and responsibilities, including the revision of the SMP Authorizing Memorandum and development of a Memorandum of Understanding (MOU), may help to reduce gaps in documentation. Adoption of additional measures to educate and motivate managers to provide evidence in support of payment may also help.

3.5 Project Assessment and Reporting

3.5.1 At the completion of a project, managers in receipt of Program funding are tasked by SMP to provide written assessments for individual projects. SMP uses these project assessments to develop its report to the Executive Committee.

3.5.2 Managers are tasked to assess projects in consideration of whether:

- project objectives were met, including the benefit to the division supporting the project;

- project deliverables were duly received by the division, such as final reports and budget reports;

- the funds were spent in accordance with agreed upon terms and conditions of the Contribution Agreement; and,

- any remaining portion of the contribution is returned to the Department.

3.5.3   We found only a limited number of completed post-project assessments on file for projects completed in the FY 1999/2000. In 9 of the 16 files reviewed, there was no evidence of a post-project assessment. In 6 of the files containing assessments, the assessment of the project's success was based on the post-project report submitted by the recipient. No independent assessment was provided by the divisional manager.

3.5.4   Managers in receipt of Program funding could benefit from the introduction of a post-project assessment form from SMP. As a template, such a form would be useful in identifying information needed by SMP. SMP's current situation is such that it does not possess a sufficient number of consistently completed project assessments, making it difficult for SMP to fairly assess the benefits of the Program as a whole, in preparation of its report to the Executive Committee.

3.5.5   While the benefits of the class of contributions are the administrative savings and responsiveness to opportunities, neither aspect is assessed as part of the project assessment process.

Recommendations for SMP

3.5.6   SMP should elaborate its requirements for Post-Project Assessments, enabling it to consistently assess and report on the benefits derived in its annual report.

3.5.7   SMP should obtain information or otherwise estimate the benefits in administration and responsiveness to more fully assess this class of contributions in accordance with its expected benefits.

SMP Responses

3.5.6   SMP will develop guidelines to assist divisional managers in completing post-project assessments.

3.5.7   SMP estimates that the administration savings of not having to prepare up to 50 Treasury Board Submissions each year to obtain the authority to pay individual contributions not currently authorized by other classes of departmental transfer payments are $450,000.

CHECKLIST OF REVIEW CRITERIA

Sample Number:

Applicant/Company Name (Recipient):

Program Element:

Grant _____ **Contribution** _____

Repayable Contribution? **Yes** **No**

Vote: **1** **10**

Amount of Grant/Contribution/Contract:

Description of Project:

Time Period for Project:

Reviewed By (auditor and date):

	Description	Y	N	N/A	Comments
	Application				
1	Is the applicant's request for funding on file?				
2	Does the application/request contain sufficient information to assess the project against program criteria?				
	Review, Eligibility and Approval				
3	Is the project consistent with the program mandate and objectives?				
4	Is there evidence that the project has been reviewed against program criteria (general and specific)?				
5	Is there evidence of consultation with project stakeholder(s) for acceptance or refusal of the project?				
6	Does the review process address the risks associated with the successful achievement of project objectives?				
7	Is there a project Assessment Form on file?				
8	Has the project been approved by the appropriate officer (Record of approval)?				

Description	Y	N	N/A	Comments
The Agreement				
9	Is there a copy of the grant/contribution agreement or contract on file?				
10	Does the agreement include a reporting clause?				
11	Does the agreement include an audit clause?				
12	If there is an amendment, is there a rationale/evidence on file for project or funding amendment?				
13	If there is an amendment, is there an amended agreement, containing both signatures, on file?				
14	Is there evidence on file that the agreement has been reviewed by the appropriate departmental officer?				
Payments/Transfers				
15	Is there a payment requisition on file?				
16	Have approval authorities been obtained and signed by the appropriate officer (Sec. 34)?				
17	Did the amount paid agree with the amount in the agreement (verify against departmental financial system)?				
18	Were advance payments made? If so, as per policy?				
19	Was funding provided from the appropriate Vote?				n/a
Monitoring and Reporting				
20	Has the recipient provided activity, progress or project reports? At what intervals?				
21	Upon closing the file, is there an assessment done by the responsible officer of the project? (relevance, outcome, outputs).				
22	Upon closing the file, is there an assessment of the recipient (e.g.,performance)? (to develop track record)				n/a – covered by question 21 for CIA
23	Is there evidence that the project produced the intended results?				
Program Management				
24	Is the file well-organized?				
25	Is the status of the project readily apparent to allow any project officer to assume responsibility for the file?				

October 4, 2000