

Indian and Northern Affairs Canada

Internal Audit Report
Audit of Capacity Development

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June 3, 2009

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Initialisms and Abbreviations

AASB	Audit and Assurance Services Branch
AES	Audit and Evaluation Sector
CRTP	Circuit Rider Training Program
FN	First Nations
FNFI	First Nations Financial Institutions
FNITP	First Nations and Inuit Transfer Payment System
FNLM	First Nations Land Management
FTP	Flexible Transfer Payment
HQ	Headquarters
INAC	Indian and Northern Affairs Canada
G&C	Grant and Contribution
NP	New Paths
NOBA	Notice of Budget Adjustment
PAA	Program Activity Architecture
PID	Professional and Institutional Development
RMAF	Results-based Management and Accountability Framework
RPP	Report on Plans and Priorities
RSG	Re-orientation of Self Government
T&Cs	Terms and Conditions
TBS	Treasury Board of Canada Secretariat
YERH	Year-End Reporting Handbook for First Nations, Tribal Councils and Political Organizations

Executive Summary

Introduction

A key theme underlying many of Indian and Northern Affairs Canada's (INAC) programs is the concept of Capacity Development. It is identified at the program activity/sub-activity level in the Program Activity Architecture (PAA), as an expected result, as a long-term outcome, and as a key strategic risk in the INAC 2009-2010 Estimates, *Report on Plans and Priorities* (RPP). It is specifically identified at one of these levels for activities related to Community Investment, Governance and Institutions of Government, Managing Individual Affairs, and Social Development.

Annual disbursements associated with Capacity Development are difficult to determine as it is often an element of a broader program. Programs included in this audit collectively had total expenditures of approximately \$88 million in the 2007-2008 fiscal year.

In accordance with the 2008-2011 Internal Audit Plan, an audit of Capacity Development was conducted in INAC Regions and at Headquarters (HQ) between August 2008 and February 2009.

Objective and Scope

The objective of the audit was to provide assurance that Capacity Development programs and authorities are being implemented: i) in a well controlled and coordinated manner in order to achieve effectiveness; and (ii) in accordance with approved authorities and Terms and Conditions (T&C's).

The scope of the audit examined the extent to which design and implementation of Capacity Development programs at the Departmental level was grounded in a common understanding and approach. At the program management level, program design, implementation, monitoring and reporting were examined. In regard to the controls for administering recipient contributions, the audit examined the development of funding agreements, recipient reporting and monitoring.

During the conduct phase of the audit, the Program activities in five Regional offices were examined in detail: British Columbia, Manitoba, Ontario, Quebec, and Saskatchewan. Videoconferences with all Regional offices were also conducted during the planning and risk assessment phase.

The audit was conducted in accordance with the requirements of the Treasury Board Secretariat (TBS) *Policy on Internal Audit* and the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

Conclusions

Internal Audit found INAC does not have a coordinated approach with regards to the delivery of Capacity Development programs. Furthermore, the implementation of the Programs is not in full compliance with approved authorities and T&Cs. As a result, the mechanisms are not in place to gather appropriate performance measurement data to demonstrate program effectiveness. Finally, the lack of a risk based approach to program implementation raises concerns about the extent to which the management of the Programs is well controlled.

Internal Audit is of the opinion that:

- The Department does not have a coordinated, conceptual, and strategic approach to Capacity Development or support for the design of effective Capacity Development programs and related performance measures.
- Programs examined in the audit address a need that is aligned with the Departmental mandate and priorities.
- Only two of the six Programs have expected outcomes in their Program T&Cs or in the INAC Departmental Results-based Management and Accountability Framework (RMAF). Expected outcomes were also not well defined at the project level, making it difficult to collect relevant performance information that could be rolled up to the Regional and/or national level.
- Data collection requirements established for recipients and from other sources are not sufficient to determine the extent to which the expected outcomes have been achieved.
- Considerable variation exists in how Programs have been implemented in the Regions. While the variation itself is not necessarily problematic, the implementation has not been done with a risk management approach to ensure the Program is delivered as approved and there is consistent and timely information to monitor and evaluate performance against program objectives.
- Funding agreements did not consistently contain complete, appropriate and/or compliant T&Cs with the 2000 TBS *Policy on Transfer Payments*, and in some cases, with the Program T&Cs.
- Timely and sufficient monitoring of activities to ensure compliance with Program T&Cs and with the funding agreement is generally not undertaken.

Recommendations

The audit report provides a number of recommendations intended to address the audit findings. Among the recommendations provided in the report, Assistant Deputy Ministers with program delivery responsibilities should:

- Appoint a strategic lead for Capacity Development and implement a Departmental approach to Capacity Development.
- Establish program outcomes and associated performance measures and indicators.
- Develop performance measurement plans and supporting data collection regimes (e.g., adjust program guides, applications, and reporting templates to support data collection at the project level).
- Undertake a risk assessment with the Regions to determine that each Region's implementation approach ensures the program is delivered as approved; is compliant with the TBS *Policy on Transfer Payments* and Program Authorities; has effective program management; and mechanisms are in place to monitor and evaluate program performance.
- Establish a monitoring regime of Regional implementation of programs to confirm that key national elements of the program, including performance measurement, have in fact, been implemented as approved.
- Align agreement templates and associated source documents (e.g., proposals and work plan templates) with requirements of the *Directive on Transfer Payments* and with Program T&Cs.
- Develop and implement a risk-based approach for monitoring recipients and/or projects for compliance with the funding agreement and the Program T&Cs.

1.0 Statement of Assurance

We have completed the internal audit of Capacity Development across six Departmental Programs managed by four different Sectors (Education and Social Development Programs and Partnerships, Lands and Economic Development, Regional Operations, and Treaties and Aboriginal Government) and delivered by either Headquarters (HQ) or Regional offices. The objective of the audit was to provide assurance that Capacity Development programs and authorities are being implemented: (i) in a well controlled and coordinated manner; and, (ii) in accordance with approved authorities and Terms and Conditions (T&Cs).

The audit was conducted in accordance with the requirements of the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit* and the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

The management control framework was assessed using criteria selected from the "Grants and Contributions Audit Criteria" established by the Audit and Evaluation Sector (AES) in 2007.

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered, to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations, as they existed at the time of the audit and against the audit criteria. While the conclusions are derived from the specific sample of Programs audited, they are expected to have applicability to all Capacity Development programs within the Department.

2.0 Introduction

A key theme underlying many of Indian and Northern Affairs Canada's (INAC) programs is the concept of Capacity Development. It is identified at the program activity/sub-activity level in the Program Activity Architecture (PAA), as an expected result, as a long-term outcome, and as a key strategic risk in the INAC 2009-2010 Estimates, *Report on Plans and Priorities* (RPP). Specifically:

- Program activities and sub-activities include:
 - o Family Capacity Initiatives, a sub-activity within Social Development;
 - o Community Economic Institutional Capacity, a sub-activity within Community Investment; and
 - o Métis and Non-Status Indian Organizational Capacity Development within the Office of the Federal Interlocutor.
- Key expected results include:
 - o “Capable and accountable governments and institutions” and “governance capacity in First Nations (FN) communities and institutions” (program activity Governance and Institutions of Government); and
 - o “FN and Inuit economic institutions have capacity to support community economic planning” (program activity Community Investment).
- Long-term benefits to FN and to Canadians are identified as outcomes from building the capacity of First Nations communities for the following program activities:
 - o Governance and Institutions of Government; and
 - o Managing Individual Affairs.
- Lack of capacity (technical, management) was identified as a key strategic risk that could impact the achievement of Departmental strategic outcomes associated with The Economy.

Annual disbursements associated with Capacity Development are difficult to determine as it is often an element of a broader program. Programs included in this audit collectively had total expenditures of approximately \$88 million in the 2007-2008 fiscal year.

The audit of Capacity Development was included in the approved INAC 2008-2011 Risk-based Internal Audit Plan.

3.0 Objective

The objective of the audit was to provide assurance that Capacity Development programs and authorities are being implemented:

- in a well controlled and coordinated manner in order to achieve effectiveness; and
- in accordance with approved authorities and Terms and Conditions.

4.0 Scope

The scope of the audit included an examination of:

- Capacity Development at the Departmental level,
- Program design,
- Program operations, and
- Project management issues.

Programs examined during the audit were selected based on their size, sector and approach, in order to provide a cross section of Departmental programs. Programs with a Capacity Development component that had recently been audited were not included (e.g., several of the programs supporting the program activity Community Investment were included in the *Audit of Economic Development Funding*, September 2008). The following Programs were selected:

- Circuit Rider Training Program (CRTP),
- First Nations Land Management (FNLM),
- Reorientation of Self-Government (RSG),
- Professional and Institutional Development (PID),
- New Paths to Education (NP), and
- First Nations Fiscal Institutions (FNFI).

Detailed descriptions of these Programs are provided in Annex A.

During the conduct phase of the audit, the activities at HQ and five Regional Offices (British Columbia, Manitoba, Ontario, Quebec, and Saskatchewan) were examined in detail. Activities in fiscal years 2005-2006, 2006-2007, and 2007-2008 were the focus of the audit.

5.0 Approach and Methodology

The audit was conducted in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the TBS *Policy on Internal Audit*. Sufficient and

appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinions provided in this report.

Audit criteria were determined based on information gathered during a planning and risk assessment phase conducted by the audit team during the period May to July 2008. The criteria were selected based on the audit risk assessment from *Grants and Contributions Audit Criteria*, established by AES in 2007. The criteria served as the basis for developing the audit approach and detailed audit program for the conduct phase. Audit criteria are provided in Annex B.

The 2000 TBS *Policy on Transfer Payments*, a key source of audit criteria was replaced in October 2008. The *Directive on Transfer Payments* was also issued in October 2008. While the 2000 *Policy* was used as the basis for establishing the criteria for this audit, consideration was given to the requirements of the 2008 *Policy* and *Directive* when finalizing the observations, conclusions and recommendations.

The principal audit techniques used included:

- *Documentation Review* – the documentation that was subject to examination included, but was not limited to: authorities; directives; policies; procedures, reports, relevant program guidelines; and past audit and evaluation reports.
- *Interviews* – interviews were conducted with management and personnel responsible for the delivery of the Programs at HQ and in the five Regions visited. Interview guides were developed for interviews conducted, taking into consideration the objective of the audit and the audit criteria developed. Videoconferences with all Regional offices were also conducted during the planning and risk assessment phase.
- *Recipient File Review* - file documentation was examined for a sample of 125 recipient funding arrangements at HQ and in the five Regions visited. (See Annex C for a breakdown of the number of files examined by Program.) Files were selected on a judgmental basis to ensure that projects of varying dollar values and from different recipients were included. File reviews were conducted using an audit checklist developed to assess compliance with relevant audit criteria, Program T&Cs (as approved by TBS), and the 2000 TBS *Policy on Transfer Payments*.

Audit fieldwork was conducted at HQ and in the Regions between September 2008 and February 2009.

6.0 Conclusions

Internal Audit found INAC does not have a coordinated approach with regards to the delivery of Capacity Development programs. Furthermore, the implementation of the Programs is not in full

compliance with approved authorities and T&Cs. As a result, the mechanisms are not in place to gather appropriate performance measurement data to demonstrate program effectiveness. Finally, the lack of a risk based approach to program implementation raises concerns about the extent to which the management of the Programs is well controlled.

7.0 Observations and Recommendations

As noted in the Scope section of this report, the audit examined:

- Capacity Development at the Departmental level,
- Program design,
- Program operations, and
- Project management issues.

The areas of examination at the program and the project level were defined in *Grant and Contribution Audit Criteria* established by the AES in 2007. The observations provided below have been organized in accordance with these areas of examination.

The term "project" is used in this report to refer to activity(ies) and processes of a recipient that have been specifically approved for funding under a Program.

Although specific Programs were selected for audit, Capacity Development is wide reaching, affecting the entire Department. While the observations and findings are specific to the Programs covered in the scope of the audit, it is highly likely that the recommendations of this audit apply to Grant and Contribution programs across the Department.

7.1 Departmental Approach to Capacity Development

The Department does not have a coordinated, conceptual, and strategic approach to Capacity Development or support for the design of effective Capacity Development programs and related performance measures.

INAC's mission is to support First Nations and Inuit — and in the North, all Northerners, including First Nations, Inuit, and Métis — in achieving their social and economic aspirations; in developing healthy, sustainable communities; and in more fully participating in and benefiting from Canada's political, social and economic development.¹

¹ RPP 2007-2008 Indian and Northern Affairs Canada, Mandate and Mission

INAC's role with respect to programs is to ensure they remain responsive to the needs of individuals, **support Capacity Development**, and promote sound management practices.²

Capacity of First Nations and Aboriginal organizations is a critical element in implementing INAC's mission. INAC provides Capacity Development assistance through many transfer payment programs across the Sectors. Given the horizontal focus on Capacity Development, a common understanding and strategic approach to Capacity Development was expected.

While many references to Capacity Development in Departmental documents were found, there was no definition(s) of Capacity Development or capacity building commonly in use in the Department. The definition used by the United Nations Development Programme was used as the starting point for discussion during the audit:

“Capacity is the ability of individuals, institutions, and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner.”

“Capacity Development is the process through which individuals, organizations, and societies obtain, strengthen and maintain the capabilities to set and achieve their own development objectives over time.”³

Interviews revealed a general understanding of Capacity Development in line with this definition across the Sectors although some interviewees viewed Capacity Development in a narrower sense (e.g. only meaning skills training).

Evidence of a common conceptual and strategic approach to Capacity Development could not be found. There is no central inventory of programs that support Capacity Development across the Department or across a Sector. Specific resources (documentation, staff expertise, working groups and/or best practices) that would support HQ and Regional staff in designing and implementing effective Capacity Development programs were not found. By comparison, other horizontal initiatives such as gender-based analysis, sustainable development and climate change have identified resources at the Departmental level to further these initiatives within the Department.

² RPP 2007-2008 Indian and Northern Affairs Canada, Operating Environment

³ United Nations Development Programme (www.capacity.undp.org)

Capacity Development programs at INAC often address a common issue, for example:

- Skills development (PID, NP, CRTP, and FNLM),
- Governance design and implementation (PID, NP, and FNLM),
- Community engagement in preparation for ratification vote (PID, FNLM, and RSG).

However, there is no coordination of lessons learned from existing programs that can be incorporated in the design and implementation of new programs. This would assist programs in addressing such issues as retention of the developed capacity and appropriate performance measures for Capacity Development.

In the course of audit interviews, INAC staff identified underlying issues at the recipient level that impede Capacity Development. Examples of these issues included:

- Candidates for skills development (financial management, water/waste water operations) lack basic education in literacy, math and science;
- Difficulty in attracting and retaining qualified staff;
- Periodic changes in the leadership of the recipient; and,
- Lack of a comprehensive plan for recipients (communities and organizations) that identifies needs, established goals and describes the steps (projects) need to reach the planned goals.

A coordinated approach to Capacity Development would help to identify these types of systemic issues and determine if there are ways the Department and recipients could mitigate their impact to improve the overall success in Capacity Development.

Audit and Assurance Services Branch (AASB) is of the opinion that a coordinated and strategic approach to Capacity Development would strengthen the overall impact of the many Capacity Development initiatives undertaken by the Department.

Recommendation:

1. Appoint a strategic lead for Capacity Development and implement a Departmental approach to Capacity Development.

7.2 Program Design

7.2.1 Need and Alignment with Departmental Mandate and Priorities

Programs examined in the audit address a need that is aligned with the Departmental mandate and priorities.

The objectives of the Programs examined in the audit are set out in Annex A. Each of these Programs is consistent with the Departmental *raison d'être* and responsibilities of:

- promoting improved education for Aboriginal peoples;
- pursuing frameworks for effective governance and self-governance;
- helping empower Aboriginal citizens and protect those who are most vulnerable;
- working to resolve outstanding land claims; and
- supporting the sustainable economic development that contributes to Aboriginal and northern employment and strengthens local communities.⁴

Two of the Programs reviewed (NP and CRTP) support First Nations in mandatory services of Education and Infrastructure, PID supports governance in general, and the other Programs support optional processes and activities in the areas of self-governance (FNLM, FNFI, RSG) with the potential to enhance economic development (FNLM, FNFI).

AASB is of the opinion each of the Programs examined was designed based on an actual need, in alignment with defined Departmental mandate and priorities.

7.2.2 Expected Outcomes

Only two of the six Programs have expected outcomes in their Program T&Cs or in the INAC Departmental Results-based Management and Accountability Framework (RMAF). Expected outcomes were also not well defined at the project level, making it difficult to collect relevant performance information that could be rolled up to the Regional and/or national level.

The importance of focusing on results and performance measurement was a fundamental element of *Results for Canadians - A Management Framework for the Government of Canada* issued by TBS in May 2000. The report highlighted the need to look beyond activities and outputs and to focus on actual results – the impacts and effects of federal programs. This requires federal Departments and agencies to clearly define and articulate desired results, deliver the programs and recommendations, measure and evaluate performance, and make the necessary adjustments to improve both efficiency and effectiveness.

The 2000 TBS *Policy on Transfer Payments* requires that a Treasury Board submission for program approval include a clear statement of how the transfer payments further approved

⁴ INAC 2009-2010 Estimates, *Report on Plans and Priorities*, p. 3.

program objectives, including identification of **expected results and outcomes**. The 2007 TBS *A Guide to Preparing Treasury Board Submissions* further clarifies that “an explicit description of what results are expected, how they relate to the organization’s strategic outcomes and programs, and how the organization will measure performance in terms of those results (perhaps referencing an RMAF) should be presented” in submissions supporting program approval or renewal.

Of the six Programs examined, FNLM was the only one with expected outcomes explicitly stated in the Program T&Cs. The other five (PID, NP, CRTP, RSG, FNFI) were operating under Program T&Cs that identified objectives and results but did not explicitly state expected outcomes. NP, CRTP and RSG were not addressed as separate programs in their respective authorities on Elementary and Secondary Education, Capital Facilities and Maintenance, and Strong Governance, Administration and Accountability Systems.

The 2005 Departmental RMAF contains logic models organized by Program Authority (which may be used by a number of programs) that identify expected outcomes. Expected outcomes for PID were set out in the logic model for Strong Governance, Administration and Accountability Systems.

The 2000 TBS *Policy on Transfer Payments* requires that:

“the purpose and the expected results to be achieved with the contribution are to be set out in the contribution agreement.⁵”

As noted in Section 7.4.1 on funding agreements, the funding agreements sampled did not for the most part explicitly identify the expected results from the contribution. Also, templates for applications/proposals and for reporting on projects did not require expected outcomes or performance indicators to measure outcomes to be identified. Consequently, few recipients reported on results or outcomes from their projects, thus limiting the availability of information to roll up to the Regional or national level to relate contribution spending to outcomes.

⁵ The 2008 TBS *Policy on Transfer Payments* states that clear requirements for performance are to be established (paragraph 3.7). The 2008 TBS *Directive on Transfer Payments* defines as one of the core design elements of a transfer payment program, the identification of a performance measurement strategy for ongoing performance management of the program, including the performance measures and indicators and the supporting data requirements and data collection strategy. The *Directive* further states that funding agreements are to describe the results to be achieved by the recipient. The results expected should be those that are within the reasonable control of the recipient and should be stated at a level of detail that will support accountability and performance measurement.

The 2000 TBS *Policy on Transfer Payments* requires that:

“Departments must include in the Departmental Performance Report (DPR) evidence of results achieved, related to results commitments and specific planned results in Reports on Plans and Priorities for each transfer payment program with transfers in excess of five million dollars.”⁶

The reporting of 2007/2008 results in the INAC DPR for the Programs covered in the audit was limited to outputs rather than outcomes, if there was any information at all. The DPR reported on the number of projects funded (PID), the number of institutions operational (FNFI), number of land codes ratified (FNLM), number of FN at different stages of the land management process (FNLM), and the percentage of water facility operators who were certified (CRTP). There was no reference in the DPR to NP or RSG.

Program managers at HQ and in the Regions were found to be using almost exclusively as performance measures the extent to which available funding was fully allocated to recipients, and whether identified milestones in the funding agreement were reached (e.g., land code completed and ratified, training delivered, policies and procedures developed).

Without expected outcomes and performance measures defined, tracked and reported on over the course of the program, there is little basis to determine the extent to which the program has been effective.

AASB is of the opinion that the Programs examined have not adequately identified the expected outcomes and associated performance measures specific to these Programs.

Recommendations:

2. Establish program outcomes and associated performance measures and indicators.

7.2.3 Data Collection

Data collection requirements established for recipients and from other sources are not sufficient to determine the extent to which the expected outcomes have been achieved.

⁶ A similar reporting requirement does not exist in the 2008 TBS *Policy on Transfer Payments*. It does, however, require that a performance measurement strategy be established at the time of program design, and that it is maintained and updated through its life cycle.

It is important to establish clear and appropriate performance measures, indicators and targets to support the achievement of program objectives. Sound performance measures allow management to track progress, measure results, and make ongoing program adjustments to improve results and achieve objectives.

Once expected outcomes have been established, performance measures and data collection plans should be established and incorporated into the program design. The 2000 TBS *Policy on Transfer Payments* required Departments establish policies and procedures to ensure that proper program records be maintained to provide documentary evidence of the results achieved. The 2008 TBS *Directive on Transfer Payments* defines as one of the core design elements of a transfer payment program, the identification of a performance measurement strategy for ongoing performance management of the program, including the performance measures and indicators and the supporting data requirements and data collection strategy.

Deficiencies in data collection that were identified in one or more of the Programs examined include:

- Performance measures and results indicators corresponding to expected outcomes were not established;
- Data collection requirements associated with the expected outcomes are not defined in funding agreements, application templates, and reporting templates;
- Performance measures do not consider sources of information other than those available directly from recipients (e.g., there may be information from First Nations Statistical Institute and/or Statistics Canada that may be useful in demonstrating changes over time in FN capacity);
- No evidence of verification/validation of the data that is collected;
- Most data collection that does occur focuses on:
 - o Inputs - dollars funded, number of projects, and
 - o Milestones – FNLM land code ratification, Matrimonial Property law enacted, Custom Election code ratified, water operators achieve certification.

Further, no evidence was found of the establishment of a baseline when the Program Authorities were approved and against which subsequent performance could be compared so that the impact of the program over time could be identified and assessed in any of the Programs examined.

Without a plan for data collection at the program level, data collection requirements are not carried through to the project level in the program guides, application templates and reporting

templates. Weak data collection at the project level limits the data available to roll up to Regional and national level to demonstrate the impact of the Program.

AASB is of the opinion that the Programs examined have not established adequate performance measurement plans supported by data collection to track progress toward the program objectives.

Recommendations:

3. Develop performance measurement plans and supporting data collection regimes (e.g., adjust program guides, applications, and reporting templates to support data collection at the project level).

7.3 Program Operations

Considerable variation exists in how Programs have been implemented in the Regions. While the variation itself is not necessarily problematic, the implementation has not been done with a risk management approach to ensure the Program is delivered as approved and there is consistent and timely information to monitor and evaluate performance against program objectives.

Considerable variation exists in how G&C programs are implemented in the Regions. For example:

- Funding directly to end recipients versus the use of third parties to administer the funding;
- Formulas used to allocate the funding versus rating of proposals using a documented rating grid or a mix of formulas and proposals;
- Applications for funding accepted throughout the year versus a fixed date for applications; and
- Flexible transfer payments (FTP) versus contributions for projects under the same program.

With this degree of variation, it was expected that a risk analysis would be found to demonstrate that the implementation approach used in a Region was consistent with a well controlled process and that it would support the achievement of intended program outcomes. For example, where third parties were administering the funding, it was expected that an analysis would include a risk assessment of the third parties and a consideration of the monitoring and data collection practices used by the third parties. Where funding could be provided under FTP or as a contribution, it was expected that an analysis would consider the risks associated with each approach, the circumstances that are most appropriate for each approach, and how the control

framework needs to differ for each funding approach. No such analyses were found at either the national or Regional level.

Several instances were noted where the implemented control framework was more consistent with that seen with a grant program than the expected control framework for a contribution program. These included:

- Funding of Operational FN under FNLM in British Columbia and Saskatchewan where a formula was used to allocate funding and no reporting requirements were in place.
- NP funding in Quebec which is administered through a third party. The Region receives no information from the third party on how the funds are used (e.g., what type of projects and which recipients were funded) until several months after the end of the fiscal year.

Several instances were also noted where project approval was not consistent with program objectives as set forth in the Program T&C's and Guidelines. These include:

- BC PID funding for staff to coordinate recovery and insurance claim after a fire in band office.
- RSG funding travel for preliminary research into self government – applicants should already be in self government process.
- Manitoba PID funding for travel costs to a Tribal Council meeting to discuss Tribal Council's activities, and, in another case, to provide training on basic life skills.

In some cases, the variations in implementation by the Regions could fundamentally change the nature of the Program. Variations may also lead to inadequate management of the program operations or inhibit the collection of appropriate performance information to support program management and performance measurement at the program level.

AASB is of the opinion that given the variation in program implementations and the absence of a risk-based analysis of Regional program implementation, program management (HQ and Region) cannot be assured that an effective program management regime exists, and that key program requirements are being met by each Region, including compliance with the *Policy on Transfer Payments* and Program Authorities. AASB is also of the opinion that program management at HQ should monitor Regional implementation of Programs on an ongoing basis to ensure that key program requirements are met.

Recommendations:

4. Undertake a risk assessment with the Regions to determine that each Region's implementation approach ensures the program is delivered as approved; is compliant with

the *Policy on Transfer Payments* and Program Authorities; has effective management; and mechanisms are in place to monitor and evaluate program performance.

5. Establish a monitoring regime of Regional implementation of Programs to confirm that key national elements of the Program, including performance measurement, have in fact, been implemented as approved.

7.4 Project Management

7.4.1 Funding Agreements

Funding agreements did not consistently contain complete, appropriate and/or compliant T&Cs with the TBS Policy on Transfer Payments, and in some cases, with the Program T&Cs.

The 2000 TBS *Policy on Transfer Payments* sets out the basic provisions that must be included within funding agreements during the period under audit. These requirements include: the purpose of the contribution; the expected results to be achieved; the effective date; and duration of the agreement. The 2008 *Directive on Transfer Payments* also has these requirements. The 2008 *Directive* provides further guidance on how results should be described—they should be within the reasonable control of the recipient.

Since many recipients receive funding under a number of INAC programs, INAC signs a master agreement (annual or multi-year) with the recipient. The master agreement provides a description of all the programs for which funding may be provided during the life of the agreement or it may only describe those programs/projects where the funding amount has been established at the time the agreement is drafted (typically before or very near the start of the fiscal year). Funding for programs/projects not previously described in the funding agreement is documented through an amendment. Additional funding for programs/projects already described in the funding agreement is documented through a Notice of a Budget Adjustment (NOBA).

The master agreements are based on standard templates that the Department has developed. These master agreements incorporate many of the requirements of the 2000 TBS *Policy on Transfer Payments* that are generic to any agreement (e.g. indemnification clause; conditions to be met before payment is made; the schedule or basis of payment; conflict of interest provisions regarding federal officials; and funding is subject to an appropriation by Parliament). However, templates are consistently missing other generic clauses including; timely accounting for advances; right to audit; and acceptance of T&Cs specific to the program that are set out in documents other than the agreement.

INAC has already taken steps to strengthen its right to audit in its funding agreements. It was announced March 31, 2008 that “INAC recently notified funding recipients that it intends to amend 2008-2009 funding agreements to include an audit clause. The addition of this clause will ensure INAC’s right to conduct audits of funding agreements to make certain that contributions are used for intended programs and services.” This change was implemented after the period covered by the audit.

In its effort to reduce the reporting burden of recipients, INAC generally does not require reporting of results or accounting for the funds provided until very late in the fiscal year (typically March) or several months after the end of the fiscal year. However, the 2000 TBS *Policy on Transfer Funds* indicates that contribution agreements should call for at least an interim and a final accounting of the use of funds and reporting of results, except for small contributions of short duration. No exemption to this requirement was noted in the authorities for the Programs included in this audit.

Other inconsistencies with the 2000 TBS *Policy on Transfer Payments* noted in funding agreements in various Programs were:

- Planned activities were not consistently described. Some of agreements only mentioned the Program and the amount awarded, leaving uncertainty about what exactly was expected within the approved project. Others provided more details including referencing certain proposals (or parts thereof) or listing deliverables. Saskatchewan Region included a specific schedule in the funding letter and in the amendment that provided a brief summary of the planned project; the start and completion dates; deliverables, budget, cash flows; and required reporting. This makes the funding decision extremely clear and sets the stage for effective follow up of reporting against the approved project T&Cs. This could be used as a best practice benchmark for the Regions and Sectors.
- While some of the Department’s Program Authorities give an exemption to Indian Bands and Tribal Councils for the requirements of the 2000 TBS *Policy on Transfer Payments* with respect to advances and/or holdbacks, not all do. In those cases where an exemption did not apply, the requirements of the *Policy* for advances and holdbacks were not consistently followed in the funding agreements. Recipients seldom provided cash flow forecasts to be used as a basis for advances because cash flow forecasts were not required in the proposal template. Contribution funding was not always released in a manner consistent with the Cash Management Policy.
- No clear requirement for reporting of revenues and expenses for each funded project.
 - o Agreement contains no reference to reporting of revenues and expenses.
 - o Agreement does not clearly state that a separate schedule is needed for each project.

The agreements examined also did not include direction on how the parties to the agreement would deal with changes to the project over time. Recipients are funded to carry out a specific activity, project or initiative. Depending on how these are described in the funding agreement, the recipient may have limited ability to make changes. In practice, events occur that inevitably make it necessary to make adjustments to the planned activities, project or initiative. By describing in the funding agreement what flexibility is permitted, it is clear to all parties what changes can be made by the recipient without approval and what changes must be approved by INAC (e.g., the recipient can reallocate up to 10% of the approved budget between cost categories without the written approval of the Minister).

Through the course of the audit, non-compliance of funding agreements with Program T&Cs were also noted:

- FNLM agreements with Operational FN were missing a clause requiring reporting of activities.
- Two RSG agreements exceeded the annual limit of \$1 million funding to one recipient.
- Funding provided FTP to recipients under FNLM but the funding agreement included clauses requiring a return of surplus funds related to FNLM activities.

While agreement templates and the First Nations and Inuit Transfer Payment System (FNITP) are mechanisms to support consistent and complete agreements, they are only effective if the appropriate information is included in the templates and FNITP's functionality is used. Instances were noted where reporting requirements were added as text to the funding agreement rather than through activating the report tracking function of FNITP. As a result, there was no automatic trigger when the required reports were not received by the due date.

By not including all of the information in funding agreements prescribed by the 2000 TBS *Policy on Transfer Payments* and Program specific T&Cs, it is not clear what is being achieved by the project, what the indicators of success will be (other than funds are spent and reports are submitted on time), what activities will be carried out, and what expenditures are eligible. Without a clear and complete funding agreement, program management have little basis to hold recipients accountable for the completion of the approved project and proper management of the funding provided.

AASB is of the opinion that the funding agreements used in the Programs under audit were not fully in compliance with the TBS *Policy on Transfer Payments* in effect at the time of signature and that these issues of non-compliance will continue under the new *Policy and Directive on Transfer Payments* unless agreement templates are reviewed and amended to include all of the required elements. Proposal and work plan templates may also need to be revised so that INAC

will have all the information it requires from recipients to draft funding agreements that are in compliance with the requirements of the *TBS Policy* and *Directive on Transfer Payments*.

Recommendations:

6. Align agreement templates and associated source documents (e.g., proposals and work plan templates) with requirements of the *Directive on Transfer Payments* and with Program T&Cs.

7.4.2 Monitoring of Projects

Timely and sufficient monitoring of activities to ensure compliance with Program terms and conditions and with the funding agreement is generally not undertaken.

The *TBS Guide on Grants, Contributions and Other Transfer Payments* states that “Program officers are expected to monitor regularly the progress and activities of recipients of contributions or other conditional transfers.” It describes monitoring as a “crucial element of a transfer payment program control framework.” Within INAC, the monitoring of recipient compliance is the responsibility of the office (Region or HQ) that originated the agreement. Monitoring includes, among other activities, ensuring that recipients’ performance and financial reports are received and reviewed.

The level of monitoring should be timely and appropriately based on the risk associated with the recipient and the project. For example, a larger project might warrant more frequent monitoring and reporting as might a recipient who has not consistently fulfilled the requirements of past projects. No evidence was available of explicit risk analysis to determine the appropriate mix of monitoring for individual or groups of projects.

Examples of insufficient monitoring were noted during the course of the audit. They are described in the balance of this section.

- ***Financial Reporting.*** Recipients are required to submit annual audited financial statements, as specified in the *Year-End Reporting Handbook for First Nations, Tribal Councils and First Nation Political Organizations (YERH)*, by July 31st of each year. The *YERH* further requires that recipients prepare separate schedules of revenue and expenditures for all contributions specified in their funding agreements. These separate schedules form the primary (and sometimes sole) reporting of financial information on a project to demonstrate that funding was spent for the approved purposes and only on eligible expenditures.

The information provided in the annual audited financial statements and separate schedules is subject to an “audit review” process by Regional staff. The purpose of the audit review is to determine the overall financial position of the recipient as well as to assess compliance with the Terms and Conditions of the funding agreement.

While the audit found well established procedures in place with respect to obtaining and reviewing financial statements, the reporting on specific projects and Programs was not always sufficient to determine that reported expenses were appropriate and that unexpended funds were identified for recovery from the recipient. In some cases, the detail provided did not clearly show the funding under the Program, in other cases, the revenue could be identified but the expenses were either shown as a single lump sum or detailed expenses were for more than one Program or project.

Other anomalies noted in financial statement reporting of project funding included:

- o Reported expenses exactly matched the annual budget;
 - o Costs were included in the final report that were not part of approved budget;
 - o Deferral or transfer of unspent contribution funds such that there was no identified surplus.
- ***Narrative reporting and deliverables.*** As noted in Section 7.4.1, some agreements lack clear details of the project deliverables, budget and expected outcomes, making it difficult to determine if reported activities were in line with the approved project. Also, the reporting templates provided to recipients do not consistently lead them to specifically address the deliverables and budget committed to in the funding agreement.

Instances were noted where reporting was not received or the level of detail in the reporting was inadequate to address the deliverables and expected outcomes. The level of reporting is not always consistent with the size of the project. For example, the report for a Saskatchewan PID project of \$150,000 was a three-page update of the prior year’s report, which did not address the seven deliverables established for the project. The 2007/2008 reporting format used by the Resource Centre for FNLM was noted as a positive example of integrated reporting. The details of the approved work plan and the quarterly reporting were integrated into a single document that made the level of achievement against the work plan readily apparent.

- ***Documentation of Review Activities.*** Limited documentation was found on project files of program staff’s review of recipients’ reporting. It was not always clear if the review actually occurred, or if it had not been documented, or if the documentation could not be located. Several Regions used a standard template for the final review. In one case, the review only documented what was reported and failed to critically compare the approved

project with the reported activities. In other cases, the letter acknowledging receipt of the report incorporated details from the report indicating it had at least been read. In cases where deliverables were clearly set out but the reporting failed to address all deliverables, there was no evidence showing that action had been taken to either recover the allocated funding for those portions of the project which had not been carried out or to hold back on releasing funding until the project was completed, if all of the funds had not been advanced during the course of the year.

- **Recipient Audits.** Recipient audits are commonly used by other federal Departments to confirm compliance by the recipient with their obligations under the funding agreement and to provide assurance that the reported expenditures were eligible and used for the intended propose. Recipient audits also apply to FTP funding agreements and are used to ensure that minimum Program requirements identified in the Program terms and conditions have been met. No instances of recipient audits were noted in the Programs included in this audit.

The initiative to reduce FN reporting burden has resulted in some Programs only requiring a year-end report, several months after the end of the fiscal year. At this time, there is no opportunity for intervention to guide the project back on-course or to recover funding to spend on other projects.

As required by the 2008 *Directive on Transfer Payments*, the level of monitoring of recipients and the reporting required must reflect an assessment of the risks specific to the Program, the value of the funding in relation to the administrative costs and the risk profile of the recipients. There must also be a timely assessment by INAC of the information it receives from recipients. If no action is taken when the information provided is less than what was stipulated, recipients will not provide it and the Department will be unable to demonstrate value for money and that results were achieved.

AASB is of the opinion that a risk-based approach to monitoring recipients and/or projects for compliance with Program T&Cs and the funding agreement must be developed and implemented to provide a better balance between INAC's accountabilities to demonstrate that results and value for money were achieved, and minimizing the reporting burden on recipients.

Recommendation:

7. Develop and implement a risk-based approach for monitoring recipients and/or projects for compliance with the funding agreement and the Program T&Cs.

8.0 Management Action Plan

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
<p>1. Appoint a strategic lead for Capacity Development and implement a Departmental approach to Capacity Development.</p>	<p>Excellence in Capacity Development is key to INAC achieving its mandate and strategic goals, given increased obligations and opportunities coupled with limited resources.</p> <p>An ADM level lead is needed to direct strategic approach to coordinated, effective Capacity Development program development.</p> <p>As seen in the successful INAC implementation of <i>Gender-Based Analysis</i>, infrastructure and dedicated resources are needed to effectively support program design and implementation.</p> <p>INAC will leverage internal expertise and resources with improved coordination and collaboration to the end that Capacity Development isn't just viewed as individual programs but a lens used to</p>	<p>Working group / resource unit</p>	<p>July 2009</p> <p>April 2010</p>

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
	<p>judge the impact and success of all INAC activities in the same way programs will be reviewed for their Economic Development impact.</p> <p>For example: FN Land Management may fund a process to get to a land code and ideally a ratification of the code but the "success" of the process is in the development of leadership, community awareness and technical abilities that will allow the community to truly be self sufficient in land management.</p>		
2. Establish program outcomes and associated performance measures and indicators.	Develop program outcomes, performance measures and indicators.	All ADMs	At time of program renewal or by March 2011, which ever comes first
3. Develop performance measurement plans and supporting data collection regimes (e.g., adjust program guides, applications, and reporting templates to support data collection at the project level).	<p>Develop performance measurement plans and data collection regimes.</p> <p>Gather and document baseline measures and indicators at time of renewal.</p> <p>Develop and implement training on performance measurement and data</p>	All ADMs	At time of program renewal or by March 2011, which ever comes first

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
	collection. Adjust applications, recipient reporting as needed to gather data.		
4. Undertake a risk assessment with the Region's to determine that each Region's implementation approach ensures the program is delivered as approved; is compliant with the <i>Policy on Transfer Payments</i> and Program Authorities; has effective program management; and mechanisms are in place to monitor and evaluate program performance.	Consistent approaches are required across regions for implementation of national programs. INAC is currently working to ensure standardized approaches for new and renewed programs are implemented across regions in accordance with program design and that have performance measurement and risk management strategies as elements of these.	SADM, Regional Operations	April 2010

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
<p>5. Establish a monitoring regime of Regional implementation of programs to confirm that key national elements of the program, including performance measurement, have in fact, been implemented as approved.</p>	<p>The Senior ADM, Regional Operations, in collaboration with the CFO and Program ADM's, will develop and operationalize a Department-wide Quality Management Program for Grants and Contributions. The QMP will be designed to address the specific issues regarding roles and responsibilities of key stakeholders and the promotion of a risk-based approach to compliance reviews. Guidance will be developed regarding acceptable staffing/organizational models for compliance reviews with a view to promoting consistency and appropriate segregation of duties. The QMP will be developed by December 31, 2009 and implemented by June 30, 2010.</p>	<p>The Senior ADM, Regional Operations, in collaboration with the CFO and Program ADM's</p>	<p>June 30, 2010</p>

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
<p>6. Align agreement templates and associated source documents (e.g., proposals and work plan templates) with requirements of the <i>Directive on Transfer Payments</i> and with Program T&Cs.</p>	<p>Adjust/develop compliant templates including new funding approaches (fixed, flexible, block).</p> <p>Develop and implement training on use of new funding approaches</p> <p>Refer to TB approval documents in annual review of Program specific T&C</p> <p>Adjust proposal /workplan templates to require monthly cash flow forecast by applicants to determine advance requirements</p> <p>Implementation of Quality Assurance reviews (compliance of funding agreements)</p>	<p>Transfer Payment Policy Implementation Team</p> <p>Transfer Payment Policy Implementation Team / Regional Funding services</p> <p>All ADMs</p> <p>All ADMs</p> <p>All ADMs</p>	<p>At time of program renewal or by March 2011, whichever comes first</p>

<i>Recommendations</i>	<i>Actions</i>	<i>Responsible Manager (Title)</i>	<i>Planned Implementation Date</i>
<p>7. Develop and implement a risk-based approach for monitoring recipients and/or projects for compliance with the funding agreement and the Program T&Cs.</p>	<p>The Senior ADM, Regional Operations, in collaboration with the CFO and Program ADM's, will develop and operationalize a Department-wide Quality Management Program for Grants and Contributions. The QMP will be designed to address the specific issues regarding roles and responsibilities of key stakeholders and the promotion of a risk-based approach to compliance reviews. Guidance will be developed regarding acceptable staffing/organizational models for compliance reviews with a view to promoting consistency and appropriate segregation of duties. The QMP will be developed by December 31, 2009 and implemented by June 30, 2010.</p>	<p>The Senior ADM, Regional Operations, in collaboration with the CFO and Program ADM's</p>	<p>June 30, 2010</p>

Annex A – Programs included in the Audit

Program	Objectives of the Program	Expenditures 2007 - 2008 ⁷
New Paths	The objectives of New Paths are to support Elementary and Secondary education through strengthening FN education management and governance capacity; to improve the effectiveness of classroom instruction; to improve community and parental involvement; and to facilitate school to work transition	\$40 million
Circuit Rider Training Program	Circuit Rider Training Program supports training of water operators in First Nations communities. Effectively, the Program focuses on whether water and wastewater operations at the community level are within provincial (or similar) standards which includes water operator competency and adequacy of the physical systems.	\$4 million
Professional and Institutional Development	Professional and Institutional Development supports strengthening the human, managerial, and institutional capacity of FN public service and enhance community governance decision-making mechanism and accountability mechanisms for Aboriginal governments. The Companion Program targeted FN under intervention as a particular area of need for financial management systems and training.	\$19 million
First Nations Land Management	First Nations Land Management supports the transfer of land management responsibility to the First Nation. Funding supports FN in the development and community approval of land code; annual operational funding for FN who have adopted a land code and a resource centre to provide technical assistance to operational and developmental FN.	\$7 million
Re-orientation of Self Government	Re-orientation of Self Government supports communication with the community throughout the self government process so that community members can make a more informed decision on ratification.	\$10 million
Fiscal Institutions	Fiscal Institutions supports economic development and well-being in First Nations communities by assisting First Nations with property taxation, creating a First Nations bond financing regime and supporting First Nations capacity in financial management and the use of statistical information.	\$8 million

⁷ Inconsistencies in coding of financial expenditures were noted in the course of the audit. These amounts have not been audited and are presented strictly to portray an order of magnitude for the programs.

Annex B – Audit Criteria

Departmental approach to Capacity Development

1. Design and implementation of Capacity Development programs across the Department is grounded in a common understanding and approach to Capacity Development.

Program Design

2. The program is designed based on an actual need, in alignment with defined Departmental mandate and priorities. Expected outcomes, and data collection requirements in support thereof, are well established.

Program Operations

3. Appropriate policy and procedures, resources, systems and supporting tools are developed at the program level to facilitate consistent implementation of the program across all Regions and to promote the achievement of program objectives.
4. Sufficient monitoring and oversight activities are conducted on a timely basis by program management to promote the achievement of program objectives. Identified issues that adversely impact program objectives are addressed in a timely manner.

Project Management

5. Formal agreements, containing complete, appropriate and compliant terms and conditions, are established with the recipient.
6. Activities are monitored to ensure compliance with program terms and conditions and with the funding agreement.

Annex C – Number of Recipient Files Sampled

OFFICES	PROGRAMS					
	CRTP	FNFI	FNLM	NP	PID	RSG
British Columbia	2	n/a	10	1	12	n/a
Manitoba	2	n/a	1	6	9	n/a
Ontario	n/a	n/a	n/a	12	n/a	n/a
Quebec	2	n/a	n/a	7	10	n/a
Saskatchewan	4	n/a	7	11	12	n/a
HQ	n/a	4	3	n/a	n/a	10