

Indian and Northern Affairs Canada

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Audit and Evaluation Sector

**Audit of the Office of
the Federal Interlocutor
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Table of Contents

	<u>Page</u>
Table of Contents	ii
Executive Summary	iii
Section 1 – Background & Context	6
Background on the Office	6
<i>History of the Office</i>	6
<i>Roles and Responsibilities</i>	6
<i>Budget and Staffing</i>	7
Background on Contribution Programs at INAC.....	7
Audit Objectives and Scope.....	8
Audit Criteria	8
Audit Approach and Methodology	9
Section 2 - Findings and Recommendations	11
General Management Controls of the OFI.....	11
<i>Control Environment</i>	11
<i>Strategic and Operational Planning</i>	12
<i>Risk Management</i>	12
<i>Performance Measurement and Reporting</i>	12
<i>Communication and Co-ordination</i>	13
<i>Human Resources Management</i>	14
Controls for managing contributions of the Federal Interlocutor’s Contribution Program, including the Beyond Powley Initiative	15
<i>Program Design, Approval & Renewal</i>	15
<i>Program Implementation</i>	15
<i>Program Monitoring & Reporting</i>	16
<i>Recipient Eligibility Assessments, Funding Decisions, & Agreement Development</i>	16
<i>Recipient Monitoring and Reporting</i>	17
<i>Recommendations Pertaining to the Management of Contributions</i>	17
Annex	
Action Plan	

Executive Summary

Background

The Office of the Federal Interlocutor (OFI) conducts research and provides advice to government on socio-economic conditions for off-reserve Aboriginal people. The OFI generally seeks to raise awareness of issues confronting Métis, Non-status Indian and urban Aboriginal people within the federal government. Another key activity is to establish partnerships with other governments – whether provincial or municipal – as well as with other external stakeholders. The OFI administers three major contribution programs. These programs, together with their allocated budgets for 2007-2008, are:

- **Federal Interlocutor’s Contribution Program (\$7.2 million ongoing and \$12.1 million time-limited for managing Métis rights).** This program includes activities that are funded on an ongoing basis (bilateral relationships, tripartite self-government negotiation processes, building capacity and electoral and financial accountability, and recognizing Métis contributions to Canada) and one component that is funded at \$12.1M to March 31, 2008 (“Beyond *Powley*: Management of Métis Aboriginal Rights”) and has received policy approval for an additional two years at similar funding levels.
- **Urban Aboriginal Strategy (\$13.7 million).** The UAS was initiated in 1998 to address the challenge of growing numbers of Aboriginal people living in key urban centers. In 2007, funding for UAS was renewed for five years and in July 2007 the on-the-ground administration of UAS contributions was transferred to five newly created OFI regional offices from Western Economic Diversification Canada and Service Canada.
- **Aboriginal Representative Organizations Program (AROP) (\$4.7 million) and National Aboriginal Women’s programs (\$200,000).** These two programs were transferred to the OFI from the Department of Canadian Heritage effective April 2007 as the new program: Contributions to support the basic organizational capacity of representative Aboriginal organizations.

The OFI has been faced with a number of operational pressures over the past five years. Between 2002-2003 and 2007-2008, the OFI’s total budget increased from \$6.4M to \$37.6M. The main reasons for this increase are the launch of the Beyond *Powley* initiative, the allocation of funding to the UAS in 2004 and 2007, and the transfer of the Aboriginal Representative Organizations Program (AROP) in 2007. In April 2005, the Office’s A-Base funding allocations for operations and maintenance dropped from \$825,000 to \$23,000 annually. From this point forward, the OFI has used temporary funds from the Beyond *Powley* initiative to cover much of its non-salary operating costs. The Office is risk managing 18 of its 39 positions in headquarters with the short-term funding of the Beyond *Powley* initiative, and the 25 regional positions (with the 5 year UAS funding).

Objective

The objectives of the audit were to obtain assurance on the adequacy and effectiveness of:

- controls for managing contributions of the Federal Interlocutor's Contribution Program, including the *Beyond Powley* initiative; and
- controls supporting the effective and efficient management of the OFI's operations, including its regional offices.

The audit examined key components of the management framework including strategic and operational planning, direction, delegation of authority, co-ordination of programs and activities, communication, risk management, human resources management, monitoring, performance measurement, and reporting. The audit also included testing of controls for managing contributions of the Federal Interlocutor's Contribution Program including program design and approval, program implementation, program monitoring and reporting, program renewal, processes for evaluating recipient eligibility, agreement development processes, and agreement monitoring and reporting. The sample of recipient files examined was representative of activities conducted during the period extending from April 2006 to November 2007.

Conclusions

Internal Audit found that, while some improvements are required, OFI's management controls are generally adequate and effective to ensure achievement of its objectives. Areas that require strengthening include risk assessment, communication and co-ordination, and performance measurement and reporting. Having recently absorbed three new programs, OFI management successfully adapted its organizational structure and operating processes to accommodate the demands of the new programs. Examples of these improvements included, developing a customized operating manual and templates for management of UAS contributions and opening five new regional offices with a community-based program delivery approach. It is worthy of note that the audit was started three months after the opening of these new offices and that results of OFI's efforts to integrate these offices were positive.

Internal Audit found that OFI's controls for managing contributions of the Federal Interlocutor's Contribution Program are effective at ensuring that contributions are administered in accordance with program terms and conditions and the Policy on Transfer Payments. The maintenance of contractual and financial aspects of contribution agreement files is also very strong; however, the organization and thoroughness of other key elements of files require improvement. More specifically, the documentation of recipient eligibility assessments, funding decision rationale, recipient risk assessments, and monitoring activities require improvement. The audit also found that the length of time between receipt of a recipient proposal and execution of a contribution agreement is too long and identified a number of steps in the process that require further analysis to identify opportunities to gain efficiencies. These are matters of particular importance to INAC as the department focuses on improving its grants and contributions management practices and responds to the Auditor General's report of May 2006 (Chapter 6 - Management of Voted Grants and Contributions).

Recommendations

The audit report provides the following recommendations intended to address the audit findings:

1. An OFI risk assessment should be completed and updated annually with focus being placed on both entity-level and program-level risks. Risk mitigation strategies and action plans should be developed for each risk with clear linkages to strategic and operational planning exercises.
2. Performance indicators should be improved to ensure that they include relevant qualitative and quantitative attributes and measurable targets. In selecting an appropriate mix of performance indicators, the OFI should weigh the marginal benefits of each indicator against the associated cost of implementing a measurement regime.
3. Further improvements to internal communication and co-ordination should be implemented to support individuals working with common recipients and to ensure that the newly transferred regional offices are well integrated into the OFI.
4. OFI should update its Operational Manual and templates for the Federal Interlocutor's Contribution Program, incorporating minimum documentation standards to ensure that contribution files demonstrate thorough recipient eligibility review, transparent funding decisions, and risk-based monitoring plans. Focus should also be placed on training program officers on updated requirements and on monitoring and enforcing compliance with requirements.
5. OFI management should conduct a review of its processes for reviewing proposals, preparing contribution agreements and requesting and approving payments in order to identify opportunities to reduce processing times. With respect to processing recipient proposals, consideration should be given to whether recipient expectations could be better managed by instituting a series of proposal submission deadlines.

Section 1 – Background & Context

Background on the Office

The Office of the Federal Interlocutor was created in parallel to the Aboriginal constitutional talks in 1985. In its early years, the mandate of the Office of the Federal Interlocutor (OFI) was fairly limited and consisted of being the point of first contact and advocate within Cabinet for Métis and Non-status Indians. That mandate has increased significantly in scope and prominence due to legal and constitutional developments.

History of the Office

The Office of the Federal Interlocutor was previously located in the Privy Council Office (PCO) as a division of the Aboriginal Affairs Secretariat. Transferred to Indian and Northern Affairs Canada (INAC) in July 2004, the Office is now relatively well integrated into the department.

The current mandate of the Federal Interlocutor includes the following responsibilities:

- To serve as the point of first contact between Métis and Non-status Indians and the federal government—including engagement in bilateral political relations with the Métis National Council (MNC) and the Congress of Aboriginal Peoples (CAP);
- To advocate within Cabinet for consideration of Métis and Non-status Indian issues and concerns;
- Lead role for federal participation in self-government (tripartite) negotiations with Métis and off-reserve Aboriginal organizations under the policy *Federal Approach to the Implementation of the Inherent Right and Negotiation of Aboriginal Self-government* (1995),
- Lead role in the coordination of federal activities under the Urban Aboriginal Strategy; and
- To lead the Government of Canada’s response to the Supreme Court’s *R. v. Powley* (2003) decision.

Roles and Responsibilities

Beyond providing advice and research on socio-economic conditions for off-reserve Aboriginal people, the OFI generally seeks to raise awareness of issues confronting Métis, Non-status Indian and urban Aboriginal people within the federal government. Another key activity is to establish partnerships with other governments—whether provincial or municipal—as well as with other external stakeholders. The OFI administers four major programs. These, together with their allocated budgets for 2007/08, are:

- **Federal Interlocutor’s Contribution Program (\$7.2 million ongoing and \$12.1 million time-limited for managing Métis rights).** This program is composed of five components, four of which have an ongoing source of funding, and one part that does not. All components of this Program are managed exclusively by staff in the OFI Ottawa

office. The four components with an ongoing funding source include: bilateral relationships, tripartite self-government negotiation processes, building capacity and financial and electoral accountability, and recognizing Métis contributions to Canada. The short-term funded component is currently named “Beyond *Powley*: Management of Métis Aboriginal Rights” (Beyond *Powley* initiative) (\$12.1M), ending March 31, 2008. This component of the OFI’s programming was introduced following the Supreme Court’s *R. v. Powley* decision in 2003. An “Interim Response to the *Powley* Decision” was funded in 2004 and “A Strategic Approach” was funded from 2005-07. This component has been renewed for a further two years, ending March 31, 2011.

- **Urban Aboriginal Strategy (\$13.7 million).** The UAS was initiated in 1998 to address the challenge of growing numbers of Aboriginal people living in key urban centers. It has received funding through several budgets and was renewed for another five years in 2007. The OFI received full responsibility for all aspects of the UAS in April 2007, whereupon the Office established regional offices in Ontario and the four Western provinces. This Program is managed and delivered by staff in the OFI’s 5 newly created regional offices, with support provided by OFI management, finance and administrative staff in the Ottawa office.
- **Contributions to support the basic organizational capacity of representative Aboriginal organizations (\$4.9 million).** The Aboriginal Representative Organization program (AROP) (\$4.7 million) and National Aboriginal Women’s programs (\$200,000) were transferred to the OFI from the Department of Canadian Heritage effective April 2007, to make this new program. This Program is managed exclusively by staff in the OFI Ottawa office.

Budget and Staffing

Between 2002-2003 (6.4M) and 2007-2008 (37.6M), the OFI’s total budget increased substantially. This was predominantly a result of the Government of Canada’s launch of the Beyond *Powley* initiative and the allocation of funding to the UAS in 2004 and 2007. In April 2005, however, the Office’s A-Base funding for operations and maintenance dropped from \$825,000 to \$23,000 annually. From this point forward, the OFI has used temporary funds to cover much of its non-salary operating costs.

The OFI has 39 employees working in the National Capital Region and 25 employees in the newly created regional offices. Staffing levels of the office have increased from 30 employees in 2004-2005 to 64 employees in 2007-2008. The majority of this increase occurred in July 2007 with the arrival of 25 employees from Service Canada and Western Economic Diversification Canada following the transfer of the on-the-ground administration of the Urban Aboriginal Strategy (UAS) to the OFI.

Background on Contribution Programs at INAC

Contributions are a form of federal government transfer payment, which by definition are transfers of money, goods, services or assets to individuals, organizations or other levels of government, without the federal government directly receiving goods or services in return. The other major forms of transfer payments are “grants” and “other transfer payments”. The type of transfer payment that a department uses to meet its program objectives is determined by the

departmental mandate, business lines, clients, and the assessment of program risks. All transfer payments are subject to public scrutiny and must be managed in a manner that is open and transparent to the public, and with due regard to economy, efficiency and effectiveness. Basic principles of parliamentary control, authority and accountability establish the boundaries within which decisions are made on the use and management of transfer payments.

The Office of the Auditor General of Canada released its chapter entitled Management of Voted Grants and Contributions in May 2006. Its audit assessed the extent to which the government has ensured effective government-wide management and control over the spending of public money through grants and contributions. In this report, it highlighted the need for INAC to make several improvements in its controls for managing grants and contributions, these included: risk-based approaches to monitoring the funded activities of recipients; documentation on the assessment of applications; systems for managing grants and contributions; and training provided to officials of grant and contribution programs. INAC is implementing a number of departmental initiatives aimed at addressing these concerns, one of which is to perform internal audits across the department against a framework of audit criteria that, taken together, describe an effective control system. This framework of audit criteria was developed in consultation with outside professionals and sought input from sources across government and the department. The Audit of the Office of the Federal Interlocutor represents the first time that these criteria are being employed in an INAC internal audit.

Audit Objectives and Scope

The objectives of the audit were to obtain assurance on the adequacy and effectiveness of:

- controls for managing contributions of the Federal Interlocutor's Contribution Program, including the *Beyond Powley* initiative; and
- controls supporting the effective and efficient management of the OFI's operations, including its regional offices.

The audit examined key components of the management framework including strategic and operational planning, direction, delegation of authority, co-ordination of programs and activities, communication, risk management, human resources management, monitoring, performance measurement, and reporting. The audit also included testing of controls for managing contributions of the Federal Interlocutor's Contribution Program including program design and approval, program implementation, program monitoring and reporting, program renewal, processes for evaluating recipient eligibility, agreement development processes, and agreement monitoring and reporting. The sample of recipient files examined was representative of activities conducted during the period extending from April 2006 to November 2007.

Audit Criteria

In assessing the controls of the contribution program, the auditors employed the Grants and Contributions Audit Criteria developed by Audit and Evaluation Sector (AES) for auditing grants and contribution programs. In assessing the controls supporting the effective and efficient management of the OFI's operations, the Criteria of Control (CoCo) framework of the Canadian Institute of Chartered Accountants was employed.

The Grants and Contributions Audit Criteria developed by AES is a set of 37 audit criteria that focus on 7 areas, including:

- program design and approval;
- program implementation;
- program monitoring and reporting;
- program renewal/closeout;
- recipient eligibility/evaluation processes;
- agreement development processes; and
- agreement monitoring and reporting.

The CoCo management control framework of the CICA is a set of 20 control criteria that can be used as a basis for assessing the effectiveness and efficiency of an organization or business unit's managerial controls. CoCo is founded on the premise that an organization performs activities guided by an understanding of its purpose (the objectives to be achieved) and supported by capabilities (information, resources, supplies, and skills). The organization must be committed to consistently and repeatedly performing the identified tasks well. A committed organization monitors its performance and the environment to learn how to improve.

Audit Approach and Methodology

During the planning phase of the audit, risks to the achievement of the OFI's objectives were identified and validated with management. Drawing on the results of this risk assessment and information gathered through review of documentation and discussions with the OFI Assistant Deputy Minister, Director General, Advisor, and 5 of the OFI Directors, a risk-based audit program was developed to determine whether the OFI's control systems satisfied the audit criteria. In determining the level of audit work required for each audit criterion, AES considered associated risk levels – this included the potential impact that a control breakdown could have on the achievement of the OFI's objectives and the inherent likelihood that the related control activities were not effective. In assessing the likelihood, some of the considerations included complexity of the activity, recentness of change, experience levels of staff performing the task, and whether there were known control weaknesses.

For the fieldwork phase, the audit program was segregated into its two main themes, tests of the general management controls of the OFI against the CoCo management control framework and tests of the controls for managing contributions of the Federal Interlocutor's Contribution Program against the AES Grants and Contributions Audit Criteria.

In completing tests of the general management controls of the OFI, AES employed Control Self Assessment (CSA), documentation review, interviews, and observation. The CSA was included in the audit program with a view to gathering testimonial evidence from staff that could later be used to validate assessments of those managerial controls for which documentary evidence was not available or for which assessments were more judgmental. The CSA was completed in a facilitated workshop using anonymous voting technology. During the CSA workshop, control ratings were gathered from 8 of the OFI headquarters staff who were also encouraged to share their views on the importance and effectiveness of certain of the OFI's management controls.

The testimonial evidence gathered through the CSA process was not considered sufficient on its own to support audit conclusions. Following the CSA workshop, a series of interviews was performed and any relevant documentation made available to AES was reviewed. In support of the assessment of general management controls, 23 interviews were completed, 8 with individuals from regional offices and 15 with individuals from headquarters. Between the workshop and one-on-one interviews, 31 of the OFI's 64 staff members were consulted in the audit of general management controls. An additional two senior staff members were asked to validate audit findings.

In completing tests of the controls for managing contributions of the Federal Interlocutor's Contribution Program, AES reviewed program related documentation, reviewed and tested contribution agreement files for compliance with policy and procedural requirements, and conducted interviews. Interviews were completed with 10 program officers and two Directors directly involved in delivering these programs at OFI headquarters. A total of 20 recipient contribution files totaling \$7.2M were reviewed for compliance with INAC and Treasury Board policy frameworks. Of these 20 files, 14 were for contributions issued in 2006-2007, while 6 were for contributions issued in 2007-2008. To place this into perspective, OFI anticipates that it will enter into 96 contribution agreements for the Federal Interlocutor's contribution program in 2007-2008 with a total value of \$14.3M.

The audit of recipient files included a determination of whether:

- recipient proposals were assessed for eligibility in a timely manner, giving consideration to financial need, expected benefits, and level of risk;
- funding arrangement terms and conditions were complete, appropriate and compliant with the program terms and conditions approved by Treasury Board;
- funding arrangements were approved in accordance with appropriate delegated financial authority;
- appropriate monitoring was being performed in relation to the type of activities being funded and the level of recipient risk;
- financial and performance reports submitted by recipients were properly reviewed and approved prior to payments being requisitioned, pursuant to Financial Administration Act (FAA) Section 34; and
- appropriate efforts were made to recover any overpayments of expenditures.

AES also reviewed the efficiency of the process for requesting and issuing payments and the practices for reviewing audited financial statements. These processes were discussed with OFI management and individuals from INAC's Chief Financial Officer Sector.

Section 2 - Findings and Recommendations

Findings and recommendations are presented below in accordance with the two main lines of enquiry of the audit, general management controls and management of recipient contributions for the Federal Interlocutor's Contribution Program.

General Management Controls of the OFI

The general management controls of the OFI are adequate and effective with a few areas requiring continued improvement. Improvements required include:

- a need to conduct more formal risk assessment and demonstrate how operational and strategic plans are designed to mitigate risk to an acceptable level;
- a need to improve communication and coordination within OFI, including between newly opened regional offices and headquarters; and
- a need to improve performance indicators and performance targets.

These matters and accompanying recommendations are discussed in greater detail later in this section under their respective headings.

Over the past two years, the OFI has experienced considerable change to its programs and responsibilities and has successfully responded to a number of operational and managerial pressures. In absorbing two programs from other federal government departments on April 1, 2007 and taking over the on-the-ground administration of the UAS in July 2007, the OFI saw a two-fold increase in the amount of contribution dollars that it administers and a four-fold increase in the number of contribution agreements that it administers. During this period it grew its workforce from 39 employees to a total of 64 in December 2007. Much of the OFI's salary and O&M funding is temporary in nature as a result, OFI is risk managing 18 of its 39 positions in headquarters. Furthermore, the 25 positions in the regions are funded by UAS funding, meaning that 67% of OFI's staff is risk-managed.

In order to adapt its service delivery model to better meet the community based funding approach of the UAS and to address increasing demands on senior management, the OFI created five regional offices that are each led by a Director and added three more Director level positions in headquarters. OFI management is also undertaking several initiatives to formalize its management controls, including introducing more rigorous strategic and operational planning, developing a framework for measuring performance, introducing more structured communication channels within the office, and developing operations manuals and tools for administering contribution programs.

Control Environment

As a result of strong direction from the Assistant Deputy Minister and his management team, the control environment of the OFI is very positive. The working environment and management philosophy are characterized by an appreciation of the importance of accountability and

integrity. The control environment serves as a solid foundation for all other components of internal control, providing discipline and structure necessary to ensure successful achievement of objectives.

Strategic and Operational Planning

The OFI's planning function is not yet mature, but important steps have been taken in the past year to formalize strategic and operational planning. In connection with a broader INAC initiative, the OFI is finalizing its Strategic Outcome Plan and is in the process of developing formalized operational plans. The intent of the operational planning exercise is to ensure efficient and effective delivery of program activities through optimization and alignment of operational priority setting, business delivery models, financial planning, human resources planning, and performance measurement. Over the past two years, each of these functions has been performed in isolation with varying degrees of consideration being given to the impacts and correlation that they have on each other.

Risk Management

The last formal risk assessment exercise conducted by the OFI occurred in 2003 in support of renewal of the terms and conditions of the Federal Interlocutor's Contribution program. Although more current assessments of risk are not formally documented, OFI management demonstrates strong awareness of the need to mitigate its risk exposures through strategic, operational and human resources planning and priority setting. Due to a lack of current documentation on the OFI's most significant risks, including the likelihood that these risks will occur and the severity of potential impacts, the OFI risks losing considerable corporate knowledge when turnover occurs at senior levels of the organization.

Audit Recommendation #1

An OFI risk assessment should be completed and updated annually with focus being placed on both entity-level and program-level risks. Risk mitigation strategies and action plans should be developed for each risk with clear linkages to strategic and operational planning exercises.

Management's Response to Recommendation #1

OFI will implement a system to review and update annually its risk assessment as part of its strategic and operational planning exercise.

Performance Measurement and Reporting

The OFI is currently refining its performance measurement and reporting framework. Given that the OFI's strategic outcome is one of the five strategic outcomes of the department, the OFI is very involved in the development of departmental objectives and priorities and in measuring and reporting on departmental performance. This direct link into the departmental planning and reporting functions has required the OFI to refine its existing logic model and performance measurement regime.

The strategic outcome of the OFI as set out in the 2007-2008 Report on Plans and Priorities of INAC is, "*Promoting collaborative engagement of government and stakeholders, resulting in demonstrable improvement in socio-economic conditions of Métis, Non-status Indians and urban*

Aboriginal people, and management of Métis aboriginal rights.” The OFI is investing in data-gathering and analytical projects that will allow it to better understand the current socio-economic conditions of the Métis, Non-status Indian and urban Aboriginal people, which will in turn allow it to better understand how to achieve its strategic outcome. It is also undertaking research to better understand the impacts that government programs have on the socio-economic conditions of these populations and to identify opportunities to better align government programs to achieve this outcome.

The OFI requires that each funding proposal clearly demonstrate how the prospective recipient would contribute to the achievement of the OFI strategic outcome and performance targets. As 2007-2008 is the first year that this model has been used, performance data has not yet been collected. Although most recipients initially expressed dissatisfaction with the level of effort required to complete the new work plan and the lengthy delays this caused in ratifying their contribution agreements, program management is encouraged that the process is helping to ensure that approved program activities are well aligned with program priorities and approved authorities.

Although significant effort has been devoted to developing performance indicators to measure the OFI's achievement of its objectives and outcomes, the quality and measurability of many performance indicators require improvement. Additional effort is required to ensure that the OFI strikes a balance among the relevance, measurability and feasibility of its indicators. Several of the existing indicators focus on outputs (*e.g.*, numbers of meetings held or numbers of stakeholders engaged) but lack qualitative and/or quantitative measures of success.

Audit Recommendation #2

Performance indicators should be improved to ensure that they include relevant qualitative and quantitative attributes and measurable targets. In selecting an appropriate mix of performance indicators, the OFI should weigh the marginal benefits of each indicator against the associated cost of implementing a measurement regime.

Management's Response to Recommendation #2

OFI will continue to refine its performance measurement and reporting framework for its many diverse activities and make them more relevant to its context. In many instances, OFI has the lead role in coordinating several federal initiatives where, to a certain extent, the overall outcome is very much dependent on other partners. In some instances it is difficult to identify indicators that measure OFI's direct contribution on outcomes (issue of attribution). Nonetheless, OFI recognizes the necessity and importance of performance measures and will continue to work with partners in drawing linkages to accurately measure the effectiveness and results of its efforts and will continue to move from an outputs oriented approach to a truly performance measurement one.

Communication and Co-ordination

In response to having been given two new programs in April 2007 and having taken over on-the-ground administration of the UAS in July 2007, the OFI has evolved itself from a very flat organization to a more vertical and compartmentalized organization. Although this new organizational model has been important to ensuring sustained delivery of programs, it has

presented new challenges in terms of geographic dispersion, less interaction between program staff and senior management, and multiple program officers working with some of the larger recipients. The audit found that improved co-ordination and communications between program staff working with common recipients is necessary to ensure that a unified message is delivered and that overlap of monitoring activities is limited.

Since taking over the five regional offices in April 2007, OFI management has taken positive steps towards communicating expectations, establishing mutually-agreeable operating processes, formalizing information sharing mediums, and establishing communication channels between regional offices and headquarters. As the regional offices become more integrated into OFI, information flow will likely improve and a sense of inclusion will likely evolve. During our interviews with staff in the regional offices, most individuals noted that they had not yet adjusted and felt secluded from OFI headquarters.

Audit Recommendation #3

Further improvements to internal communication and co-ordination should be implemented to support individuals working with common recipients and to ensure that the newly transferred regional offices are well integrated into the OFI.

Management's Response to Recommendation #3

The period during which the audit took place was a period of great transition within the Office, as 25 new employees (most from other government departments) were added to OFI's roster, as well 5 new regional offices being created with people in 9 different locations outside of Ottawa. Communications challenges in this unique context were expected and targeted for action throughout the transition period.

In addition, to achieve a greater level of coordination and communication, the roles of program officers in OFI headquarters have been realigned to ensure that only one program officer has the lead role for each recipient. Also, the OFI began last summer to develop an electronic system that will link and capture results in real time as well as bridge the geographic divide between regions and headquarters.

OFI Senior Management will continue its focus on communications and coordination and building a culture of information sharing and communications between HQ and its regional offices as part of its strategy to integrate the 25 new regional staff into the department.

Human Resources Management

The OFI has a strong human resources (HR) planning function and effective human resources management practices that generally comply with INAC and central agency policies. As an organization responding to funding instability issues and the addition of new programs, the OFI has experienced strong success in staffing temporary and vacant positions. As of January 2008, 37% of the OFI employees are in acting positions while 67% of its positions are funded temporarily. OFI management has been very proactive in its attempts to stabilize the organization while working within the parameters of the Government of Canada legislative and policy frameworks that govern HR and financial transactions.

Controls for managing contributions of the Federal Interlocutor's Contribution Program, including the Beyond *Powley* Initiative

The OFI's controls for managing the Federal Interlocutor's Contribution Program, including the Beyond *Powley* initiative, are effective in ensuring that contributions satisfy the terms and conditions established by Treasury Board and that payments are only released to recipients once conditions have been met. The audit found that certain controls require formalization and, in many instances, improved documentation to ensure that records of decisions and monitoring activities are preserved on file. A second area of concern is the length of time taken to negotiate and sign contribution agreements and release payments. With the exception of the timeliness of payments, these same issues were raised when the Office of the Federal Interlocutor was last audited in 2000-2001 as a part of the Aboriginal Affairs secretariat of the Privy Council Office.

Program Design, Approval & Renewal

OFI management takes appropriate measures to ensure that program concept and objectives are well aligned with departmental strategic outcomes and are being actively challenged and validated through ongoing research and program evaluation. The contribution funding instrument appears to be appropriate in light of program objectives. Management of the OFI reassesses the adequacy of financial allocations for delivering programs and brings matters of concern forward to appropriate levels in a well thought-out manner. Due to the importance of the OFI programs and the temporary nature of the Beyond *Powley* initiative, management seeks input annually from the Minister and seeks approval of the program authority for the Federal Interlocutor Program from Cabinet and Treasury Board when required. To the extent that management identifies the need for significant changes to program design or activities, recommendations are proposed to Cabinet and Treasury Board when renewal of program authorities and funding is sought.

Program Implementation

Funding allocations are notionally determined at the beginning of the year because the pool of eligible recipients is very small. Individual funding decisions are based on the merit of each project proposal and an assessment of each recipient's ability to deliver the program activities. Program officers provide considerable guidance to many recipient organizations when proposals are being developed because the recipients do not always have the experience and capacity necessary. Standardized project proposals were introduced in 2007-2008 that will ultimately streamline the preparation and review processes and bring added efficiencies.

Although many operational processes are documented, certain control processes for managing contributions for the Federal Interlocutor's Contribution Program are not yet formalized. More specifically, templates or minimum documentation standards are not established for documenting funding decisions, assessing recipient risk, determining monitoring requirements, and recording the results of monitoring activities. Despite having more informal control systems, Directors and program officers responsible for delivery of the Federal Interlocutor's Contribution Program demonstrated a strong understanding of the program requirements and recipient capabilities, which has compensated for the less structured control system.

In recognition of the need to formalize controls, OFI management plans to implement a proposal based information management system entitled PIMS that would serve as an electronic repository of information. A drawback of this system is that it does not interface with the First Nations and Inuit Transfer Payment (FNITP) system currently employed by INAC to administer the contractual and financial elements of the process.

Program Monitoring & Reporting

The Federal Interlocutor's Contribution Program, program is monitored closely by OFI management to ensure that program activities are aligned with desired outcomes and the approved program terms and conditions. The Minister and Deputy Minister are kept informed of program performance and pertinent information as needed. On an annual basis, management identifies needed changes to funding allocations and program activities and ensures that appropriate adjustments are made to the program.

Recipient Eligibility Assessments, Funding Decisions, & Agreement Development

Through testing of 20 contribution agreement files from the Federal Interlocutor's Contribution Program, the audit found that in all instances recipients met eligibility requirements. Despite finding full compliance with program eligibility requirements, a detailed assessment of eligibility was not always easily accessible in the contribution file. For each contribution agreement reviewed, the rationale for the funding decision was put forward in a summary narrative to an individual with appropriate delegated financial authority for approval. However, contribution files did not consistently include the detailed analysis supporting funding decisions or records of meetings where the merits of recipient proposals were discussed. For contribution agreements signed after July 2007, a model agreement with standard INAC terms and conditions was adopted to further integrate OFI into INAC. Each of the 20 agreements chosen in our sample included program activities and terms and conditions that were consistent with the program terms and conditions approved by Treasury Board.

Some recipients of the Federal Interlocutor's Contribution Program express concern about the length of time that is required for review of proposals, processing of contribution agreements and release of payments. The audit found that time lags are attributable to a number of factors linking back to recipients, OFI processes, and INAC accounting processes, including: difficulties experienced by recipients in preparing proposals that are of satisfactory quality to the OFI program officers; proposals being received from recipients in waves, leading to high volumes at certain times of the year; administrative processes within the OFI and INAC for creating recipient account codes and contribution agreements; time lags in the signing of contribution agreements; delays in receiving satisfactory financial reports and activity reports from recipients; and duplicate verification controls within the OFI and INAC Corporate Accounting for processing payments.

Some specific examples of areas identified as having slowed down the flow of funding are as follows.

- New mandatory work plans were required of recipients starting in 2007-2008 that required recipients to demonstrate how their proposed activities tied into the OFI program outcomes and performance indicators. Although the work plans were positive

and OFI actively trained recipients in completing the templates, significant amounts of time were required and this caused funding delays.

- Periods of several days to a week are required by INAC Corporate Accounting to open an account code for a new recipient once a funding decision has been made. The impact of this administrative requirement on the recipient is that a contribution agreement cannot be prepared in the transfer payment system until a recipient account has been opened.
- Verification of payment requisitions are performed by two to three individuals at OFI and another individual at INAC Corporate Accounting prior to releasing payments. Further, INAC Corporate Accounting does not yet have monitoring controls in place to allow it to justify when post-payment verification of payments to grant and contribution recipients would be appropriate.

Recipient Monitoring and Reporting

Through detailed review of contribution agreement files and interviews conducted with program personnel, AES determined that the OFI has strong active monitoring controls in place to ensure that recipients spend funds in accordance with the terms and conditions of their contribution agreements. Funding for two organizations was suspended partway through the fiscal year as part of the ongoing risk-assessment undertaken by OFI and the funding was only restored after particular terms and conditions were met. Monitoring activities noted for most recipient contributions include frequent telephone calls, periodic site-visits, and review of financial and activity reports. AES could not ascertain that monitoring was tied to recipient risk because monitoring plans are not documented and recipient risk assessments are not formally completed and documented. Although not included in the scope of our audit, the methodology and tools developed by the OFI for the UAS program require formal assessments of recipient risk to ensure that monitoring activities are commensurate with risk levels.

On an annual basis, the OFI conducts recipient audits of several of its largest recipients. In 2004-2005, a recipient audit plan was developed that recommended a series of recipient audits that were tied to a formal assessment of risks. The recipient audit plan has not been updated since this time. Based on a review of four recipient audit reports completed by the OFI in 2006 and 2007, AES determined that higher risk areas are appropriately targeted.

Recommendations Pertaining to the Management of Contributions

Recommendation #4

OFI should update its Operational Manual and templates for the Federal Interlocutor's Contribution Program, incorporating minimum documentation standards to ensure that contribution files demonstrate thorough recipient eligibility review, transparent funding decisions, and risk-based monitoring plans. Focus should also be placed on training program officers on updated requirements and on monitoring and enforcing compliance with requirements.

Management's Response to Recommendation #4

OFI will address the requirement for recipient funding decisions to be formally recorded in order to ensure sufficient documentation is maintained to support OFI recommendations to

the Minister. The allocations table is currently used as minutes of funding decision meetings. OFI will add a column to record the key points of the funding rationale for each decision to ensure proper documentation of the discussions. In addition, the project specific justification will continue to be set out in the memo to the delegated signing authority. OFI also will implement a form to formally record recipient eligibility and risk assessment linked to specific monitoring activities at the time of the funding decision to ensure documentation exists for the contribution files. In addition, the Office will continue with the development and implementation of its electronic data management tool that will among other things address some these concerns.

Recommendation #5

OFI management should conduct a review of its processes for reviewing proposals, preparing contribution agreements and requesting and approving payments in order to identify opportunities to reduce processing times. With respect to proposal review, consideration should be given to whether recipient expectations could be better managed by instituting a series of proposal submission deadlines.

Management's Response to Recommendation #5

OFI will conduct a review of the processes from application for funding, through to approval of the contribution agreement and issuance of payments to look for efficiencies and ways to shorten timelines where possible, including giving consideration to whether recipient expectations could be better managed by instituting a series of proposal submission deadlines.

Action Plan

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>Risk Assessment</p> <p>1. An OFI risk assessment should be completed and updated annually with focus being placed on both entity-level and program-level risks. Risk mitigation strategies and action plans should be developed for each risk with clear linkages to strategic and operational planning exercises.</p>	<p><i>Management's Response</i></p> <p><i>OFI will implement a system to review and update annually its risk assessment as part of its strategic and operational planning exercise.</i></p> <p><u>Actions</u></p> <p>OFI Senior Management will incorporate a risk-assessment element as part of the annual Strategic Outcome exercise to assess entity-level and program-level risks, as well as develop risk mitigation strategies.</p>	<p>Allan MacDonald Director General</p>	<p>FY-08/09</p> <p>April 30, 2008</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>Communication & Co-ordination</p> <p>3. Further improvements to internal communication and co-ordination should be implemented to support individuals working with common recipients and to ensure that the newly transferred regional offices are well integrated into the OFI.</p>	<p>Management's Response</p> <p><i>The period during which the audit took place was a period of great transition within the Office, as 26 new employees (most from other government departments) were added to OFI's roster, as well 5 new regional offices being created with people in 9 different locations outside of Ottawa. Communications challenges in this unique context were expected and targeted for action throughout the transition period.</i></p> <p><i>In addition, to achieve a greater level of coordination and communication, the roles of program officers in OFI headquarters have been realigned to ensure that only one program officer has the lead role for each recipient. In addition, the OFI began last summer to develop an electronic system that will link and capture results in real time as well as bridge the geographic divide between regions and headquarters.</i></p> <p><i>OFI Senior Management will continue its focus on communications and coordination and building a culture of information sharing and communications between HQ and its regional offices as part of its strategy to integrate the 25 new regional staff into the department.</i></p> <p><i>(Continued on following page...)</i></p>	<p>Allan MacDonald Director General</p>	<p>FY-07-08 and on-going development</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p><i>continued ...</i></p> <p>Documentation in Contribution Files</p>	<p>OFI will also implement a form to formally record recipient eligibility and risk assessment linked to monitoring activities for the contribution files.</p> <p><i>OFI</i> will update the policy and procedures manual to reflect all procedural changes and include any new forms required for documentation.</p> <p>Learning Plans for several existing officers include training on Contributions Agreements. All new officers will be sent for the same training, which is offered by the School for the Canadian Public Service.</p> <p>Continue implementation of PIMS program.</p>		<p>April 1, 2008-02-19</p> <p>September 2008</p> <p>Ongoing</p> <p>March 31, 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p><i>Processing Contribution Agreements & Payments</i></p> <p>5. OFI management should conduct a review of its processes for reviewing proposals, preparing contribution agreements and requesting and approving payments in order to identify opportunities to reduce processing times. With respect to proposal review, consideration should be given to whether recipient expectations could be better managed by instituting a series of proposal submission deadlines.</p>	<p><i>Management's Response</i></p> <p><i>OFI will conduct a review of the processes from application for funding, through to approval of the contribution agreement and issuance of payments to look for efficiencies and ways to shorten timelines where possible, including giving consideration to whether recipient expectations could be better managed by instituting a series of proposal submission deadlines.</i></p> <p><u>Actions</u></p> <p>OFI Management will conduct a review of the processes in order to identify any efficiency that can be realized (including whether post payment review of the adequacy of account verification can be performed by INAC Corporate Accounting).</p> <p>OFI will institute a series of proposal deadlines to help manage workload and expectations.</p> <p>OFI will organize a workshop with a number of key clients to discuss the current process timelines, TB guidelines, and to help manage expectations.</p>	<p>Allan MacDonald</p>	<p>FY 08/09</p> <p>May 31, 2008</p> <p>June 30, 2008</p> <p>March 30, 2008</p>

