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# Grants and Contributions Audit Report



Performance Assurance Sector  
Correctional Service Canada

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## EXECUTIVE SUMMARY

The audit of Grants and Contributions (G&C) was conducted from August to October 2000 as part of the Performance Assurance audit calendar for 2000-2001. The primary purpose of the audit was to ensure that CSC's process for the management of G&C was being implemented in accordance with Treasury Board (TB) and CSC's Terms and Conditions document (T&C).

The audit team reviewed 81 contribution agreements from 1999/2000, with a total value of over \$4 million. All regional headquarters and NHQ were included during the audit.

**Overall, no major concerns were apparent with respect to the organizations that received contributions or concerns that funds were not used for the purposes outlined in the agreement.** However, some issues were identified with respect to ensuring that there was documentation to demonstrate that the policies of TB and CSC were adhered to.

It was noted by the audit team that at the time of the audit, changes had already been made at the national and regional levels for agreements in 2000/2001 and additional measures have been implemented since the current audit. As a result, many of the deficiencies identified have already been rectified. Further action plans to address the issues raised have been submitted and can be found on page iii.

In February 2001, the Office of the Auditor General placed a document on its Web site ([www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca)) entitled "**Framework for Identifying Risk in Grant and Contribution Programs**". The document was prepared by the Office of the Auditor General of Canada, in collaboration with Industry Canada. The audit team found that this document is a useful reference tool and addresses many of the issues raised in this audit report.

The principal findings of the audit team are as follows:

**Requests for contributions and the review process:** The audit team found that there was little documentation on file with respect to the front end requirements of the contribution process. For example, CSC's T&C document outlines the content requirements for requests for contributions from organizations. However, a written request was only found in 24 of the 81 cases reviewed (30%) by the audit team and only those reviewed in the Quebec region met most of the T&C content requirements. The T&C further defines the four evaluation criteria against which all requests must be assessed. However, there was no documented evidence in any of the regions, or at NHQ, that requests were reviewed against these criteria. It was noted, however, that the Chaplaincy Division at NHQ was submitting review document to the National Contribution Committee and, since the audit, both NHQ and the Ontario region have developed a review checklist.

**Content of agreements and conditions of payment:** Although many of the basic clauses were similar, the overall content of agreements varied from one region to the other, as well as from one sector of NHQ to the other. Since the audit, a standard agreement has been developed and was distributed nationally in November.

TB policy defines contributions as payments where the recipient must be accountable for the funds received. As a result, agreements should ensure that payments are made to reimburse expenses and that the recipient is required to submit financial or progress reports to support payment. The audit team found that specific conditions of payment were included in 44 of the 81 agreements reviewed (54%). In the remaining cases, payment was made upon signature or in lump sums at intervals throughout the contribution period. In some of these agreements, the recipient was required to submit progress reports, but the receipt of these was not a condition of payment.

**Contribution payments:** In 25 of the 44 cases where the agreement included a condition of payment (57%), there was evidence on file that all required conditions had been met prior to each payment or that payment was not made because conditions had not been met. In the remaining cases, all payments were made even though there was no evidence that some or all of the conditions had been met.

The audit team found that the regions were generally diligent at ensuring that conditions were met before payments were made. However, NHQ had little documentation to support that conditions were being monitored. This is a particularly important factor in view of the relatively high dollar value of some of these agreements.

**Monitoring and review process:** According to interviews, project managers were satisfied that objectives of the contribution agreements were met and indicated that they monitored progress through discussions or meetings with the organization. There was very little documented evidence of any monitoring or review of the outcome of contribution agreements.

## SUMMARY OF RECOMMENDATIONS AND ACTION PLANS

### RECOMMENDATION no 1

**That organizations be made aware that each request for a contribution must be in writing and contain all required information.**

Action by: Assistant Commissioner, Community Engagement in conjunction with the Assistant Commissioner Correctional Operations and Programs and Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners

ACTION	OPI	TIMEFRAME
1.1 Modify the Terms and Conditions to include the requirement to submit a written request and a specific description of the processing of contribution requests.	DG, Citizen Engagement & Community Initiatives	September 2001
1.2 Modify the NHQ Checklist to include the following statement to be signed by the Sector/Branch sponsor of the request: "I acknowledge having received a written request and having reviewed it against the Terms and Conditions".	DG, Citizen Engagement & Community Initiatives	September 2001
1.3 Broaden distribution of Terms and Conditions, the standardized Contribution Agreement and the Checklist (forward it to all EXCOM members, access to Terms and Conditions and Checklist on Infonet and potentially on <a href="http://www.CSC-SCC.gc.ca">www.CSC-SCC.gc.ca</a> ).	Assistant Commissioner, Community Engagement	October 2001
1.4 Send on an annual basis to all EXCOM members a call letter including the Terms and Conditions, Checklist and standardized Contribution Agreement	Assistant Commissioner, Community Engagement	Annual basis

It should be noted that although a formal "call letter" was not issued prior to the commencement of this current fiscal year, every region was contacted and the appropriate documentation had been forwarded to the regions.

## RECOMMENDATION No 2

**That each region and NHQ ensure that each contribution request is reviewed against the criteria in CSC's Terms and Conditions document and ensure that this review is documented.**

Action by: Assistant Commissioner, Community Engagement in conjunction with the Assistant Commissioner, Correctional Operations and Programs and the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners.

ACTION	OPI	TIMEFRAME
2.1 Highlight in the Terms and Conditions the criteria for the processing of contribution requests.	DG, Citizen Engagement & Community Initiatives	September 2001
2.2 Modify the NHQ Checklist to: <ul style="list-style-type: none"> <li>• highlight the evaluation criteria</li> <li>• include the following statement to be signed by the Sector/Branch sponsor of the request: " I acknowledge having received a written request and having reviewed it against the Terms and Conditions."</li> <li>• include a Section to capture the signature of the Review Committee members.</li> </ul>	DG, Citizen Engagement & Community Initiatives	September 2001
2.3 Establish a specific tracking system for each contribution request at NHQ: <ul style="list-style-type: none"> <li>• Checklist completed for each contribution request</li> <li>• Checklist to be modified to capture the following: review by the sponsor, the NHQ Committee Members and Legal Advisor; the Approval Authority's signature; dates of the signature of the Agreement and; date of the letter to the recipient</li> <li>• Each NHQ Contribution Request/Checklist Agreement will be numerically identified</li> <li>• Establishment and maintenance of a central record in Citizen Engagement and Community Initiatives Branch</li> </ul>	DG, Citizen Engagement & Community Initiatives	October 2001

### RECOMMENDATION No 3

**a) That the new standard contribution agreement be reviewed to ensure that it contains all the necessary clauses and that it be made available to all NHQ managers and regions, possibly via InfoNet.**

Action by: Assistant Commissioner, Community Engagement in conjunction with the Assistant Commissioner, Correctional Operations and Programs and the Assistant Commissioner, Corporate Development

**b) That the content of agreements be monitored to ensure that payment terms are linked to specific accountability requirements.**

Action by: Assistant Commissioner, Community Engagement in conjunction with the Assistant Commissioner, Correctional Operations and Programs and the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners.

ACTION	OPI	TIMEFRAME
3.1 Review the Terms and Conditions and the standardized Contribution Agreement against the June 2000 TBS Policies.	DG, Citizen Engagement and Community Initiatives	Completed
3.2 Modify the Terms and Conditions and the standardized Contribution Agreement to comply with the TBS June 2000 (minor clarifications and additions)	DG, Citizen Engagement and Community Initiatives	September 2001
<b>3.3 Refer to Action 1.3</b>		
3.4 Review payment clause to ensure compliance with the payment clause of the June 2000 TBS policies and forward it to EXCOM members (final payment based on receipt of a final report)	Assistant Commissioner, Correctional Operations and Programs	Completed
<b>3.5 Submit to TBS updated Terms and Conditions</b>	Assistant Commissioner, Corporate Development	Fall 2001

**RECOMMENDATION no 4**

**That all Regions and NHQ ensure there are processes in place to monitor contribution agreements and payments:**

- a) to ensure adherence to the terms and conditions of the agreements; and**
- b) to assess the extent to which the intended goals and objectives were achieved.**

Action by: Assistant Commissioner Community Engagement in conjunction with the Assistant Commissioner Correctional Operations and Programs and the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners.

<b>ACTION</b>	<b>OPI</b>	<b>TIMEFRAME</b>
4.1 Include in the Terms and Conditions a section requesting that NHQ and all regions implement a process to ensure: <ul style="list-style-type: none"> <li>• each request is evaluated against the Terms and Conditions and TBS policies</li> <li>• recipients are informed of the Terms and Conditions</li> <li>• all managers are informed and understand their responsibilities</li> <li>• the process is monitored for compliance</li> </ul>	DG, Citizen Engagement & Community Initiatives	September 2001
4.2 Offer Info-Sessions to Project Managers and Managers at NHQ to clarify the process and related responsibilities.	DG, Citizen Engagement & Community Initiatives	Winter 2002
4.3 Report, on an annual basis, the activities regarding the Contributions (processes used, number of requests, approvals, ...): <ul style="list-style-type: none"> <li>• Call letter to be sent to EXCOM members to report activities</li> </ul>	Assistant Commissioner, Community Engagement	Annual basis

It should be noted that revised Terms and Conditions, standardized Contribution Agreement and Checklist will be implemented upon their completion and that any new contribution requests will be processed accordingly beginning at the end of September.

## INTRODUCTION

The audit of Grants and Contributions (G&C) was conducted from August to October, 2000 as part of the Performance Assurance audit calendar for 2000-2001. The primary purpose of the audit was to ensure that CSC's process for the management of G&C was being implemented in accordance with Treasury Board (TB) and CSC policy.

The policy for G&C can be found in the TB Policy Chapter 2-12 entitled "*Policy on Transfer Payments*".<sup>1</sup> This document was updated on June 1, 2000 and the previous version was dated October 1, 1996. While the newer version of the policy is more descriptive, the basic elements and principles remained the same. As a result, because the sampling period for this audit was the fiscal year 1999/2000, the audit was based on the 1996 policy, although updated information with respect to new policy requirements has been included in this report.

Grants and contributions are two different types of transfer payments. The Treasury Board Policy (1996) defines grants, contributions and transfer payments as follows:

***Transfer payments*** are payments made from budgetary appropriations for which no goods or services are received. Three types of transfer payments are grants, contributions and "other transfer payments".

***Contributions*** are conditional transfer payments for a specified purpose, which are subject to being accounted for and audited pursuant to a contribution agreement.

***Grants*** are unconditional transfer payments which are not subject to being accounted for or audited but for which eligibility and entitlement may be verified.

In other words, contributions are transfer payments that are subject to performance conditions specified in a written agreement. The recipient must continue to show that it is meeting the performance conditions in order to be reimbursed for specific costs over the life of the agreement. The government can audit the recipients' use of contributions. Grants, on the other hand, are unconditional.

### CSC Terms and Conditions

According to CSC's terms and conditions (T&C) of the contribution program, approved by the TB:

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<sup>1</sup> [http://publiservice.tbs-sct.gc.ca/pubs\\_pol/dcgpubs/tbm\\_142/ptp\\_e.html](http://publiservice.tbs-sct.gc.ca/pubs_pol/dcgpubs/tbm_142/ptp_e.html).

*The following are eligible to benefit from the contribution program of the Correctional Service of Canada (CSC): provinces, territories, municipalities, universities, religious organizations, public and private bodies classified as non-profit organizations incorporated or legally recognized under provincial, territorial or federal legislation, and finally international bodies (non-profit organizations). These recipients must be engaged in programs or activities complementary to or in support of CSC's Mission, namely; to contribute to the protection of society by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control.*

The T&C also states that approved recipients of CSC contributions fall into three main categories:

- Programs/activities intended for inmates and parolees;
- Programs/activities seeking community participation in CSC activities; and
- Start-up projects.

Aside from this document, there are currently no other internal policy or guidelines (Commissioner's Directive or Standard Operating Practices) with respect to this process.

#### Terms and Conditions for Aboriginal programs

CSC developed and implemented a specific T&C document for Aboriginal programs which was approved on July 27, 1999. It indicates that the purpose of the contribution program is "to provide funding in support of integrated Aboriginal community based correctional services by Aboriginal communities delivered to Aboriginal offenders currently under the authority of the CSC". The CCRA definition of "Aboriginal Community" is used to define the class of recipients. While many of the requirements are similar to those in the general CSC T&C<sup>2</sup>, some particular elements are included to specifically address contributions for Aboriginal programs. For example, there is one additional evaluation criteria - "financial viability" - as well as the identification of a maximum value to any one recipient.

The current audit included some contributions for aboriginal programs approved after July 1999 that would fall under the new T&C, and were verified against the additional criteria.

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<sup>2</sup> For example, the information to be provided by the organization, the content of agreements and the need to review requests and agreements.

## METHOD and SCOPE

The audit team reviewed 81 contribution agreements entered into during the 1999/2000 fiscal year. This represented all of the agreements in each of the 5 regions and the majority of contribution payments at National Headquarters (NHQ). Interviews were conducted at NHQ as well as Regional Headquarters (RHQ) in Quebec, Ontario, Prairies and Pacific. Performance Assurance in the Atlantic Region had conducted a review of approximately half of their 99/00 contribution agreements in their region and completed the national audit tools for all of their agreements in order for them to be included in the national audit.

Standardized checklists were used to complete the file reviews and interviews were conducted with project managers, finance personnel and other principals involved in the G&C process. At the conclusion of the review, managers were verbally briefed on the major findings and written notes were left for their information and action.

The objectives of the review were:

- 1. To review the system in place for applicants to submit requests for contributions, as well as the review process that examines each request.**
- 2. To assess the content of contribution agreements to ensure that they meet the requirements of TB and CSC policy.**
- 3. To determine the extent to which contribution payments are made in accordance with the terms of the agreement.**
- 4. To assess the process in place to audit and evaluate the agreements.**

The following components of the G&C process were examined:

- Requests for G&C;
- Review and evaluation process;
- Content of agreements, including terms of payment;
- Payments and monitoring against the terms of the agreement;
- Audits and evaluations of contributions;

As previously mentioned, the audit assessed the agreements against the 1996 version of the TB policy which was in effect during the 99/00 fiscal year.

The following table illustrates the number of contributions reviewed and their value by location:

**Table 1**  
**Value and number of contributions reviewed by location**

Location	# of contribution agreements examined	Total value
National Headquarters	27	\$2,626,749.00
Atlantic Region	13	\$163,000.00
Quebec Region	8	\$247,501.91
Ontario Region	13	\$557,425.00
Prairie Region	11	\$189,425.00
Pacific Region	9	\$251,225.00
<b>TOTAL</b>	<b>81</b>	<b>\$4,035,325.91</b>

By far, the largest proportion of contributions is managed at NHQ with 27 contributions valued at over 2.5 million dollars. Five of these contributions were for a value over \$200,000.00 totaling \$2,141,598.60 or 82% of the total for NHQ. Three of these contributions were made to the same organization.

## FINDINGS and RECOMMENDATIONS

***Objective 1: To review the system in place for applicants to submit requests for contributions, as well as the review process that examines each request.***

**Criteria 1.1 There is a mechanism in place for organizations and individuals to submit an application for a contribution.**

**Criteria 1.2: Each request contains the information required by the Terms and Conditions document approved by Treasury Board.**

While the 1996 TB Policy did not specifically address the need for an open process, it did require that a submission and review process be part of the terms and conditions for the program. The 2000 TB Policy further states that "predetermined assessment criteria for applications ... for contributions are made public and applied in a consistent manner".

At the time of the audit, CSC did not have a system in place to inform organizations and individuals on how to proceed with applications for contributions. According to interviews, nationally, on average, approximately 50% of the 99/00 contributions reviewed were given to the same organizations as in the previous fiscal year. Many of these organizations are those that CSC deals with on a regular basis. In order to be in compliance with TB policy, information with respect to CSC's contribution process should be made available to all organizations. A document should be developed outlining how to proceed and what criteria need to be respected in order for an organization/individual to be eligible for consideration for a contribution.

The 1996 TB Policy on Transfer Payments requires that Terms and Conditions (T&C) for contributions should include a "description of the supporting materiel required in an application from a prospective recipient". As a result, CSC's T&C document stipulates that a request must be made in writing and contain the following information:

- a) *an identification of the potential recipient: name, address, history, aims and objectives of the organizational structure and names of principal personnel;*
- b) *a description of the program/activities for which the contribution is requested: title, goals and objectives, and relationship with CSC mandate;*
- c) *financial and budgetary information: program or activity budget, other fundings, financial statement for the previous year; and*

- d) *an evaluation of the program/activities: target results, type of report which will be provided at the end of the contribution period, or at any other determined milestone (e.g. progress report).*

In 24 of the 81 contributions reviewed (30%), a written request from the organization was found on file.

**Table 2**  
**Number of requests for contributions found on file**

<b>Location</b>	<b># of contribution agreements examined</b>	<b># of written requests found on file</b>
National Headquarters	27	7 (26%)
Atlantic Region	13	8 (62%)
Quebec Region	8	7 (88%)
Ontario Region	13	2 (15%)
Prairie Region	11	0 (0%)
Pacific Region	9	0 (0%)
<b>TOTAL</b>	<b>81</b>	<b>24 (30%)</b>

Where a written request was found on file, the majority did not contain all of the information required by the T&C document. Rather, the request was in the form of a brief memo, indicating the amount requested and the purpose. The primary exception was in the Quebec region, where organizations were notified of the need to submit a request and provided with the content requirements. The requests reviewed in this region generally met most of the T&C criteria.

As noted, many contributions are given to the same organizations as in previous years and are those that CSC is familiar with in terms of their goals and objectives. In light of this, the process has become one that is largely informal and not documented in accordance with the policy requirements. This issue, compounded with the absence of a formally-documented request review process (as discussed under criteria 1.3 and 1.4 below), currently makes it difficult for CSC to establish a basis to demonstrate why a decision has been made to provide a contribution to a particular organization.

A further requirement of the TB policy is to ensure that the terms of the Conflict of Interest and Post-Employment Code for Public Office Holders / Conflict of Interest and Post-Employment Code for the Public Service are respected. In light of the fact that CSC staff are often involved (on a volunteer or consultative basis) with many of the organizations that CSC contributes to, it is even more important that the process be open and accountable and that decisions be properly documented.

## RECOMMENDATION #1

**That organizations be made aware that each request for contribution must be in writing and contain all information as specified in policy.**

**Action by: Assistant Commissioner, Correctional Operations and Programs in conjunction with the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners**

**Criteria 1.3 The National Contribution Committee, National Aboriginal Community Contribution Committee or regional committee reviews each request before the agreement is signed and any payment is made.**

**Criteria 1.4 Requests are evaluated against the established criteria (eligibility, relationship to the Mission of CSC, managerial ability and cost effectiveness).**

*Annual funding requests:*

The National Contributions Committee (NCC) is co-chaired by the Assistant Commissioner, Correctional Operations and Programs and the Assistant Commissioner, Corporate Development. This committee reviews contribution agreement requests from NHQ project managers and yearly funding requests from the regions.

With respect to annual funding, at the beginning of each fiscal year, regions are asked to submit to NHQ a list of their planned contributions for the next year. Regions are required to ensure that the projects have been reviewed and approved at the regional level before submission to NHQ. The purpose of this process is to determine the amount of funding that will be provided from the national contributions budget.

Interviewees in each of the regions indicated that they did not have enough information to understand how the NCC (and the funding approval process) functions. They indicated that they do not receive any minutes of NCC meetings and are unsure if the committee considers the purpose of the contributions or only the amounts. According to NHQ, information is provided in the annual resource allocation call letter with respect to how the various components of their budget were determined, including contributions. According to interviews at the regional level, however, the regions receive a response from NHQ indicating the level of funding that will be provided, but no further information indicating the rationale behind the decision. As a result, they are not able to determine the correlation between the amount requested and the amount received. This is an area which reinforced a need for better communication between regions and NHQ.

Where the amount is lesser than requested (as was the case in all regions in FY 99/00), the regions either reduced the amounts of individual contributions or found the funds in their regional budgets.

*Evaluation of individual requests for contributions:*

As per CSC's T&C document, an evaluation of each request must occur against four criteria (eligibility, relation to the Mission of CSC, managerial ability and cost effectiveness). There was no documented evidence that the four criteria were considered in any of the five regions or at NHQ. As mentioned under criteria 1.2, many requests were not on file and there was no further evidence that an evaluation was completed. According to interviews in some regions and at NHQ, requests are reviewed and evaluated, but the results of this review have not been documented in the past. Interviewees further indicated that CSC was often already familiar with the organizations requesting contributions, which contributed to the less formal approach to the request and review process.

The audit team noted that the responsibility for receiving and reviewing requests varied between regions.

- In the Atlantic, Ontario and Pacific regions, once the local manager receives a request from an organization, whether verbal or in writing, he or she completes form 286 ("Request for Contract") for submission to RHQ (either the Regional Contract Review Board or the RDC). Once approved, the agreement is prepared by the Regional Contracting division.
- In the Quebec region, organizations are required to submit a detailed written request directly to RHQ. Each request is reviewed by the ADC and the Regional Coordinator, Reintegration. All agreements are prepared at RHQ.
- In the Prairie region, requests are generally received verbally. Contribution agreements are prepared by the local manager and forwarded to the RDC for approval.
- At NHQ, each project manager is responsible for receiving requests for contributions and preparing the agreement. Requests are discussed at the National Contribution Committee prior to sign-off by the ACCOP, ACCD (or the Commissioner if the value is over \$200,000). Interviewees reported that they do not receive any minutes of NCC decisions. In addition, Project Authorities interviewed at NHQ indicated that they are not informed in a timely fashion whether or not their contribution was approved by the NCC.

All regional offices reported having established a formal review committee subsequent to the sample period. While committees had been established at all locations, formal policies and procedures had not yet been documented. It was noted at NHQ that the Chaplaincy division had been submitting a review document and in the Ontario Region, a checklist has been developed since the 99/00 fiscal year. At NHQ, a checklist has been in use since May 2000. The audit team found that these checklists were a good

tool in documenting and ensuring that the various criteria were met. These can be found in Annexes A-C.

The audit team further noted that some of the agreements reviewed did not appear to meet the purpose of the contribution program, as outlined in the T&C document. Rather, some seemed to be more appropriate as a contract for services (for example, program delivery or chaplaincy services). This is an element that should also be considered when evaluating requests for contribution dollars.

### **RECOMMENDATION #2**

**That each region and NHQ ensure that each contribution request is reviewed against the criteria in the T&C document and ensure that this review is documented.**

**Action by: Assistant Commissioner, Correctional Operations and Programs in conjunction with the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners**

***Objective 2 To assess the content of contribution agreements to ensure that they meet the requirements of TB and CSC policy.***

**Criteria 2.1 The content of each agreement is in accordance with Treasury Board Policy.**

The 1996 policy contained a minimum of nine requirements to be included in contribution agreements. The 2000 policy contains twenty-two basic provisions (including the nine from the 1996 policy) as well as fourteen related to third parties or recipients who further distribute the contribution amounts. The 2000 policy further states that advice should be sought from departmental legal services for the appropriate wording of contribution agreements.

In addition, the 2000 policy indicates that results-based management and accountability frameworks are a mandatory requirement for all transfer payment programs and are commonly required by TB in the approval of new or renewed programs and initiatives. They generally include:

- a clear statement of the roles and responsibilities of the main partners involved in delivering the policy, program or initiative;
- a clear articulation of the resources to be applied and the objectives, activities, outputs and key results to be achieved, along with their linkages;
- an outline of the performance measurement strategy, including costs and performance information (key indicators) that will be tracked;

- the schedule of major evaluation work expected to be done; and,
- an outline of the reporting provisions as appropriate for funding recipients and those for the department, including parliamentary reporting.

In reviewing the content of contribution agreements, the audit team was looking to ensure that the required standard clauses were included, as well as a clear description of the project being supported, the allowable expenses and payment terms.

The audit team noted that various formats for contribution agreements were being used across the country. This was particularly true at NHQ. While in many cases the differing formats still met the basic policy requirements, others were missing important elements or included outdated clauses. For example:

- Some agreements did not contain the most recent date that the T&C document had been approved by TB.
- Financial and non-financial conditions of the agreements were clearly documented in some agreements, however the majority were not clear about the expectations of the agreements and what the contribution dollars were to be used for. (This is not specifically included in the new standard agreement - each manager should ensure that the applicable information is included.)
- In light of the above, none of the agreements reviewed included a clause describing the consequences of failing to adhere to the conditions. (This is not included in the new standard agreement - each manager should ensure that the applicable information is included.)
- TB policy requires that each agreement include "the allowable costs or the types or classes of expenditures eligible for reimbursement". While most of the agreements reviewed contained a general statement indicating that the contribution was for "operational costs, exclusive of capital expenditures", no further information was provided (i.e., travel, salary, supplies, rental fees, etc.). (This is not included in the new standard agreement - each manager should ensure that the applicable information is included.)
- Although all of the agreements reviewed included a standard clause indicating that the agreement could be terminated with two weeks notice, none of the agreements contained provisions for the department to withdraw from the project if the original objectives were not being met. (This has been addressed in new standard agreement.)
- In three regions, there were agreements that did not provide for the recipient to repay overpayments, unexpended balances and disallowed expenses and a declaration that such amounts constitute debts due the Crown. (This has been addressed in the new standard agreement.)

- While all the regions and NHQ were using clauses indicating an audit could be conducted, there was no indication that an audit had been carried out in any of the cases examined.
- In five cases at NHQ, a Memorandum of Understanding was used as a contribution agreement and did not include most of the content requirements from the TB policy.
- With respect to payment terms, refer to criteria 2.4.

Since the audit, a new standard agreement has been developed and was distributed nationally in November 2000. As indicated above, this new agreement addresses many of the missing information found during the audit and should ensure a better consistency across CSC. There are, however, some requirements (as stated in Appendix C of the 2000 policy) that are still not addressed in the standard agreement, for example:

- *For contributions in excess of \$100,000, a requirement for the recipient to declare any and all sources of proposed funding for the project before and/or shortly after the commencement of the agreement, as well as upon completion of the project. A provision for repayment should Total Government Assistance exceed the amounts anticipated.* (paragraph 1-vi)
- *The allowable costs or the types or classes of expenditures eligible for reimbursement (profit to the recipient is not a "cost" nor an "expense" and therefore may not be included).* (paragraph 1-vii)
- *Procedures to be followed to recover payments should the recipient be in default of the provisions of the contribution agreement.* (paragraph 1-xiii)
- *Disposition of any assets acquired through the contribution.* (paragraph 1-xvi)
- *A requirement for the recipient to declare any amounts owing to the federal government under legislation or contribution agreements.* (paragraph 1-xvii)
- *A requirement that any person lobbying on behalf of the applicant is registered pursuant to the Lobbyist Registration Act.* (paragraph 1-xxii)

**Criteria 2.2 Agreements are signed by an authorized senior manager.**

**Criteria 2.3 Agreements are signed, witnessed and dated as required.**

The T&C document indicates that "the authority for approving any contribution agreements over \$200,000 rests solely with the Commissioner of CSC. Contribution agreements up to \$200,000 shall be authorized by the Assistant Commissioner, Correctional Operations and Programs, the Assistant Commissioner, Corporate Development or Regional Deputy Commissioners".

In most cases, approval was made by the RDC in each region or by the ACCOP or ACCD at NHQ. The only exceptions noted were in the Ontario region, where the Regional Deputy Commissioner (RDC) was authorizing the Request for Contract (CSC form 286) but was not signing each agreement. Rather, a representative of the Contract Review Board was signing on behalf of the RDC. This issue has been addressed and all agreements are now being signed by the RDC.

There were many examples at NHQ where agreements did not contain a witness signature or signatures were not dated. However, according to Legal Services, a contribution agreement does not need to contain witness signatures in order to be a valid legal document. If a witness signature block is included in the agreement, then it would be a good practice to have it signed accordingly. In addition, the 2000 TB policy (8.2.1) does not require a witness signature, only that "contribution agreements are to be agreed to by the department and the recipient". This issue was not identified in any of the regions visited, as no witness signature block was included on any of their agreements.

#### **Criteria 2.4 Each agreement includes clearly defined payment terms.**

The 1996 TB policy states that "contributions are normally paid as a reimbursement of costs incurred or expenditures made by a recipient". In addition, "the payment of a contribution is conditional on performance and achievement and contribution agreements are subject to audit to satisfy the donor department that all conditions, both financial and non-financial, have been met". These elements are repeated in the 2000 version of the policy.

As a result, an important aspect of contributions is that organizations are accountable for the funds that are provided to them. Payment terms outlined in agreements should clearly indicate what should be provided by the organization prior to payment being made. This could include expense statements, progress reports, measurable milestones, etc. In this way, CSC is able to ensure that the funds are being used for the intended purposes and that the amounts are appropriate.

In 44 of the 81 cases reviewed (54%), agreements included the conditions to be met before payment was to be made. In the remaining 37 cases (46%), payment was made in lump sums based on a schedule outlined in the agreement. This included 12 agreements where payment of the full value of the contribution was made upon signature prior to the project or event. In the absence of some form of accountability, many of the contribution agreements reviewed appeared to be grants. According to TB Policy, grants must be listed in the transfer payment tables of the Estimates.

**Table 3**  
**Number of agreements reviewed which included conditions of payment**

Location	# of contribution agreements examined	# of agreements which included conditions of payment
National Headquarters	27	7 (26%)
Atlantic Region	13	13 (100%)
Quebec Region	8	5 (63%)
Ontario Region	13	4 (31%)
Prairie Region	11	11 (100%)
Pacific Region	9	4 (44%)
<b>TOTAL</b>	<b>81</b>	<b>44 (54%)</b>

In some of the remaining cases, the agreement stated that payment would be made "upon receipt of an invoice". However, there was no indication as to the type of information that was required in the invoice. As a result, the organization would send a brief memo to CSC, requesting payment of the lump sum without providing any information with respect to the expenses it had been used for. Further information with respect to the payment of contribution agreements can be found under criteria 3.3.

**Criteria 2.5 Each agreement includes applicable official language clauses.**

The 1996 TB policy states that "where activities involve service to the public, departments or agencies are to ensure the application of service to the public provisions". The second part of the policy ("Financial Assistance to the Voluntary Sector") has a section that requires departments to take official language considerations into account to the extent that it is appropriate. The 2000 policy stipules very clearly that "where a contribution or a grant is provided to non-governmental organizations serving the members of both official language communities, federal institutions must apply the official languages policy".

This issue was raised in a July 1999 audit report from TB entitled "Audit on Official Languages - Grants and Contributions". CSC was part of the audit sample for this TB review, which found that 40% of all agreements reviewed (across all of the departments reviewed) did not contain any language clauses. The remaining agreements contained some or all of the required clauses. With respect to CSC's agreements, the current audit found that none of the 81 agreements reviewed from 1999/2000 mentioned official languages in any way.

However, it is noted that official language clauses have been added to the new version of the standard agreement.

### RECOMMENDATION #3

a) That the new standard contribution agreement be reviewed to ensure that it contains all the necessary clauses and that it be made available to all NHQ managers and regions, possibly via InfoNet.

**Action by:** Assistant Commissioner, Correctional Operations and Programs in conjunction with the Assistant Commissioner, Corporate Development

b) That the content of agreements be monitored to ensure that payment terms are linked to specific accountability requirements.

**Action by:** Assistant Commissioner, Correctional Operations and Programs in conjunction with the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners

***Objective 3 To determine the extent to which contribution payments are made in accordance with the terms of the agreement.***

**Criteria 3.1 In accordance with TB policy, payments are made as a reimbursement of costs. Advance payments are avoided.**

**Criteria 3.2 Where advance payments are made, they are in accordance with TB policy and the terms of the signed agreement.**

The 1996 TB policy states that "managers should endeavour, as much as possible, to avoid advance payments and instead issue progress payments to reimburse the recipient for expenditures made". It does, however, allow for advance payments where essential to the achievement of the program objectives.

In 12 of the 81 agreements reviewed (15%), the value of the contribution was paid in full upon signing of the agreement, before the project or event had occurred. This is against TB Policy on initial advances, which allows for a percentage of the total amount to be issued as an advance, but that final settlement of a contribution should only be made after the final accounting by the recipient. Also, as previously mentioned, the absence of any accountability requirements gives these contributions the appearance of a grant. According to TB policy, grants must be listed in the transfer payment tables of the Estimates.

**Criteria 3.3 Conditions of payment are met before payment is issued.**

The audit team found that conditions of payment were included in 44 of the 81 (54%) agreements reviewed. In 25 of the 44 cases (57%), there was evidence on file that all required conditions had been met prior to each payment or that payment was not made because conditions had not been met. In 8 cases (19%), only some conditions were met but all payments were made. In the 11 remaining cases (25%), payments were made although there was no evidence on file that any of the conditions had been met.

The audit team found that the regions were generally diligent at ensuring that conditions were met before payments were made. However, NHQ had little documentation to support that conditions were being monitored. In fact, NHQ was responsible for 6 of the 11 (55%) cases where payment was made without evidence that conditions had been met. This is a particularly important factor in view of the relatively high dollar value of some of these agreements.

With respect to the 37 agreements that did not include any direct conditions of payment, there were some that included reporting requirements, although these were not linked to the payment terms. Often, both the organization and CSC interpreted the agreement as requiring the reports prior to payment. (Although given the manner in which these agreements were written, payment was technically required whether the reports were received or not.)

#### **Criteria 3.4 Payments are made within the effective dates of the agreement.**

No major concerns were noted in this area. In a few cases, payment was made upon receipt of invoice, a few days before the agreement stipulated that payment was to be made.

### ***Objective 4 To assess the process in place to audit and evaluate the agreements.***

#### **Criteria 4.1 Agreements are evaluated at the end of the contribution period.**

#### **Criteria 4.2 Periodic audits are effected.**

In four of the regions and at NHQ, there was no evidence that agreements were evaluated at the end of the contribution period. In three cases reviewed in the Atlantic region, a Post-Contract Evaluation form (CSC 996) was completed. This was the only formal documentation found.

In addition, given that the Quebec region is enforcing the requirements for the content of contribution requests, organizations requesting funds in two consecutive years would be subject to a form of evaluation. Their request package would include a financial statement and other information that would be reviewed for developing the agreement for the following year. This, however, would not be the case for one-year agreements.

Although no previous national audit had been conducted of the G&C process, all of the regions and NHQ had conducted an audit of their 1999/2000 agreements as a result of the attention paid to G&C following the HRDC audit. Several changes were made to the process for the 2000/2001 contribution agreements in light of these reviews.

#### **RECOMMENDATION #4**

**That all Regions and NHQ ensure there are processes in place to monitor contribution agreements and payments:**

- a) to ensure adherence to the terms and conditions of the agreement; and**
- b) to assess the extent to which the intended goals and objectives were achieved.**

**Action by: Assistant Commissioner, Correctional Operations and Programs in conjunction with the Assistant Commissioner, Corporate Development as well as all Regional Deputy Commissioners**

#### Office of the Auditor General - reference document

In February 2001, the Office of the Auditor General placed a document on its Web site ([www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca)) entitled "**Framework for Identifying Risk in Grant and Contribution Programs**". The document was prepared by the Office of the Auditor General of Canada, in collaboration with Industry Canada. According to the Web site, its purpose is to "provide managers and staff of grant or contribution programs with a tool for identifying risk, and to provide parliamentarians with an approach to reviewing the performance of these programs". This document is a useful reference tool and addresses many of the issues raised in this audit report.

**NHQ Contribution Agreement Check List**

<p>Recipient: is it an allowable one?          Province, territory, municipality, university, religious organization, not for profit organization, etc</p>	
<p>Mission: does the recipient engage in activities in support of our Mission?</p>	
<p>Is the purpose of the agreement clear?           Are the expected results to be achieved clearly identified?           Has a program description been provided</p>	<p>TB Policy June 2000</p>
<p>Program:          Programs, activities intended for inmates and parolees?           Programs/activities seeking community participation in CSC activities? Includes informing and educating the public, developing programs to facilitate consultation and communications between CSC and the voluntary sector and other components of the Criminal Justice System and can be one time events such as a workshop, conference or congress.          Start up projects including costs for new community residential facilities.</p>	
<p>What authority?          &gt;\$200,000 - Commissioner          &lt;\$200,000 RDC or ADC CPO          Up to \$100,000 Capital Contribution to aboriginal communities, provinces, municipalities - Sol Gen</p>	
<p>Is it cost effective to provide the contribution? CSC cannot do this more cost effectively itself?</p>	
<p>For contributions less than \$100,000, has the recipient declared any and all sources of proposed funding?</p>	

<p>Contribution Advance Up to \$24,999 - 90%</p> <p>\$25,000 to \$100,000 90% if the duration is less than 4 months and 75% if longer</p> <p>\$100,001 to \$250,000 - 50% if the duration is less than 4 months or first quarter payment if longer</p> <p>\$250,001 to \$500,000 - 50% if duration is less than 4 months or first quarter payment if longer</p> <p>Over \$500,000 - First months payment</p>	
<p>Subsequent Payments Up to \$24,999 - balance payable monthly or at end of the agreement.</p> <p>\$25,000 to \$100,000 -quarterly - monthly beginning in the 4<sup>th</sup> month.</p> <p>\$100,001 to \$250,000 - first quarter with quarterly payments thereafter</p> <p>\$250,001 to \$500,000 monthly beginning in the 4<sup>th</sup> month</p> <p>Over \$500,000 - Monthly payments</p>	<p>For all agreements less than 4 months duration - the balance is payable monthly or at the end of the agreement</p>
<p>Audit clause?</p>	
<p>Liability clauses if the recipient is entering into a loan, capital lease or other long term obligation</p>	<p>TB Policy June 2000</p>
<p>Indemnification clause?</p>	<p>TB Policy June 2000</p>
<p>Clause that requires the recipient not to represent itself as an agent/partner of the Crown?</p>	<p>TB Policy June 2000</p>
<p>Clause requiring the recipient to declare any amounts it owes the Federal Government and recognition that amounts due the recipient may be set-off against these amounts?</p>	<p>TB Policy June 2000</p>
<p>Duration not to exceed 5 years.</p>	
<p>Amendment Clause?</p>	
<p>Termination Clause?</p>	

Clause that any payment is subject to there being an appropriation by Parliament for the fiscal year in which the payment is to be made?	TB Policy June 2000
Cancellation or reduction of transfer payment in the event that departmental funding levels are changed by Parliament? (TB Policy June 2000)	
Recommended?	

**APPENDIX B - Ontario region request review checklist**

<b>Contribution Review Checklist</b>			
<b><i>Required content of the Application for Contributions.</i></b>			
1.	an identification of the potential recipient: name, address, history, aims and objectives of the organizational structure and names of principal personnel;		
2.	a description of the program/activities for which the contribution is requested: title, goals and objectives, and relationship with CSC mandate;		
3.	financial and budgetary information: program or activity budget, other funding, financial statement for the previous year; and		
4.	an evaluation of the program/activities: target results, type of report which will be provided at the end of the contribution period, or at any other determined milestone (e.g. progress report).		
<b><i>Criteria for evaluation of Contribution Applications.</i></b>			
	<u>Eligibility:</u> Potential recipients must meet the requirements specified in the sections governing recipients and the different categories of programs/activities eligible to receive a contribution.		
	<u>Relation to the Mission of CSC:</u> The purpose for which the contribution is requested will support or further the Mission (purpose, core values, strategic objectives) of the Correctional Service of Canada.		
	<u>Managerial Ability:</u> The applicant must demonstrate his/her capacity to manage the program/activities within the operational and financial requirements of the contribution agreement.		
	<u>Cost Effectiveness:</u> It must be cost-effective for CSC to finance the program/activities by means of a contribution (i.e., it would not be more cost effective for CSC to conduct the program/activities on its own).		

## APPENDIX C - Example of an Evaluation Checklist from Chaplaincy (NHQ)

### **ELIGIBILITY**

The organization (name) fits into the category of "Programs/activities intended for inmates and parolees".

### **RELATION TO THE MISSION OF CSC**

The organization (name) was founded on the belief that spiritual growth will help a prisoner change from a life of crime to become a productive and law-abiding member of society. Its commitment to the use of volunteers is part of Core Values 1 and 2.

### **MANAGERIAL ABILITY**

Seventy seven percent of the organization (name) revenue comes from personal donations of its supporters. Mr. (name) has been active in developing fund-raising policies. The Executive Director completed the Advanced Marketing Program with Harvard University, worked for 15 years as a senior executive with a multi-national corporation in finance and marketing, and for 14 years in a multinational humanitarian agency.

### **COST EFFECTIVENESS**

Excellent. The use of volunteers has a multiplying effect on the work of those who train them.