Audit of the Canada Arts Presentation Fund

Office of the Chief Audit Executive

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List of Acronyms

APB	Arts Policy Branch
CAPF	Canada Arts Presentation Fund
GCIMS	Grants & Contributions Information Management System
HQ	Headquarters
PCH	Department of Canadian Heritage
TB	Treasury Board

Executive Summary

The Canada Arts Presentation Fund (CAPF) is the largest of the four programs within the Arts Policy Branch in terms of the number of funding recipients (600) and regional dispersal (250 communities) and uses both grants and contributions as funding vehicles. Administration (i.e., program delivery governance) for CAPF is provided by the Department of Canadian Heritage (PCH) Headquarters, while delivery takes place in the Regions. CAPF gives Canadians access to a variety of professional artistic experiences in their communities. It provides financial assistance to Canadian not-for-profit organizations that professionally present arts festivals or performing arts series, as well as their support organizations. CAPF also supports emerging presenters and presenter support organizations whose activities target underserved communities or artistic practices. The goal is to allow Canadians from all regions of the country to engage in and value a variety of professional artistic experiences.

The objective for this audit was to provide assurance on the effectiveness of governance, risk management and control processes and compliance to relevant policies and directives of the Arts Policy Branch, Canada Arts Presentation Fund program delivery. The scope of examination is the Arts Program Branch delivery of the Canada Arts Presentation Fund during the fiscal years 2013-14, 2014-15 through to the substantial completion of the audit work.

Audit Opinion and Conclusion

In my opinion, Canada Arts Presentation Fund program delivery has effective governance, control and risk management processes in place to support effective management control. There are opportunities for improvement in the program delivery processes of the Canada Arts Presentation Fund by formalizing the outreach approach for potential applicants, ensuring that appropriate monitoring efforts are undertaken and recorded, and ensuring that grant recipients are not asked to provide information contrary to the Treasury Board *Policy on Transfer Payments*.

Statement of Conformance

In my professional judgment as Chief Audit Executive, this audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and with the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. Sufficient and appropriate audit procedures were conducted, and evidence gathered, to support the accuracy of the findings and conclusion in this report. The findings and conclusion are based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management and are only applicable to the entity examined and for the scope and time period covered by the audit.

Original signed by

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Natalie M. Lalonde
Chief Audit Executive
Department of Canadian Heritage

Audit Team Members
Leendert van Beerschoten, Audit Manager
Chrystianne Pilon, Senior Auditor
Carolann David, Auditor
Philippe Knight, Auditor
Sophie Comeau, Auditor

1.0 Background

1.1 The Arts Policy Branch

Within the Department of Canadian Heritage (PCH), the Arts Policy Branch (APB or the Branch) is responsible for policy-related matters pertaining to professional artists and the arts sector as a whole. Under the Arts Policy Framework, the Branch supports professional not-for-profit organizations through programs that focus on:

- Excellence and diversity in creativity; (exploring artistic excellence)
- Connecting people and the arts; and
- Sustaining the arts sector (supporting a resilient arts sector).

The Arts Policy Branch has two directorates. The Arts Development and Programs Directorate deals with access to the arts by Canadians as well as excellence and diversity in the arts. This Directorate manages the following:

- Canada Arts Training Fund
- Canada Arts Presentation Fund (CAPF), which includes the Fathers of Confederation Buildings Trust Component
- Canada Cultural Spaces Fund

The Strategic Arts Support Directorate's focus is on the sustainability of the arts sector and is responsible for broad policy development. It oversees the Branch's research and planning work and is responsible for legislative issues related to the *Status of the Artist Act*. The Directorate also manages the Canada Cultural Investment Fund.

Branch efforts are represented in the Department's current Program Alignment Architecture under Strategic Outcome 1 ("Canadian artistic expressions and cultural content are created and accessible at home and abroad") as the Arts Program (1.1). Each of the four funds is a sub-program to the Arts Program in the current Program Alignment Architecture.

Accountability for the Arts Policy Branch lies with the Assistant Deputy Minister, Cultural Affairs. The Branch is responsible for program design, management, budget, monitoring of program performance and results, as well as the creation and updating of operational tools and materials. PCH's Grants and Contributions Centre of Expertise supports Program staff in their ongoing effort to ensure policy compliance and improve grant and contribution management practices.

PCH Regional Offices are co-responsible for the delivery of the CAPF and the Canada Cultural Spaces Fund. Regional responsibilities include developing strategies that articulate program priorities on a regional basis, promoting awareness of the programs, evaluating applications using national evaluation instruments developed by the APB, making recommendations for funding, managing regional funding envelopes, monitoring recipients, collecting data for results measurement, and managing relationships with other regional funding bodies and stakeholders.

Each of the four APB funds were the subject of evaluations published in 2014 by PCH:
- Evaluation of the Canada Arts Training Fund, January 2014;
- Evaluation of the Fathers of Confederation Buildings Trust Program, March 2014; and
- Grouped Arts Evaluation: Canada Arts Presentation Fund, Canada Cultural Spaces Fund, Canada Cultural Investment Fund, August 2014.

1.2   The Canada Arts Presentation Fund

CAPF is the largest of the four Arts Policy Branch programs in terms of the number of annual funding recipients (600) and regional dispersal (250 communities), and uses both grants and contributions as funding vehicles. Administration (i.e., program delivery governance) for the Program is provided by PCH Headquarters, while delivery mainly takes place in the Regions for eligible activities under two components:

1. Programming Component - supports existing:
   - Professional Arts Festivals and Performing Arts Series Presenters; and
   - Presenter Support Organizations
2. Development Component - supports the emergence of arts presenters and presenter support organizations for under-served communities or artistic practices.

CAPF gives Canadians access to a variety of professional artistic experiences in their communities. It provides financial assistance to Canadian not-for-profit organizations that professionally present arts festivals or performing arts series, as well as their support organizations. CAPF also supports emerging presenters and presenter support organizations whose activities target underserved communities or artistic practices. The goal is to allow Canadians from all regions of the country to engage in, and value, a variety of professional artistic experiences.

CAPF Resourcing 2013-14 through 2015-16		
2013–14 actual	**2014–15 actual**	**2015–16 planned**
Budgetary Financial Resources (dollars)		
34,224,972	34,711,933	38,883,517
Human Resources (FTEs)		
54.1[1]	63.1	63.9
Transfer Payments (dollars)	**2013–14 actual**	**2014–15 actual**	**2015–16 planned**
Grants	9,193,250	8,919,926	13,500,000
Contributions	19,550,438	19,489,289	18,350,742
Total	**28,743,688**	**28,409,215**	**31,850,742 ***

* Planned resources for 2015-16 now include an additional $3 million for the Fathers of Confederation Buildings Trust component, which was incorporated as part of the CAPF at the last program renewal

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[1] The difference in FTEs is, in part, due to changes in allocations for internal services and the requirement that resources be linked to sub-programs.

As of December 7, 2015, CAPF had considered a total of 995 applications for funding during the fiscal years 2013-2014 through 2015-2016. Of these applications, 854 were approved (85.8%) and 141 projects (14.2%) were not approved.

2.0 About the Audit

2.1 Project Authority

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan for 2015-2016 to 2017-2018 as approved by the Deputy Minister.

2.2 Objective and Scope

The objective for this audit was to provide assurance on the effectiveness of governance, risk management, and control processes and compliance to relevant policies and directives of the Arts Policy Branch, Canada Arts Presentation Fund program delivery. The scope of examination is the Arts Program Branch delivery of the Canada Arts Presentation Fund during the fiscal years 2013-2014, 2014-2015 through to the substantial completion of the audit work.

2.3 Approach and Methodology

The *Audit of the Canada Arts Presentation Fund* has been conducted in keeping with the Treasury Board (TB) *Policy on Internal Audit*. The audit methodology included, but was not limited to:

- A review of PCH materials (e.g., reports, documents, decks, manuals, procedures.) relevant to APB;
- Field visits to three Regional Offices in Toronto, Montreal and Moncton to review files and conduct interviews with management and staff;
- Interviews with PCH management and staff that are directly involved with APB programs, their processes, procedures, practices and results; and
- Compliance testing of a sample of 72 files from three regions and HQ using a targeted testing approach against instruments such as the *Financial Administration Act*, Treasury Board's *Policy on Transfer Payments* (and related *Directive*)*,* and PCH Program terms and conditions.

3.0 Findings and Recommendations

Findings are based on a combination of the evidence gathered through the audit methodologies applied for each audit criteria. Appendix A provides a summary of all findings and conclusions for each of the criteria assessed during the audit. Findings of lesser materiality, risk or impact have been communicated with the auditee either verbally or in a management letter.

3.1   Governance

Communicating with Potential Applicants

> CAPF does not have a formalized outreach approach to communicate with potential applicants. The Program currently uses a variety of approaches to undertake targeted outreach activities.

As part of overall governance and the management of CAPF service delivery, potential applicants for funding should have the opportunity to be aware of the Program and receive information on eligibility and application details to support fair access to CAPF funding.

All five Regions delivering CAPF prepare an annual Regional Investment Strategy to establish priorities for the (re)distribution of funds based on past funding patterns and under-served populations. This was confirmed for each of the three Regions (Ontario, Quebec and Atlantic) examined. The development of these Regional Investment Strategies is seen as a best practice and they allow the Program to undertake targeted outreach specifically intended to help address investment gaps, as identified through the analysis of regional contexts and realities.

The Regions use contact information for past applicants (both funded and not) to launch the Program regionally for each cycle and provide an ad hoc outreach function as part of the role of individual Program Officers in delivering the both the Programming and Development components of the Program.

The Program funds presenter support organizations such as the Canadian Arts Presenting Association (CAPACOA) and *Réseau indépendant des diffuseurs d'événements artistiques unis* (RIDEAU) that provide networking opportunities with the arts community, which contribute to communicating the details of CAPF. Program staff attend events planned by these and other stakeholder organizations in communities across Canada to share and better understand existing and emerging arts priorities. Currently, a framework for outreach and communication either nationally or regionally for the Program is not in place to coordinate and further the efforts already being undertaken.

CAPF management and staff in both the Headquarters and Regional Offices reported to the audit team the requests for CAPF funds exceeds the funds available each year and that Regions actively manage their resources to deliver on a range of PCH programs. CAPF reported that creating a greater, broader demand for available CAPF funds through outreach activities is not a priority and in some areas with small communities, participation in the Program has likely covered all potential applicants.

From 2013-2014 to 2014-2015, 552 of 608 (91%) recipients had received funding during the previous year; from 2012-2013 to 2013-2014 the figure was 555 of 597 (93%). While these percentages reflect the fact that the pool of professional arts festivals and presenters is relatively limited and stable, there is a risk that incomplete outreach to potential applicants may not support fair access to CAPF funding for new organizations and applicants in priority areas.

Recommendation:

1. *The DG, Arts Policy Branch should formalize the CAPF approach to reaching potential applicants by preparing and implementing an outreach framework, plan, and related materials to build on existing outreach efforts.*

3.2 Risk Management

Risk-based Monitoring

> Appropriate risk identification and assessment processes were completed. Not all contribution files have complete records of the results of required monitoring. Detailed final post-project financial information which is not required is included in 90% of grants files.

Effective risk-based monitoring includes an approach to the monitoring of contribution agreements that defines the extent, type and frequency of monitoring and ensures that those requirements are followed to help ensure that projects are delivered in compliance with signed agreements.

For the 72 project files examined (45 funded as grants and 27 as contributions), risk identification and assessment were complete and recorded appropriately. The Program uses final report information for both financial management, and performance measurement and reporting purposes. Monitoring efforts (e.g., increased client contact and/or site visits), typically based on the level of risk identified, were in some cases inconsistently requested and documented:

- Of the 45 grants, 8 were not approved, 3 were for supplementary funding, and 9 had not been finalized. 23 of the remaining 25 files had detailed post-project financials on file; two had a site visit report or equivalent on file; and one was rated moderate risk.

- Of the 27 contributions, 5 were not approved for funding and one event was cancelled. 16 of the remaining 21 files were rated low risk, yet two required some form of monitoring; no monitoring information was found in the Grants and Contributions Information Management System (GCIMS) or the paper files for those two projects.

The Treasury Board *Policy on Transfer Payments* states that contributions are subject to the performance conditions specified in a funding agreement, to be accounted for, and are subject to audit. Grants are subject to pre-established eligibility and other entitlement criteria. A grant is not subject to being accounted for by a recipient nor normally subject to audit by the Department. The *Policy* states that grant recipients may be required to report on results achieved. CAPF Terms and Conditions require all recipients to provide final reports.

Incomplete records of monitoring efforts for contributions do not allow the Program to ensure that appropriate risk mitigation and project activities have taken place. The requirement for, and inclusion of, unrequired information in grant files is unnecessary as per the TB *Policy on Transfer Payments*.

Recommendation:

2. *The DG, Arts Policy Branch should ensure that a complete and appropriate monitoring is undertaken and monitoring results recorded.*

3.3   Controls

Application Processes

> Protocols established by the Program ensure that submitted applications and supporting documents are accurately recorded. Complementary, and in some cases, duplicate information systems and document storage solutions exist.

As the initial step in the project lifecycle, ensuring that required application processes are followed, and that information and records are complete and recorded is an essential component of program delivery and help to ensure that all applicants are considered.

CAPF projects are funded under two components: 1) Programming that supports existing Professional Arts Festivals and Performing Arts Series Presenters; and Presenter Support Organizations, and 2) Development that supports the emergence of arts presenters and presenter support organizations for under-served communities or artistic practices. The CAPF website includes clear and complete Program application and eligibility information for the Programming component. The CAPF Development component requires applicants to contact a Regional Office to verify eligibility and for application details. Applications are completed with reasonable assistance by Program Officers with additional help provided to applicants under the Development Component (typically involving first-time applicants).

In the three Regional Offices (Toronto, Montreal and Moncton) the audit team examined files, the method of project information storage varied from paper files to only electronic documents to a mix of both. CAPF, both in the Regions and at Headquarters complements and augments the GCIMS by using separate Regional project tracking databases, shared drives, and HQ project tracking. For the 72 sampled projects, the audit team reviewed paper files as well as the electronic records and confirmed that established protocols ensure that all submitted applications and supporting documents are recorded and contain appropriate evidence of project analysis and rationale.

The methods of storage reflect the operational realities of each Region and past difficulties with GCIMS. As the Department updates the current GCIMS approach and as the Program continues to move toward handling all applications electronically; there will be an opportunity for all Regions rationalize complementary information systems and document storage solutions.

Ensuring that applications are accurately and completely recorded in a manner that allows the Program to ensure that all applicants are appropriately considered. Additional systems and duplicate storage increases staff workload and the likelihood that separate data entry and systems may yield conflicting information.

Assessing Eligibility, Recommendations and Approvals

> Project assessment, recommendation and approval processes comply with Program terms and conditions and government policy expectations.

Treasury Board and the Department have established expectations with regard to the assessing the eligibility of projects and applicants, providing project recommendations and approving funding to help ensure Program success. Ensuring the appropriate use of public funds in a strong governance environment includes the requirement to ensure that project recommendation and approval processes are in place to ensure that essential program and financial information is available to make funding decisions.

In the three Regions the audit team examined files, applications are consistently assessed against Program eligibility criteria. When greater diligence was required (e.g., above specified materiality levels, multi-year funding, and/or high public sensitivity), additional procedures exist and are followed. The processes for eligibility assessment, recommending projects and approving projects for funding are well documented.

The audit team found no instances when the proper financial authority had not certified that sufficient funds were available and funds committed before forwarding recommendations for approval (FAA, Section 32). Recommendations include adequate rationale, demonstrate the recipient's capacity to perform, their need for funding, and assessment of their financial viability.

Two innovative steps important to the decision-making process: batch approval of low risk recommendations; and the deliberations and decisions of review committees regarding assessment and recommendations, are undertaken in the Regions and at Headquarters for national envelope files. Each process provides a specific benefit: batch processing eliminates the need to process multiple low risk files individually; and review committees help to establish consensus for projects in an environment where the demand for funds exceeds the funds available. It is noted that not all recommendations are discussed at review committees. Only recommendations that are proposing increases or decreases, or from first-time or high risk applicants are discussed.

Records of these practices is available and documents the associated management oversight and review processes for batch approvals and project review. These are important steps in arriving at the final recommendation for the files involved.

Agreements and Managing Payments

> Agreements and payments are made in compliance with Program and Government of Canada requirements. Some grant agreement project delivery dates do not represent actual project delivery.

Claims and requests for payments should be assessed, documented, recorded and approved in compliance with legislative Treasury Board requirements and the Departmental expectations to ensure payments are made to correct recipients and compliance with eligible expenses and performance conditions of agreements.

In the three Regions the audit team examined files, all agreements were documented, authorized, and recorded accurately and correctly. Agreements were signed by approved authority prior to start of the period covered. Approvals of claims and requests for payments were issued following confirmation of: a signed contribution agreement or grant letter; appropriateness of the amount requested and remaining availability of funds under the agreement; compliance with eligible expenses; and compliance with performance conditions of agreements (FAA, Section 34).

Many agreements – both for grants and contributions – specified a start and end date for the project that represents the Government of Canada fiscal year (FY) (i.e., April 01 thru March 31). For contributions and multi-year agreements following this practice allows the Program to provide funds in a timely manner as required by recipients before the specified dates for the events. For others, the use of FY dates does not represent the actual dates for project delivery.

Consistently using FY dates as the start and end dates for projects does not always accurately record project delivery and may have an impact on the timely delivery of final project reports that are a valuable tool in subsequent assessments of eligibility. Given the variety in the types of organizations funded and their numerous types of activities, the program assesses the appropriate use of start and end dates for projects on a case by case basis.

4.0   Conclusion

The main purpose of this audit was to assure management of the effectiveness of governance, risk management and control processes, and compliance to relevant policies for the delivery of the Canada Arts Presentation Fund. Based on the audit findings, our opinion is that CAPF program delivery has effective governance, control and risk management processes in place to support effective management control. Opportunities exist to improve program delivery processes of the Canada Arts Presentation Fund in formalizing the outreach approach for potential applicants, ensuring that appropriate monitoring efforts are undertaken and recorded, and ensuring that grant recipients are not obligated to provide information that is not required by the Treasury Board *Policy on Transfer Payments.*

Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Score	Conclusion	Definition
1	Well Controlled	• Well managed, no material weaknesses noted; and effective.
2	Controlled	• Well managed and effective. Minor improvements are needed.
3	Moderate Issues	• Has moderate issues requiring management focus (at least one of the following two criteria need to be met): – Control weaknesses, but exposure is limited because likelihood of risk occurring is not high. – Control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	Requires significant improvements (at least one of the following three criteria need to be met): – Financial adjustments material to line item or area or to the Department. – Control deficiencies represent serious exposure. – Major deficiencies in overall control structure. Note: Every audit criteria that is categorized as a **"4"** must be immediately disclosed to the CAE and the subjects matter's Director General or higher level for corrective action.

The table below includes audit criteria and is used to develop audit conclusion.

Audit Objective: To provide assurance on the effectiveness of governance, risk management and control processes and compliance to relevant policies and directives of the Arts Program Branch, Canada Arts Presentation Fund program delivery.		
Criterion 1: Canada Arts Presentation Fund project solicitation, application and submission processes are appropriately managed.		
	Audit Sub-Criteria	**Conclusion**
1.1	CAPF has processes in place to identify and to communicate with potential recipients.	**2**
1.2	Effective and appropriate CAPF project application processes and records are in place.	**1**
Criterion 2: Canada Arts Presentation Fund project assessment, recommendation and approval processes are appropriately managed.		
	Audit Sub-Criteria	**Conclusion**
2.1	CAPF eligibility assessment, recommendation and approval processes conform with PCH and TB requirements.	**1**
2.2	CAPF project recommendation and approval processes (incl. RAFs) are in place to ensure required program and financial information to make a funding decision.	**1**
Criterion 3: Canada Arts Presentation Fund project agreement, payment & recipient monitoring processes are appropriately managed.		
	Audit Sub-Criteria	**Conclusion**
3.1	CAPF approval of agreements, claims and request for payments are documented, assessed, recorded, and approved in compliance with legislative, TB and PCH requirements.	**2**
3.2	A risk-based approach to the monitoring of contribution agreements exists (i.e., frequency, extent and type of monitoring) and is followed.	**2**

Appendix B – Management Action Plan

Recommendations	Management Assessment and Actions	Responsibility	Target Date
Recommendation Theme			
1. *The DG, Arts Policy Branch should formalize the CAPF approach to reaching potential applicants by preparing and implementing an outreach framework, plan, and related materials to build on existing outreach efforts.*	Recommendation accepted. The Program will prepare and implement a formalized outreach approach to communicate with potential applicants. A plan will be developed that will include a framework and consolidate the existing materials and efforts currently used by the Program to undertake targeted outreach activities	CAPF national office, in consultation with Regional Offices	Plan prepared by December 31, 2016, for implementation with the April 1, 2017 intake deadline.
Recommendation Theme			
2. *The DG, Arts Policy Branch should ensure that the complete and appropriate monitoring is undertaken and monitoring results recorded.*	Recommendation accepted. 1. The Program will develop directives for staff to ensure that appropriate monitoring efforts are undertaken and results are recorded in a consistent manner. 2. The Program will modify the Final Report template for grant recipients to ensure that information that is not required by the TB *Policy on Transfer Payments* is not requested.	CAPF national office, in consultation with the Centre of Expertise	August 31, 2016