

**Indian and Northern Affairs Canada**

**Internal Audit Report**  
**Audit of Economic Development Program**  
**(Non-proposal Driven)**

**December 8, 2009**

**Prepared by:**  
**Audit and Assurance Services Branch**

**Project # 08/28**

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## Acronyms

AASB	Audit and Assurance Services Branch
AES	Audit and Evaluation Sector
AFA	Alternative Funding Arrangement
AWPI	Aboriginal Workforce Participation Initiative
CAEDS	Canadian Aboriginal Economic Development Strategy
CEDO	Community Economic Development Officer
CEDP	Community Economic Development Program
CEOP	Community Economic Opportunity Program
CIB	Community Investment Branch
CSSP	Community Support Services Program
DRBAF	Departmental Risk-Based Audit Framework
DRMAF	Departmental Results-based Management and Accountability Framework
FN	First Nation
FNITP	First Nations and Inuit Transfer Payment System
FTP	Flexible Transfer Payment
INAC	Indian & Northern Affairs Canada
LEDS	Lands and Economic Development Sector
NT	Northwest Territories
TB	Treasury Board of Canada
TBS	Treasury Board of Canada Secretariat
T&C	Terms and Conditions

## **1.0 Executive Summary**

### **1.1 Audit objectives**

The objective of the audit was to determine if the funding provided to recipients under the Community Economic Development Program (CEDP) was consistent with need and expected benefits or results, if appropriate performance and reporting requirements were established, and if activities were monitored to ensure compliance with program terms and conditions.

### **1.2 Audit opinion**

Audit and Assurance Services (AASB) is of the opinion that the Community Economic Development Program requires significant improvements. There are major deficiencies in the overall control structure that if not addressed will create a high risk that material amounts provided for economic development will be used for other purposes, and that a sound basis for accountability will not be in place.

### **1.3 Statement of assurance**

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the entity examined. The evidence was gathered in compliance with Treasury Board Policy, Directives and Standards on internal audit, and the procedures used meet the International Standards for the Professional Practices of Internal Auditing. The evidence has been gathered to be sufficient to provide senior management with the proof of the opinion derived from the internal audit.

### **1.4 Summary of findings**

The audit found no linkage between the level of funding provided, financial need and expected benefits or results. Recipients were funded based on a formula. As long as the required documents are submitted at some point in time, the funding was provided. The quality of the information submitted in the required documents was of little importance to the Regions.

The funding agreements followed Indian and Northern Affairs Canada's (INAC) established templates. The documents referenced by the funding agreement (to establish expected outcomes and results), and reporting requirements did not contain sufficient information to create an effective accountability framework.

Recipients provided the reports required to access funding. Reports were frequently late and did not consistently contain sufficient information to enable a Program Officer to assess compliance with the funding agreement. Little evidence was found of regular and systematic monitoring undertaken by the Regions.

## **1.5 Summary of recommendations**

Notwithstanding the control weaknesses in CEDP identified by this audit, the funding provided has been instrumental for some recipients in creating a framework to improve the economic well being of the community.

Recommendations have been made to appropriately align the design of CEDP with Treasury Board's requirements for Transfer Payment Programs, to create a stronger foundation for demonstrating recipients' accountability for the funds provided, and to establish a framework for recipient monitoring based on relevant risks.

The Economic Development Program including CEDP is currently being redesigned to align with the June 2009 *Federal Framework for Aboriginal Economic Development*. New program terms and conditions are scheduled to be in place for the start of the 2011-12 fiscal year. The results of this audit are expected to inform the development of the new program terms and conditions.

## **2.0 Audit Report on the Community Economic Development Program**

### **2.1 Introduction**

The Economic Development Program of Indian and Northern Affairs Canada (INAC) is intended to foster the conditions and opportunities which increase participation in the economy by First Nation and Inuit communities in a manner compatible with community culture and values.

The current program was approved effective April 1, 2005 and has four programs/subprograms that are delivered by the Community Investment Branch (CIB) of the Lands and Economic Development Sector (LEDS), with the assistance of the regions. These are:

- Community Economic Development Program (CEDP);
- Community Economic Opportunities Program (CEOP);
- Community Support Services Program (CSSP); and
- Aboriginal Workforce Participation Initiative (AWPI).

Precursors to these programs were established following the release of the Canadian Aboriginal Economic Development Strategy (CAEDS) in 1989. The programs have remained largely unchanged, although the names have changed, since their original launch in the early 1990's.

The CEDP provides over \$50 million annually in core financial support to First Nation Councils, governments of self-governing First Nation and Inuit communities, representative organizations of Inuit communities and other organizations mandated by the foregoing to carry out ongoing activities and projects on their behalf. The financial support is intended for community economic development planning and capacity development initiatives, development of proposals along with leveraging financial resources, in addition to carrying out economic development activities.

In June 2009 a new *Federal Framework for Aboriginal Economic Development* was announced by the Minister, Honorable Chuck Strahl. The *Framework* states, the Government of Canada has taken decisive steps to modernize its relationship and strengthen partnerships with Aboriginal Canadians. Building on this new relationship, the *Federal Framework for Aboriginal Economic Development* will maximize federal investments by: strengthening Aboriginal entrepreneurship; enhancing the value of Aboriginal assets; forging new and effective partnerships to maximize economic

development opportunities; developing Aboriginal human capital; and better focusing the role of the Federal Government.

Early in the 2010-11 fiscal year, program management plan to start discussions with stakeholders on the specifics of the future program direction. New Terms and Conditions (T&C) for a renewed Economic Development Program are expected to be in place for the start of the 2011-12 fiscal year. The results of this audit will help inform this consultation.

The Audit of Economic Development (Non-Proposal Driven) was included in the approved INAC 2008-2011 Risk-based Internal Audit Plan. CEOP and CSSP were included in the September 2008 *Audit of Community Economic Development Funding*.

## **2.2 Audit objectives, scope and approach**

The objective of the audit was to provide a high level of assurance to senior management that:

- Eligible recipients and activities are approved for funding only at a level consistent with the financial need, and expected benefits or results;
- Formal agreements containing appropriate performance and reporting requirements are established with the recipient; and
- Activities are monitored to ensure compliance with program terms and conditions and with the funding agreement.

The audit examined all CEDP funding provided to selected recipients from the Alberta, Manitoba, Ontario, Quebec and Northwest Territories (NT) Regions over the period April 1, 2005 to March 31, 2009 (4 years).

The audit criteria used were based on *Grants and Contributions Audit Criteria*, established by INAC's Audit and Evaluation Sector (AES) in 2007. The criteria used were:

- Recipients have a demonstrated need for the amount of funding provided;
- The recipient's past performance in meeting commitments is considered in determining the amount of funding provided;
- Agreements are meaningful, complete, and consistent with program terms and conditions;
- Recipient performance reporting is in compliance with the funding agreement and provides the necessary performance information; and

- Recipient financial reporting is in compliance with the funding agreement and provides the necessary financial information.

The criteria served as the basis for developing the audit approach and detailed audit program for the conduct phase. Annex A details the audit criteria and sub-criteria employed by audit objective.

Based on the Regions included in the scope of the audit, a stratified sample of 51 small, medium and large recipients was selected using a dollar unit approach based on the total funding that recipients received during the period April 1, 2005 to February 6, 2009. (See Annex B for details on the sample.) Standard checklists aligned with the audit criteria were used to assess the extent of compliance for each recipient selected, and for each year funding was provided. Key documents reviewed included recipients' annual Operational Plans, Program Reports on activities and results achieved, applicable schedule(s) in the audited financial statements detailing revenues and expenditures associated with economic development, and funding agreements for the years included in the audit.

Standard interview guides were also used to obtain input from Regional Economic Development management and staff on the practices used to manage the program. Audit fieldwork was conducted between August and September 2009. Input from Headquarters management responsible for the program was obtained during the Planning Phase of the audit in February 2009.

## **2.3 Findings, recommendations, management responses**

### **2.3.1 Funding of Recipients**

The audit team found no linkage between the level of funding provided, financial need and expected benefits or results. Recipients were funded based on a formula. Provided required documents were submitted at some point in time, the funding was provided. The quality of information submitted in the required documents was of little importance to the Regions.

The 2000 Treasury Board of Canada's (TB) *Policy on Transfer Payments* required departments to establish policies and procedures to ensure that contribution agreements "reflect the principle that transfers payment assistance is provided for projects only at the minimum level to further the attainment of the stated transfer payment program objectives and expected results". The 2008 Treasury Board of Canada Secretariat (TBS) *Directive on Transfer Payments* has a similar requirement.



All of the Regions included in the scope of the audit used a formula to allocate funds to recipients. The formulas provide a base amount and an allocation based on population. In one Region, the allocation was also adjusted based on geography so that more remotely located recipients receive more. The formulas used in two of the Regions were updated during the period covered by this audit. The other three Regions use formulas that have not been updated in at least fifteen years. Recipients' business interests range from very extensive (e.g., oil and gas wells, farming, hotels, casinos, industrial parks, transportation companies, etc.) to very little.

To access the available funding, the Program T&C require recipients to complete an Annual Plan outlining planned activities and expected performance measures. A template of the Annual Plan is published each year in the *First Nations Reporting Guide* and is made available in hardcopy, on disk, or as a downloadable file from the INAC website. The Annual Plan must be submitted by January 15<sup>th</sup> preceding the fiscal year for which the funds are required. The date is identified at the top of the first page of the template and is also referenced in many of the recipients' funding agreements.

Required Operational Plans were generally found on file in most Regions, except for 2005-06, which was a transition year for the Program. In one Region, funds were released in the absence of an Operational Plan if the required year end report was submitted. This Region deemed that the Operational Plan was unobtainable and unnecessary.

Considerable variability was found in the quality of the submitted Operational Plans.

- The small and medium sized recipients in particular, often submitted plans with so little detail it was not possible to determine what the recipient planned to do with the funds.
- Multi-year undertakings by recipients were not consistently described in the Operational Plans (e.g., development of a dry cleaning business, development of a casino and hotel) but were included in the schedule included in the audited financial statements submitted to INAC.
- 24 of the 51 recipients submitted plans that generally built on the previous year's results.
- Six of the 51 recipients submitted essentially the same plan year after year.
- Performance indicators were not consistently provided for all planned activities.

In several Regions, the audit team was advised that Program Officers did not have sufficient time to review Plans in detail. One Region noted that it was the role of the

recipient to identify which projects would be undertaken and that the Program Officer was not to influence the choice.

The required Plans, with the exception of one large recipient, generally showed that all of the funds available under the formula would be spent on economic development activities. This Operational Plan described only how the funds passed on by the Band Administration to the Economic Development group, would be spent. The average annual difference between what INAC provided and what the Economic Development group had to work with was approximately \$170,000.

According to the Program Guidelines, “Where a potential recipient does not submit an Annual Operational Plan on a timely basis, the recipient will lose their annual allocation for that year”. Recipients submitted Operational Plans as much as a year late, and the full amount of the funding as determined by the applicable Regional formula was still provided. One Program Officer told the audit team that potential recipients needed one years notice before the Program Guideline requirement could be applied.

An analysis of economic development revenue and cost schedules included in the annual audited statements submitted to INAC found that all recipients did not consistently spend all funds provided for economic development each year. An estimated \$4.0 million of the \$44.3 million provided to the Regions included in the sample was not reported spent (see Annex C). The unspent funds were identified in the schedules as deferred revenues, funds transferred, or surplus. Differences identified during the audit between the amounts reported in the First Nations & Inuit Transfer Payment System (FNITP) as paid and the amount recipients reported as received, were also included in the audit estimate.

CEDP funds were also reported by recipients as being used for costs associated with loan repayments, interest costs, capital equipment, road maintenance, construction of facilities to be used by the community (e.g., community centre), and feeding school children.

AASB is of the opinion that the 2005 program design is the primary reason a material amount of the CEDP funds provided are used for other purposes and for the poor quality of many of the Operational Plans submitted.

- Where First Nation Councils, governments of self-governing First Nation and Inuit communities and representative organizations of Inuit members in Inuit communities have designated or mandated other organizations to carry out economic development activities on their behalf are eligible for funding based on a formula. The formulas do not take into account how successful recipients have been in the past, how realistic

the Operation Plan is, or how much of the funds have historically been directed to economic development activities.

- Forty-six of the 51 recipients examined received funds under an AFA arrangement or FTP. AFAs are to contain minimum program standards and under FTP, the recipient is required to fulfill program terms and conditions. The Program T&Cs, *Guidelines* and *Administration Manual* describe the types of eligible projects and costs but do not define minimum requirements in a measurable form. As a result, it is not possible to determine if efficient delivery of service or not delivering sufficient services is the reason why recipients had a material amount of funds available from CEDP to direct to other activities.

Further, without an effective challenge of the submitted Operational Plans by Regional Program Officers, the requirements for the plans have become an exercise in form rather than substance.

The current redesign of CEDP provides LEDS with an opportunity to bring it into better alignment with Treasury Board's requirements for transfer payments. Should this occasion be overlooked, there is a high risk that economic development funds will continue to be used for other purposes, there will be no effective accountability for how the funds are spent, and the economic well-being of First Nation communities will not improve as the program intends.

**Recommendation:**

1. The Assistant Deputy Minister, Lands & Economic Development Sector should ensure that as part of the current redesign of economic development programs, CEDP is appropriately aligned with Treasury Board's requirements for transfer payment programs.

**2.3.2 Funding Agreements**

The funding agreements followed INAC established templates. The documents referenced by the funding agreement to establish expected outcomes and results, and reporting requirements did not contain sufficient information to create an effective accountability framework.

Requirements for contribution agreements<sup>1</sup> are specified in Appendix C of the June 2000 *TB Policy on Transfer Payments*. The October 2008 *TBS Directive on Transfer Payments* contains similar requirements. Basic provisions to be included in funding agreements included:

- The purpose of the contribution and the expected results to be achieved from the contribution; and
- The reporting requirements expected of the recipient.

The standard agreements used by the Regions typically described the expected results and reporting requirements as follows:

- The [recipient] shall carry out activities in accordance with Program Guidelines, and approved operational plans, including terms and conditions in plan approvals.
- The [recipient] shall submit reports as set out in the Recipient Reporting Guide (*Community Economic Development Program Report - DCI#471935, Community Economic Development Operational Plan - DCI #479135*). A separate part of the agreement indicates when these reports were due.
- The [recipient] shall prepare consolidated financial statements and such financial statements shall be prepared in accordance with the *Year-end Reporting Handbook* issued by the Minister and amended from time to time, and be delivered to the Minister within one hundred and twenty (120) days of the [recipient's] fiscal year end.

### Program Guidelines and Operational Plans

The Program Guidelines state that the “financial support is intended for community economic development planning and capacity development initiatives, development of proposals and leveraging financial resources, and carrying out economic development activities”. The results to be achieved are described as “more”, “greater”, “increased”, “better”, “larger” and “enhanced”. The results are the same as those defined in the program logic model included in the 2005 *Departmental Results-based Management and*

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<sup>1</sup> AFA and FTP arrangements are not defined in the 2000 *Policy*. According to the *TBS Guide on Financial Arrangements and Funding Options*, AFAs and FTPs are similar to contributions in that there is a written agreement which outlines the obligations of both parties. AFAs contain minimum program requirements and FTPs emphasize program results. The 2008 *Directive* describes three additional types of contribution funding approaches for transfer payments to Aboriginal recipients: fixed, flexible or block.

*Accountability Framework (DRMAF) and Departmental Risk-Based Audit Framework (DRBAF).*

The Program Guidelines also provide cryptic definitions of eligible one-time projects and ongoing activities. The definitions flow directly from the program's logic model which did not always portray the intent established by the approved program T&C. Program resources according to the T&C were to be levered to increase over 15 years or more, the participation of First Nation and Inuit communities in the economy. The expected immediate outcome (one to five years) was a minimum of five dollars in community economic benefits for each dollar of public expenditures under the component.

“Employment of community members” is defined by the Program Guidelines as an eligible project and activity. No further explanation was provided. Many recipients interpreted this to mean direct employment where CEDP funds were used to cover wages. Jobs ranged in length from a few days to an indeterminate status. In one case, the primary objective of the project undertaken was to renovate a community youth centre. The creation of short-term jobs was the justification for using CEDP funds for this purpose. In other cases, the reported jobs created were that of the Community Economic Development Officer (CEDO). It is the understanding of AASB that the CEDO through his/her activities was expected to facilitate community economic development. It was never intended that this position, in and of itself, was an expected outcome.

The approved program T&C requires recipients to “complete an annual plan outlining activities and expected performance measures to be carried out with the funds”, to access the available funding. The Program Guidelines reiterates this requirement. The Operational Plans, as already noted, were found to be of varying quality and many had so little detail, it was not possible to identify which activities would be undertaken with the funds provided, nor how the funded activities would lead to community economic benefits. Baselines were not provided in the Operational Plans against which “more”, “greater”, “increased”, etc. could be measured.

The standard performance measures provided in the template for Operational Plans commencing with the 2007-08 fiscal year (see Annex D), were not consistently interpreted. For example, many recipients interpreted the indicator “number of community members employed” as the number of jobs (full time or part-time) directly funded with the monies received from CEDP for the particular activity in question. For part-time or seasonal work, there was an absence of differentiation between a one-week and a ten-week job. These indicators could also be interpreted as a measure of the overall employment level within the community with changes over time providing a measure of the improvement in the economic well being of the community. No formal written

guidance from HQ or the Regions was available for the period included in the scope of the audit on how the indicators should be interpreted.

### Performance Reporting

The template for the annual Program Report had a structure very similar to the Operational Plan. Activities and results were described for each of eight defined types of economic development projects and activities. The same options for performance measures were available in both documents by 2008-09 from a drop down menu.

The same types of problems were observed with the performance reports were also observed with the operational plans. Limited detail was provided on activities, and performance indicators were interpreted inconsistently by recipients. Projects and activities were not always in the same predefined category on the Operational Plan and the Program Report. As a result, it was not possible to determine undertakings in comparison to plans and progress achieved, for all recipients. Further, it was not possible to roll-up results (even on a Regional basis) to determine achievements quantitatively.

### Financial Reporting

The *Year End Financial Reporting Handbook*, issued February 2009 requires Recipients to prepare separate schedules of revenues and expenditures for programs, services and projects specified in the funding agreement. Examples of Program Services Revenues and Expenditures Schedules are provided in the *Handbook*. Several of the examples are tailored for specific types of programs. None specifically refer to economic development.

The economic development schedules reviewed included in many instances all revenue and expenses associated with the recipient's economic development activities. It was not possible to separate out the costs and revenues associated with specific initiatives funded by other levels of government or the recipient's ongoing business ventures.

There were inconsistencies among recipients from one year to the next, with respect to reporting of costs. Costs included in the schedules were ineligible in AASB's opinion, based on the program terms and conditions (e.g., repayments based on a Remedial Action Plan or loan requirements), but were not identified as ineligible in the Program Guidelines. In one case a Program Officer questioned a reported repayment but was advised by management that it was a long-standing practice and since the funds were provided under a FTP arrangement, it was permissible to direct the unspent funds to other requirements.

## Overall

AASB is of the opinion that additional details in the funding agreement concerning expected program results and reporting, as well as accessibility would be useful reference for the Regions, particularly the individuals within the recipient's organization who are responsible for funding economic development activities. However, the referenced documents must have sufficient detail so that expectations are clear. This expected level of detail was not consistently found in the documents reviewed.

As a result, there is not a common understanding amongst Program Officers and recipients as to the meaning of key terms and descriptions in the *Program Guidelines* and the supplied templates. As long as this lack of common understanding continues, there is a high risk that activities will be undertaken which are inconsistent with the program terms and conditions, and the reporting will not provide a basis for accountability.

### **Recommendation:**

2. The Director General, Community Investment Branch should ensure that sufficient information is provided to Program Officers and recipients to facilitate the consistent reporting of plans and results thereby creating a basis for accountability consistent with the approved program terms and conditions.

### **2.3.3 Monitoring**

Recipients provide reports required to access funding. The reports are frequently late and do not consistently contain sufficient information to enable a program officer to assess compliance with the funding agreement. Little evidence was found of regular and systematic monitoring.

The 2000 *Policy on Transfer Payments* required departments to establish policies and procedures to ensure that departmental capacity existed to effectively deliver and administer transfer payment programs including adequate monitoring of the results achieved. According to the 2002 *Guide on Grants, Contributions and Other Transfer Payments*, "Program officers are expected to monitor regularly the progress and activities of recipients of contributions or other conditional transfers. Monitoring is a crucial element of a transfer program control framework." The 2008 *Directive on Transfer Payments* requires that the level of monitoring of recipients and the reporting required reflects an assessment of the risks specific to the program, the value of the funding in relation to administrative costs, and the risk profile of the recipients. Further, a

determination is to be made as to when recipient audits are necessary to complement other departmental monitoring activities.

### Performance Reporting

Performance reports were generally found to be on file. The exceptions tended to be in 2005-06 when the program was in transition and 2008-2009. The fieldwork started just after the reports for 2008-09 were due.

Recipients were much better at reporting on outputs rather than outcomes. Activities were not described consistently in the Operational Plans and the Program Reports. Some planned activities were not discussed in the Program Report while other activities were only described in the Program Report and not in the Operational Plan. Some activities were only evident from the schedule of economic development program costs included as part of the audited financial statements and were not described in either the Operational Plan or the Program Report. As a result, it was not possible to determine the actions undertaken by many recipients in comparison to plans and the progress achieved on either on-going activities or one-time projects.

### Financial Reporting

Required recipient financial reporting was generally found on file except for 2008-09. The audit fieldwork commenced just after the reports for 2008-2009 were due. In other years, financial reports were regularly submitted late.

The Operational Plans provided an estimate of expenditures that was usually aligned with the eight broad areas<sup>2</sup> of which activities were expected. In 2006-2007, breakdowns of costs by type of expenses were requested. Financial results in the Program Report were reported against the eight identified areas of activity. A schedule to the audited financial statements provided a breakdown of costs by type of expense.

The audit team found considerable inconsistencies between the three sources of financial information and comparisons difficult. Since expenditures were not tracked based on the eight areas of activity, the financial information in the Operational Plans and Program Reports were rough estimates. AASB considered the information in the schedule to the

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<sup>2</sup> Community Economic Planning and Capacity Development, Proposal Development, Employment of Community Members, Community Owned and Community Member Business Development, Community Land and Resource Development, Access to Land and Resources Opportunities Beyond Community Control, Promoting Investment in the Community, and Research and Advocacy.



financial statements to be the most reliable. The information, however, was not always consistent with the narrative information in the Program Reports.

For example, in one case the only activity described in the recipient's narrative report was that Band Council members went to five different conferences, yet the schedules to the financial statements showed that over \$16,000 had been spent on salary. Based on the narrative description, AASB expected that there would be no salary costs.

In most Regions the Economic Development Officers were involved in the analysis of the schedule for economic development programs found in the audited financial statements. This analysis should bring to light any anomalies or misuse of INAC funding for the program. However, the financial information in the schedule regarding Economic Development program was not always compared consistently to the financial information found in the Operational Plan or the Program Report. Insufficient resource, as explained by Regional management, was the reason behind the inconsistent analysis.

AASB is of the opinion that reporting based on areas of activity is ideal; it is not likely to provide useful financial information for decision-making. Most recipients do not have the capacity to accurately report costs in this manner. Rather, the focus should be on obtaining costs based on standard cost elements so there is a foundation for comparing costs over time and between recipients.

### Overall

AASB is of the opinion that the monitoring undertaken by the Regions focuses only on ensuring required reports are ultimately submitted. The payment system is linked with the reporting system to ensure payments will not be issued if a recipient has not submitted the required report(s). No evidence was found of an assessment of the risks specific to planned activities, the value of the funding provided, and the risk profile of the recipients to determine the level of required monitoring.

If current monitoring practices are not changed, there is a high risk that recipients will continue to utilize CEDP funds for other purposes, there will be no effective accountability for how the funds are spent, and the economic well-being of First Nations communities will not develop.

**Recommendation:**

3. The Director General, Community Investment Branch should work with the Regional Directors General to establish expectations for CEDP recipient monitoring based on the relevant risks.

### 3.0 Management Action Plan

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Assistant Deputy Minister, Lands &amp; Economic Development Sector should ensure that as part of the current redesign of economic development programs, CEDP is brought into better alignment with Treasury Board's requirements for transfer payment programs.</p>	<p><b>- The Economic Development Programs, including CEDP, are currently being redesigned to align it with the June 2009 <i>Federal Framework for Aboriginal Economic Development</i>. New programs are scheduled to be in place on April 1, 2011.</b></p> <p><b>- It is the intention to transfer the CEDP from a formula-based program to a proposal-driven program. This new approach will allocate funds based on future economic opportunities and needs of recipients as opposed to formulas based on historical population.</b></p> <p><b>- Consultation with INAC's Chief Financial Officer in the development of the new redesigned program's Terms and Conditions will ensure proper alignment with the Treasury Board Policy on Transfer Payments.</b></p>	<p>Director, EDP</p>	<p>April 1, 2011</p>

<p>2. The Director General, Community Investment Branch should ensure that sufficient information is provided to program officers and recipients to facilitate the consistent reporting of plans and results thereby creating a basis for accountability consistent with the approved program terms and conditions.</p>	<p><b>- The Economic Development Programs, including CEDP, are currently being redesigned to align it with the June 2009 <i>Federal Framework for Aboriginal Economic Development</i>. New programs are scheduled to be in place on April 1, 2011.</b></p> <p><b>- The redesigned CEDP will ensure that sufficient information will be provided to all regions in order to clearly define and uniformly implement a common approach to both a management control framework and reporting requirements. Better informed project officers and recipients will facilitate effective measurement of results to track performance and therefore increase accountability.</b></p> <p><b>- New program guidelines, to be implemented on April 1, 2011, will be clear on performance measurement and reporting.</b></p>	<p>Director, EDP</p>	<p>April 1, 2011</p>
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<p>3. The Director General, Community Investment Branch should work with the Regional Directors General to establish expectations for CEDP recipient monitoring based on the relevant risks.</p>	<p><b>- The Economic Development Programs, including CEDP, are currently being redesigned to align it with the June 2009 <i>Federal Framework for Aboriginal Economic Development</i>. New programs are scheduled to be in place on April 1, 2011.</b></p> <p><b>- The redesigned CEDP will ensure that all regions implement risk assessments and apply monitoring to commensurate with the level of risk associated with the redesigned CEDP proposal submitted by recipients.</b></p> <p><b>- New program guidelines being developed in partnership with our regional offices, will ensure that regions are implementing clear and reasonable monitoring plans for each proposal, as set out in the program's terms and conditions.</b></p> <p><b>- The level of risk for each proposal will be determined by completing a risk matrix similar to the matrix currently being used to assess the CSSP and CEOP programs.</b></p>	<p>Director, EDP</p>	<p>April 1, 2011</p>
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## Annex A: Audit Objectives, Criteria and Sub-criteria

Audit Objectives	Audit Criteria	Audit Sub-criteria
Eligible recipients and activities are approved for funding only at a level consistent with the financial need, and expected benefits or results.	Recipients have a demonstrated need for the amount of funding provided.	The requested level of funding is consistent with the planned activities.
		The recipient is carrying out economic development activities.
		Recipients consistently spend all funds provided on economic development activities each year.
	The recipient's past performance in meeting commitments is considered in determining the amount of funding provided.	Annual reports from recipients show that progress has been made in achieving the planned activities for the year.
		The proposed annual plan builds on previous years' plans and achievements.
Formal agreements containing appropriate performance and reporting requirements are established with the recipient.	Agreements are meaningful, complete, and consistent with program terms and conditions.	The agreement includes clear requirements in terms of program standards, accountability, and reporting.
		Expected statements of requirements, measurable outcomes and results, against which monitoring can be applied, are explicit in the agreement, clear, and derived from the TB approved program terms & conditions.
Activities are monitored to ensure compliance with program terms and conditions and with the funding agreement.	Recipient performance reporting is aligned with the funding agreement and provides the necessary performance information.	Accurate, complete and timely performance results are provided in accordance with the funding agreement.
		The recipient conducted the activities described in the annual plan.
	Recipient financial reporting is aligned with the funding agreement and provides the necessary financial information.	Accurate, complete and timely financial results are provided in accordance with the funding agreement.

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

## Annex B: Sampling

A stratified dollar unit sample was selected from all recipients of funding during the period April 1, 2005 and February 6, 2009. For the purposes of the stratification, recipients were defined as small, medium or large based on the total amount of funding received during this period. Small recipients were defined as having received less than \$200,000 in total, medium recipients between \$200,000 and \$1,000,000, and large recipients received more than \$1,000,000. As shown in Table B1, the small recipients (more than 60 percent of the total) received on average less than \$25,000 a year which was less than 20 percent of the total CEDP funds available.

**Table B1: Number and Average Funding Received by CEDP Recipients from April 2005 to February 2009**

Category	Funding Received	Number of Recipients	Total Average Funding Received	Average Annual Funding Received
Small	Received less than \$200,000	413	\$89,341	\$22,335
Medium	Received between \$200,000 and \$1,000,000	205	\$433,530	\$108,383
Large	Received more than \$1,000,000	43	\$1,781,977	\$445,494

Several factors were considered when selecting Regions for inclusion in the audit. These included:

- Geographic distribution,
- Types of funding arrangements used,
- Number of small, medium and large recipients selected in the Region, and
- Whether the Region had been included in the *2008 Audit of Community Economic Development Funding*. Two Regions were included in both audits.

A summary of the number of recipients and their size by Region is provided in Table B2.

Contributions were used for all agreements with small recipients in the Northwest Territories. Amongst the remaining recipients included in the audit, FTP arrangements were used with 30, and AFA was utilized for 16.



**Table B2: Audit Sample by Region**

Region	Recipient			Total
	Small	Medium	Large	
Alberta		3	3	6
Manitoba	1	2	7	10
NT	5		1	6
Ontario	7	6	2	15
Quebec	3	8	3	14
Total	16	19	16	51

## Annex C: Estimate of CEDP Funds Reported as Not Spent on Economic Development

<b>Region</b>	<b>Estimate of CEDP Funds Reported as Not Spent on Economic Development</b>	<b>Total Funds Provided, April 1, 2005 to March 31, 2009</b>
Alberta	\$1,265,434	\$8,245,448
Manitoba Region	\$1,060,055	\$12,149,440
Northwest Territories Region	\$938,233 <sup>3</sup>	\$4,102,099 <sup>4</sup>
Ontario Region	\$ 26,738	\$8,604,366
Quebec Region	\$747,756	\$11,203,380
<b>Total</b>	<b>\$4,038,216</b>	<b>\$44,304,733</b>

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<sup>3</sup> This is equal to the amount identified by NT Region for recovery or for use in economic development activities in the next year. Only two and half per cent of the total (\$23,731) was associated with agreements managed by the economic development group.

<sup>4</sup> \$3 million of the total funds provided were associated with an Interim Resource Agreement managed by the Aboriginal and Territorial Relations Directorate in the NT Region.

## **Annex D: Defined Program Outcome and Output Indicators**

Outcome Indicators (Numbers 1 to 16) Output Indicators (Numbers 17 to 27):

1. (Employment) - Number of jobs (male, female) created by individual community member business start-ups/business expansions/business relocations
2. (Employment) - Number of community members (male, female) employed full-time
3. (Employment) - Number of community members (male, female) employed part-time or seasonal
4. (Employment) - Number of community members (male, female) employed as a result of business relocation/business expansion/business start-ups
5. (Business Development) - Number of community businesses created
6. (Business Development) - Number of community businesses expanded
7. (Business Development) - Number of businesses which have relocated
8. (Business Development) - Number of business start-ups by individual community members
9. (Business Development) - Number of community members (male, female) that are currently operating businesses as a result of the projects that have been undertaken
10. (Community Revenue) - Community government revenue
11. (Community Revenue) - Community business revenue
12. (Community Revenue) - Number of land dispositions that have been completed to date
13. (Community Revenue) - Total value of land dispositions that have been completed to date
14. (Community Revenue) - Number of other initiatives to secure funding and other resources
15. (Community Revenue) - Total value of funding secured
16. (Community Revenue) - Total value of other resources secured
17. (Employment) (Business Development) (Community Revenue) (Training) (Negotiations) - Number of proposals developed
18. (Training) - Actual number of community members (male, female) to receive training
19. (Training) - Number of community members (male, female) who participated in non-training initiatives
20. (Training) - Number of community members (male, female) who participated in work experience initiatives
21. (Training) - Number of staff (male, female) whose skills and experience have been upgraded
22. (Negotiations) - Number of expected land and resources access arrangements
23. (Negotiations) - Number of negotiations started

24. (Negotiations) - Number of negotiations completed
25. (Negotiations) - Number of negotiating partnerships started
26. (Negotiations) - Number of negotiating partnerships completed
27. (Negotiations) - Number of negotiated partnerships