Indian and Northern Affairs Canada

Audit of the Band Support Funding Program

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Initialisms

AES   Audit and Evaluation Sector

AFA   Alternative Funding Arrangement

AFOA   Aboriginal Financial Officers Association

BSF   Band Support Funding

CFA   Comprehensive Funding Arrangement

CFNFA   Canada/First Nation Funding Agreement

FAA   Financial Administration Act

FNITP   First Nations and Inuit Transfer Payment

FSO   Funding Services Officer

HQ   Headquarters

IGS   Indian Government Support

INAC   Indian and Northern Affairs Canada

IRS   Indian Registry System

MCF   Management Control Framework

NOBA   Notice of Budget Adjustment

PY   Person Years

RCM   Responsibility Centre Manager

TBS   Treasury Board of Canada

Executive Summary

Introduction

The Band Support Funding (BSF) program provides funding to First Nations, in the form of a grant, to assist band councils fund the cost of local governments and the administration of departmentally funded services. Indian bands as defined by the *Indian Act, RSC, 1985* are eligible recipients of the BSF grant. To receive the grant, recipient must submit a completed application form for each funding agreement renewal. The amount of the BSF grant for each recipient is formula driven and takes into consideration a range of components including population, geographic location, and programming responsibilities of individual First Nations.

The basis of payment for the BSF program is identified in the funding agreement with the First Nations. Initial funding levels are determined on an annual basis, in mid-February and are based on the previous year's data (if appropriate). Funding levels and payments schedules are adjusted during an annual mid-year update, usually in July or August, once updated programming data is available to the regions.

BSF is included as part of a Canada/First Nations Funding Agreement (CFNFA) also known as Alternative Funding Arrangement (AFA). It is not separately tracked like most transfer payment programs and is instead transferred to recipients as part of a block transfer, as part of the Indian Government Support (IGS) program. This is done to allow greater flexibility for recipients for the use of IGS program funding. BSF is tracked separately for Comprehensive Funding Arrangements (CFAs). As part of CFAs, the BSF program transferred approximately $137.1 million to First Nations in 2006-2007, $146.7 million in 2007-2008, and $146.1 million is 2008-2009. BSF levels were frozen from 1997-1998 to 2000-2001 at 1996-1997 levels. In 2001-2002, the Government announced a twenty percent increase for BSF, where band recipients became eligible for an increase of up to 5% per year until 2004-2005. Funding levels were unfrozen in 2005-2006.

Funding for the BSF program is transferred to the regions as part of an envelope of funds considered "core" funding. BSF is one of fifteen programs that make up the core funding envelope. The regions determine how the core funding is to be allocated within the fifteen programs based on the greatest needs of their recipients. The core funding envelope is increased by 2% each year.

The IGS programs, which include the BSF program, are currently undergoing a redesign process to obtain TBS approval for new program authorities commencing on April 1, 2010.

Objectives and Scope

The overall objective of this audit was to provide an independent assessment of selected controls within the BSF program. These controls are related to:
- Compliance with the Terms and Conditions of the Program and Agreement;
- Recipient Monitoring;
- Compliance with Indian and Northern Affairs Canada (INAC) Policies and the *Financial Administration Act* (FAA); and
- Financial management as it relates to grant transfers (e.g. budgets and expenditure management).

The scope of the audit included a representative sample of all Band Support Funding (BSF) agreements entered into by the Ontario, Quebec and BC regions in fiscal years (FY) 2006-2007, 2007-2008 and 2008-2009. These regions were selected for examination because they represent the largest regional allocations of BSF.

Conclusions

Internal Audit is of the opinion that:
- The current application process is redundant and has caused confusion amongst recipients. As part of the application process, First Nations are required to validate and authorize two year old data as part of their BSF application; information that is already available to the Department.
- The PY(Person Years) totals entered into the BSF formula can have a significant impact on the funding levels provided to First Nations. The BSF program policy does not provide guidance on how to calculate PY data, which has led to across the regions.
- BSF applications from recipients are being kept on file. However, there were inconsistencies across the regions related to the review of applications.

    o Of the 58 files reviewed, one file did not contain an application.

    o 25 files displayed evidence that a review for accuracy was conducted. However, the evidence used to verify that a review was completed was inconsistent across the regions.

    o Interviewees in each region stated that the process to administer the application involved a visual check against the data available in the IRS and FNITP systems. This check appears to have a level of redundancy given that

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information in the application is pre-populated by INAC regional officials prior to its distribution to the First Nations.

- The BSF Program Policy does not provide any guidance on whom, on behalf of the First Nation, is required to sign the application. There are inconsistencies across the regions, and within the regions, of the positions of the signatories and their relation to the band. The file review found that the positions of the signatories included, but were not limited to, Chief, Finance Officer and Administrative Officer.

- Recipients of BSF grants are eligible as defined by the eligibility criteria outlined in the program policy. It was found that all 58 BSF recipients were deemed to be eligible recipients as defined by the *Indian Act*.

- BSF funding disbursements are processed as prescribed in the payment schedule included in the agreements with First Nations and is tracked in FNITP. Notice of Budget Adjustments issued after the mid-year update are reviewed and approved by the appropriate personnel at the Director-level.

- There are inconsistencies across the regions in the approach related to establishing initial funding levels, and both approaches identified by the audit are non-compliant with the BSF policy.

- In instances where recipients were under third party intervention, BSF funds were transferred to the third party managers specified in FNITP. This is consistent with the INAC Intervention Policy.

- The BSF Program Policy provides very little guidance on the eligible program expenses. Since BSF funding is provided as a grant, there are no requirements for INAC to monitor the use of funds. As a result, guidance provided to recipients on eligible program expenses may be inconsistent.

- Controls governing the release of BSF are operating efficiently and effectively, and in accordance with the Management Control Framework in each region. In the case of missing or unsatisfactory reports related to IGS programs, both separate and pooled funds are withheld until all reporting requirements are satisfactorily met.

- Regions are complying with Sections 32, 33 and 34 of the FAA as they relate to BSF.

- BSF is included as part of a region's "core" funding envelope received annual from INAC headquarters. The core funding envelope increases 2% each year; however, in instances where the total year-over-year increase in BSF commitments is greater than 2%, regions are forced to re-allocate funds from other areas of their core funding envelope to met BSF commitments.

Recommendations

The audit report provides a number of recommendations intended to address the audit findings. These recommendations include;

INAC, should streamline the current application process to ensure efficiency and the use of the most current programming data. This new application process should become part of BSF Program Policy, and be adopted uniformly across regions. An implementation plan should be created for this new process to address regional communication and training issues.

INAC, should create a model that can be used to accurately calculate the PY data so that it better matches community needs. This model should become part of the BSF Program Policy, and implemented consistently across the regions.

INAC, should ensure that consistent and comprehensive guidelines that outline the appropriate uses of BSF expenses are developed and provided to regional staff and recipients. The Department should then establish a communication plan to ensure that the regions and BSF funding recipients clearly understand these guidelines. Training should also be provided to regional program staff to ensure that they are giving consistent and accurate guidance to First Nations on the use of BSF funds.

1.0 Statement of Assurance

We have completed the internal audit of the Band Support Funding Program. The overall objective of the audit was to provide assurance of selected controls related to the administration of the program's grants.

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

The audit team assessed the controls related to the administration of the program against criteria derived from various sources including INAC's Financial Management Manual, relevant INAC and Treasury Board policies, best practices, and the Grants and Contribution Audit Criteria document developed by Audit and Evaluation Sector (AES) in 2007.

In my professional judgment, as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of situations, as they existed at the time of the audit and against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

2.0   Introduction

The Band Support Funding (BSF) program is the largest component of the Indian Government Support (IGS) funding program. The program provides funding to First Nations in the form of a grant to assist band councils in meeting the costs of local government and the administration of departmentally funded services. Since the support is provided in the form of a grant, BSF allows First Nation communities the flexibility to allocate funds according to their individual needs and priorities. It also provides an increased level of responsiveness in an environment of growing complexity as they move toward self-government.

To receive the grant, recipients must submit a completed application form for the initial funding agreement. In addition, recipients are required to re-submit a completed application form for subsequent years for funding agreement renewals. Indian bands as defined by the *Indian Act, RSC, 1985* are eligible to receive BSF grants. Band councils apply for the grant on behalf of the band.

Recipient First Nation communities must complete, authorize, and submit the application forms to regional offices prior to March 31st each year. The amount of the BSF grant for each recipient is formula driven and takes into account population, geographic location, and programming responsibilities of individual First Nations. The regions pre-populate the applications prior to sending them to recipients using data available through the Indian Registry System (IRS) and the First Nations and Inuit Transfer Payment (FNITP) system (with the exception of PY data). The recipients then validate this data and return the application.

The application form contains data used in establishing funding levels, including agreed to Person Years (PY) information, and therefore must be reviewed for comparison with departmental records and approved by the regional office.

An application form should ideally be received by mid-February to allow sufficient time for review and to ensure that BSF is included in the new fiscal year funding agreement. Initially information needed for the application, such as final funding levels for the current year, is not known. Instead information from the previous year is supposed to be used to establish initial BSF levels, as outlined in the program policy. An update is conducted when the current year's information in known (usually in July or August).

The regions are using two distinct methods to manage the application process. The two methods are discussed below:

1. In most regions, officials are sending application packages in January to First Nations. The packages include a pre-populated application template, instructions on how to fill-out and submit the application, and other correspondence related to the program. Once the applications are received by the regional office, officials will validate the information with the data in IRS and FNITP, and establish the initial BSF levels to include in the agreement.

2. In other regions, officials are only sending application packages to First Nations after the mid-year update. In these regions, the initial BSF levels are equal to the final year-end funding levels of the previous year (i.e. post mid-year update levels). The Funding Service Officer (FSO) will send a pre-populated application with mid-year updated data to the First Nation to validate, sign, and submit to the regional office. This is typically done in July or August.

The number of Person Years (PY) needed to administer services to the band is required as part of the application, and is used as an input to the BSF formula. In most regions, the PY data is pre-populated in the application with the previous year's totals. In these regions, if a First Nation wishes to increase its PY totals it would have to provide a letter of request, that includes the rationale for the change, to the responsible FSO. However, in many cases the PY data has never been updated and is largely based on the information departments have on file prior to BSF levels being frozen in 1997.

There are also different methods used across the regions related to establishing initial funding levels. In some regions, the initial funding levels are set to the final funding levels from the previous year, and changes are only being made during the mid-year update. In another region, the initial funding levels are calculated with the funding formula, and are based on 90% of the increases in other INAC programming levels provided to the First Nation. This is done so that in the majority of cases the adjusted levels are increased during the mid-year update, or any decreases are minimal.

With respect to eligible expenditures, as outlined in the BSF Program Policy, the BSF grant is intended to provide a stable funding base for the maintenance of a local government and the central coordination of programs and the services to the citizenship. The BSF Policy indicates that other departmental programs and services provide funding to bands for a variety of associated items that are considered exclusions to the eligible expenditures of the BSF program. These include:
    (a) Direct service costs;

(b) Salaries for employees engaged specifically in service delivery (e.g. teachers, welfare aides, development officers);

(c) Long distance telephone calls for service-oriented purposes;

(d) Specialized equipment and supplies (special forms, microfiche readers, computers, etc.);

(e) Travel and training allowances for band service employees;

(f) All costs, including office space and equipment, for the delivery of a major capital project (over $1.5 million for the total cost of the project except housing); and

(g) All costs of other defined projects which do not constitute an ongoing service.

BSF funds are automatically halted when recipients are non-compliant with respect to submitting financial reporting such as annual audit reports and regional management plans. Furthermore, as prescribed in the Management Control Framework (MCF) in all regions, BSF is automatically halted when recipients are not meeting the minimum reporting requirements for other IGS programs. In these instances the FNITP system tracks when a report is missing, or unsatisfactory, and places an automatic halt on BSF funds. Subsequent payments are pooled and released to the recipient once the reporting requirements are satisfactorily met.

Payment schedules for BSF are established and included in the funding agreements with the First Nations. The total payments reflect the amount calculated by the BSF formula and the payment schedules are set as per the Cash Management Policy in each region. In all regions this policy states that BSF payments are to be made as twelve equal payments throughout the year. Payments are tracked within FNITP to ensure they do not exceed the total BSF funds to be provided to each recipient. BSF levels and payments schedules are adjusted during the mid-year update, which happens in July or August. This is done through a Notice of Budget Adjustment (NOBA) that is appended to the funding agreement.

Certification that each recipient is entitled to each payment for BSF is provided by the Responsibility Center Manager (RCM) in each region, who has authority under Section 34 of the FAA. This is conducted through a Batch Approval Process, where payments reflecting commitments through multiple programs are issued concurrently to recipients. Once certification for Section 34 of the FAA has been provided, payment to the recipients is authorized via Section 33 of the FAA. This is done by accumulating all the funds committed within the batch that is applicable to the BSF program and having it signed off by the Director of the RCM for the program. This is done at regular monthly intervals, with some supplemental and emergency batches being issued at times.

Certification that sufficient funds are available before the agreements and Notice of Budget Adjustments are signed is provided through a Notice to Commit in order to comply with Section 32 of the FAA. This is done semi-annually (again once for the initial commitment of funding, and then again for the mid-year update), and is signed off by the Director of the regional unit responsible for managing the BSF program.

BSF included as part of a Canada/First Nations Funding Agreement (CFNFA) or Alternative Funding Arrangement (AFA) is not separately tracked, and is transferred to recipients as part of a block IGS programs transfer. This is done to allow a greater flexibility for recipients for the use of IGS program funding. As a result, it is impossible to determine the amount of BSF provided separately from the IGS block funding within CFNFAs and AFA. BSF is tracked separately for Comprehensive Funding Arrangements (CFAs). As part of CFAs, the BSF program transferred approximately $137.1 million to First Nations in 2006-2007, $146.7 million in 2007-2008, and $146.1 million is 2008-2009.

BSF levels were frozen from 1997-1998 to 2000-2001 at 1996-1997 levels. During this period, band information was not updated. In 2001-2002, the Government announced a twenty percent increase for BSF, where bands became eligible for up to a 5% increase per year until 2004-2005. Funding levels were unfrozen in 2005-2006.

Funding for the BSF program is transferred from HQ to the regions as part of an envelope of funds considered "core" funding. The BSF is one of fifteen programs that make up the core funding envelope. The regions determine how the core funding is to be allocated within the fifteen programs based on the greatest needs of their recipients. In fiscal year 2008-2009, approximately $3.2 billion was transferred to the regions as part the core funding. The core funding envelope is increased by 2% each year.

The Indian Government Support (IGS) program, which includes the BSF program, are currently undergoing a redesign process to obtain Treasury Board approval for new program authorities effective April 1, 2010.

3.0 Objectives

The overall objective of this audit was to provide an independent assessment of selected controls within the BSF program. These controls are related to:
- Compliance with the Terms and Conditions of the Program and Agreement;
- Recipient Monitoring;

- Compliance with Indian and Northern Affairs Canada policies and the FAA; and
- Financial management as it relates to grant transfers (e.g. budgets and expenditure management).

4.0 Scope

The scope of the audit includes specific controls and oversight activities over the grants associated with the BSF program. The audit examined and assessed the adequacy and effectiveness of controls related to specific areas within the audit scope. The following table outlines those specific in-scope audit areas and matches them to the audit objectives.

Audit Objective	In-Scope Audit Area(s)
Compliance with the Terms and Conditions of the Program and Agreement	- Applications received from potential recipients - Eligibility of applicants - Payments and payment schedules
Recipient Monitoring	- Recipient intervention (3rd party)
Compliance with INAC policies and the FAA	- Compliance with Sections 32, 33 and 34 of the FAA - Potential holdback of BSF as per the program's Management Control Framework
Financial management as it relates to grant transfers (i.e. budgets and expenditure Management)	- Monitoring flow of funding from HQ to the Regions.

The scope of the audit included all BSF agreements entered into by the Ontario, Quebec and BC regions for the fiscal years 2006-2007, 2007-2008 and 2008-2009. These regions were selected for examination because they represent the largest regional allocations of BSF.

Audit criteria were drawn from various sources including INAC's Financial Management Manual, relevant INAC and Treasury Board policies, best practices, and the 2007 *Grants and Contribution Audit Criteria* developed by AES. The audit criteria that were used and the related lines of inquiry are outlined in Annex A.

The scope of the audit was limited to BSF associated with Comprehensive Funding Arrangements (CFAs). Since, BSF under the CFA model is tracked separately from other IGS programs; it allowed the team to accurately review BSF transfers. Controls relating to BSF provided under CFNFAs/AFAs, which are not tracked separately from all other IGS programs, were excluded from the scope of the audit. It should also be noted that the scope of the audit did not include an assessment of recipient Audited Financial Statements as they relate to BSF.

5.0 Approach and Methodology

The audit was conducted in accordance with the requirements of the TB *Policy on Internal Audit* and followed the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinions provided and contained in this report.

Audit work was completed in three phases: the planning phase; the examination phase; and the reporting phase.

Planning Phase

The planning phase included a review of key documents identified and provided by INAC staff, as well as, interviews with INAC officials. Based on the findings from the planning phase, a work plan was developed to guide the examination phase of the audit. The work plan confirmed the objective of the audit and identified the scope, lines of enquiry, criteria, schedule, and methodology for the examination phase.

Examination phase

The examination phase was conducted from April to June of 2009 at Headquarters, as well as, the Toronto, Thunder Bay, Quebec City, and Vancouver regional offices. Evidence collected during the examination phase was primarily obtained through file reviews and interviews.

Recipient File Reviews

The audit focused on grants issued through the BSF program within the Ontario, Quebec and BC regions for the fiscal years 2006-2007, 2007-2008 and 2008-2009. Between 2006-2007 and 2008-2009, 259 First Nations were provided with BSF grants through Comprehensive Funding

Arrangements. A representative sample of 58 files was selected for review. The file sample is available in Annex B.

The selection process for the sample focused on large dollar value grants, where the potential consequences associated with weak or ineffective controls would be greatest. Potential anomalies related to the number of payments made, funding level adjustments and recipients under intervention were also considered during the sample selection process.

The recipient file review consisted of on-site testing to the Toronto, Thunder Bay, Quebec City, and Vancouver regional offices. Testing included the review of documents and files associated with the administration of the program. A file review template was developed as part of the work plan to guide the file review exercise.

Interviews

Interviewees were identified by INAC officials from the Professional and Institutional Development Directorate at headquarters and by the BSF program's Responsibility Management Centre (RDM) in the regions. These individuals were deemed to have the greatest expertise in the administration of the BSF program. In total, ten interviews were conducted as part of the examination phase. Interview guidelines developed as part of the work plan, were used to guide the interviews. Interviewees also provided supporting documentation to the audit team for review, upon request.

Reporting Phase

The reporting phase included a synthesis and an analysis of findings from the examination phase. Following a review of the findings, a report, outlining the key findings, conclusions and recommendations from the audit, was prepared.

Exit meetings were held at each regional office to discuss the audit findings with regional management. Program management at Headquarters was also briefed on the audit findings, following the conclusion of the fieldwork.

6.0 Conclusions

Internal Audit is of the opinion that:

- The current application process is redundant and has caused confusion amongst recipients. As part of the application process, First Nations are required to validate and authorize two year old data as part of their BSF application; information that is already available to the Department.
- The PY totals entered into the BSF formula can have a significant impact on the funding levels provided to First Nations. The BSF program policy does not provide guidance on how to calculate PY data, which has led to inconsistencies in the calculation of PY data across the regions.
- BSF applications from recipients are being kept on file. However, there were inconsistencies across the regions related to the review of applications.

    o Of the 58 files reviewed, one file did contain an application.

    o 25 files displayed evidence that a review for accuracy was conducted. However, the evidence used to verify that a review was completed was inconsistent across the regions.

    o Interviewees in each region stated that the process to administer the application involved a visual check against the data available in the IRS and FNITP systems. This check appears to have a level of redundancy given that information in the application is pre-populated by INAC regional officials prior to its distribution to the First Nations.

- The BSF Program Policy does not provide any guidance on whom, on behalf of the First Nation, is required to sign the application. There are inconsistencies across the regions, and within the regions, of the positions of the signatories and their relation to the band. The file review found that the positions of the signatories included, but were not limited to, Chief, Finance Officer and Administrative Officer.

- Recipients of BSF grants are eligible as defined by the eligibility criteria outlined in the program policy. It was found that all 58 BSF recipients were deemed to be eligible recipients as defined by the *Indian Act*.

- BSF funding disbursements are process as prescribed in the payment schedule included in the agreements with First Nations and is tracked in FNITP. Notice of Budget Adjustments issued after the mid-year update are reviewed and approved by the appropriate personnel at the Director-level.

- There are inconsistencies across the regions in the approach related to establishing initial funding levels, and both approaches that were identified by the audit are non-compliant with the BSF policy.

- Instances where recipients were under third party intervention, BSF funds were transferred to the third party managers specified in FNITP. This is consistent with the INAC Intervention Policy.

- The BSF Program Policy provides very little guidance on the eligible program expenses. Since BSF funding is provided as a grant, there are no requirements for INAC to monitor the use of funds. As a result, guidance provided to recipients regarding enquiries made on eligible program expenses may be inconsistent.

- Controls governing the release of BSF are operating efficiently and effectively, and in accordance with the Management Control Framework in each region. In the case of missing or unsatisfactory reports related to IGS programs, both separate and pooled funds are withheld until all reporting requirements are satisfactorily met.

- Regions are complying with Sections 32, 33 and 34 of the FAA as they relate to BSF.

- BSF is included as part of a region's "core" funding envelope received annual from INAC headquarters. The core funding envelope increases 2% each year; however, in instances where the total year-over-year increase in BSF commitments is greater than 2%, regions are forced to re-allocate funds from other areas of their core funding envelope to met BSF commitments.

7.0 Observations and Recommendations

7.1 The Application Process

The current application process has a degree of redundancy and needs to be streamlined.

Currently, the application process involves regional officials pre-populating the applications with the required data and sending the applications to recipients for validation and authorization. The information contained in each application is populated with the previous fiscal year's data, available to regional officials through IRS and FNITP. Since the applications are required by mid-February in order to be included in the upcoming fiscal year's agreements, the data validated and authorized by recipients in order to establish initial funding levels, is two

years old (i.e. setting initial funding levels for FY 2009-2010 would use FY 2007-2008 final data). This also makes the application process largely a validation exercise for recipients.

The audit found that two distinct methods are being used in the regions to manage the application process. These are discussed in greater detail in the introduction section of this report. Of the two methods being used by regions to manage applications, one has regional officials distribute application material in January, while the other calls for application distribution in July or August. In our opinion, the latter method appears to be more efficient as applications are only being distributed when changes are made to the BSF level. Although this method provides greater predictability for First Nations regarding BSF levels, which assists them in longer-term planning, it is non-compliant with the BSF Program Policy, which dictates that all applications must be received prior to March 31st to be eligible for grant funding in the new fiscal year.
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The current application process was found to be redundant as First Nations are required to validate and authorize two year old data as part of their BSF application; information that is already available to the Department. Interviewees also stated that the application process has caused some confusion amongst recipients. The process needs to be studied in greater detail and ways to streamline it should be identified and prescribed in the BSF Program Policy. The new application process should rely on up-to-date programming data.

Recommendation

INAC, should streamline the current application process to ensure efficiency and the use of the most current programming data. This new application process should become part of BSF Program Policy, and be adopted uniformly across regions. An implementation plan should be created for this new process to address regional communication and training issues.

There are inconsistencies across the regions in the approach used to calculate Person Years (PY) data.

Recipients are required to provide PY data to the Department as part of the BSF application process. PY data is a critical piece of information used by BSF formula to calculate BSF funding levels. The audit found that there are inconsistencies across the regions in how PY data is determined, which has an impact on the funding levels provided to recipients.

In most regions, the PY data has never been updated and is largely based on the information collected by the Department prior to the freezing of BSF funding levels in 1997. In one region,

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after the BSF levels were unfrozen in 2005, a review of PY data was conducted for all the bands. The review highlighted that in some instances, old PY data was producing BSF levels that were incongruent with the current services being administered. The region attempted to update the PY data by using similar INAC positions as a model. This drastically reduced the PY totals for all bands, and as a result decreased the BSF levels. The next year, the region re-calculated the PY data again based on a model provided by the Aboriginal Financial Officers Association of Canada (AFOA), which conducts studies on the salaries of positions in band offices across the country. This increased the PY totals, which also increased the BSF levels.

This illustration demonstrates that the PY totals entered into the BSF formula can have a significant impact in the total BSF levels provided to First Nations. The BSF program policy does not provide guidance on how to calculate PY data, which has led to inconsistencies in the calculation of PY data across the regions.

INAC should develop and implement a model for PY data that reasonably reflects the needs of the First Nations communities in administering their services. The BSF Program Policy should be updated to include this model so that PY data is calculated consistently across all regions.

Recommendation

INAC, should create a model that can be used to accurately calculate the PY data so that it better matches community needs. This model should become part of the BSF Program Policy, and implemented consistently across the regions.

7.2 Eligible Expenditures

The intended uses of BSF funds may not be communicated consistently to recipients.

While not specifically within the scope of this audit, the procedures for recipient monitoring yielded a potential concern related to a lack of consistency in communicating eligible expenditures to recipients. The BSF Program Policy, which contains the terms and conditions of the program, provides very little guidance on the eligible program expenses. Since BSF funding is provided as a grant, there are no requirements or expectations to monitor the use of funds. The policy states that the grant is intended for the general purpose to "…provide a stable funding base for the maintenance of a local government and the central coordination of programs and services to the citizenship."

The audit found that having such general guidelines related to eligible expenditures has caused confusion amongst recipients. In particular, it was noted that recipients were making enquiries to regional offices in order to determine what constituted an eligible use of funds. However, since there are no specific guidelines governing the use of funds, these enquiries may be responded to inconsistently across the regions. For example, an expenditure that is communicated as being "eligible" in one region may not be in another region. Guidance provided to recipients on the intended uses of the funds should be consistent across all regions.

Recommendation

INAC, should ensure that consistent and comprehensive guidelines that outline the appropriate uses of BSF expenses are developed and provided to regional staff and recipients. The Department should establish a communication plan to ensure that the regions and BSF funding recipients clearly understand these guidelines. Training should also be provided to regional program staff to ensure that they are giving consistent and accurate guidance to First Nations on the use of BSF funds.

8.0   Action Plan

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
1. INAC, should streamline the current application process to ensure efficiency and the use of the most current programming data. This new application process should become part of BSF Program Policy, and be adopted uniformly across regions. An implementation plan should be created for this new process to address regional communication and training issues.	**INAC, in the context of the renewal of the Indian Government Support programs, will seek authority to simplify the funding formula such that funding entitlements will be calculated entirely on the basis of current data already contained in internal INAC databases, relieving applicants of the burden of submitting data to INAC. All First Nations communities will have access to the data employed in this calculation.**	Gianni (John) de Francesco	Secure program authority for a new funding formula by April 1, 2010 Implement new automated data collection system by April 1, 2011
2. INAC, Professional and Institutional Development Directorate, should create a model that can be used to accurately calculate the PY data so that it better matches community needs. This model should become part of the BSF Program Policy, and implemented consistently across the regions.	**INAC will seek authority for a simpler funding formula which is driven by population, by the volume of other programs managed by the community, and by geographic factors; the new formula will not employ person-year data.**	Gianni (John) de Francesco	Secure program authority for a new funding formula by April 1, 2010

3. INAC should ensure that consistent and comprehensive guidelines that outline the appropriate uses of BSF expenses are developed and provided to regional staff and recipients. The Department should establish a communication plan to ensure that the regions and BSF funding recipients clearly understand these guidelines. Training should also be provided to regional program staff to ensure that they are giving consistent and accurate guidance to First Nations on the use of BSF funds.	**INAC will seek authority to define the purpose of the grant to be to support First Nations in the execution of functions of government. Regional Operations Sector will provide program guidance to all regional offices regarding these functions.**	Gianni (John) de Francesco	Provide training to regional offices on the purpose of a renewed grant program by December 31, 2010

Annex A – Audit Criteria

Audit Area	Audit Criteria	File Review	Interviews
Applications received from potential applicants	Applications are completed and provided by each recipient prior to the assessment of the amount of funding to be granted to the recipient.	✔	
	Applications have been reviewed for accuracy prior to assessment of the amount of funding to be granted to the recipient.	✔	✔
Eligibility of applicants	Each recipient of BSF is an eligible First Nations community as defined under the Indian Act	✔	
Payments and payment schedules	The amount to be granted to each recipient as calculated by the funding formula is equivalent to the amount stated in the funding agreement	✔	
	Payments are tracked to ensure they do not exceed total funding, including adjusted amounts.	✔	✔
	Initial and ongoing disbursements (including emergency payments) are issued and recorded in a manner that is consistent with the established payment schedule.	✔	
	Disbursements are approved by a Program Manager or Regional Manager before the payment is made.	✔	✔
	There is evidence that application data has been reviewed for the purposes of adjusting recipient funding levels	✔	✔
	Budget Adjustments are reviewed and approved by the Program or Regional Director (or EX - 1) to ensure changes are justified and are within the terms and conditions of the program.	✔	
Recipient intervention	The INAC Intervention Policy is implemented and followed where appropriate.	✔	✔
	BSF is used to compensate 3rd party managers where recipients are under intervention.	✔	✔

Audit Area	Audit Criteria	File Review	Interviews
Compliance with Sections 32, 33, and 34 of the FAA	Program Officers are aware of and regularly review their allocated annual program budget.		✔
	Certification is provided by the responsible officer that sufficient funds are available before the agreement is signed.		✔
	Commitments are accurately tracked against available budgets to avoid over commitments prior to funding being approved.		✔
	Certification is provided by the appropriate delegated authority that the payee is entitled to the payment.	✔	✔
	Sufficient proof that the recipient is eligible has been obtained by the Finance Officer with the appropriate delegated authority that Section 34 of the FAA has been met prior to authorizing payment via Section 33.	✔	✔
	Program records that support Section 34 certification are retained on file to provide documentary evidence of analysis performed and decisions made.	✔	
Potential holdback of BSF as per INAC policy	Money owed to the government is recovered from eligible payments in accordance with TB and INAC policies.		✔
	BSF is held-back from recipients where the recipient has not met minimum reporting standards related to other INAC funding programs.	✔	✔
Monitoring flow of funding from HQ to the Regions	Total program funding is monitored and tracked as it is dispersed from HQ to the Regions.		✔
	Total program funding is dispersed to the Regions, or any remainder that is not dispersed to the Regions is managed and reported to Treasury Board.		✔

Annex B – File Review Sample

Fiscal Year	Band Number	Recipient	Paid to Date
Ontario			
2006-2007	0129	Six Nations of the Grand River	$1,420,941
2006-2007	0145	Taykwa Tagamou Nation	$294,000
2006-2007	0185	Ginoogaming FN	$249,610
2006-2007	0205	Lac Seul FN	$583,250
2006-2007	0207	Bearskin Lake FN	$578,678
2006-2007	0211	Sandy Lake FN	$1,018,994
2006-2007	0216	Cat Lake FN	$418,527
2006-2007	0235	Obashkaandagaang	$184,959
2006-2007	0238	North Spirit Lake FN	$417,523
2006-2007	0325	Kee-Way-Win FN	$406,554
2007-2008	0143	Attawapiskat FN	$959,644
2007-2008	0150	Wabaseemoong Independent Nation	$453,744
2007-2008	0163	Algonquins of Pikwakanagan	$387,113
2007-2008	0186	Marten Falls FN	$368,794
2007-2008	0188	Gull Bay FN	$193,872
2007-2008	0203	Mishkeegogamang FN	$101,562
2007-2008	0208	Pikangikum FN	$840,592
2007-2008	0239	Neskantaga FN	$240,760
2007-2008	0241	Nibinamik FN	$305,915
2007-2008	0242	Aroland FN	$280,573
2008-2009	0129	Nicickousemenecaning FN	$0
2008-2009	0138	Chippewas of Georgina Island	$249,131
2008-2009	0144	Moose Cree FN	$906,450
2008-2009	0170	Walpole Island FN	$763,524
2008-2009	0174	Magnetawan FN	$65,844
2008-2009	0183	Eabametoong FN	$599,649
2008-2009	0209	Kitchenuhmaykoosib Inninuwug	$686,631
2008-2009	0210	Kasabonika Lake FN	$690,447
2008-2009	0237	Deer Lake FN	$618,762
2008-2009	0140	Webequie Settlement	$199,970

Fiscal Year	Band Number	Recipient	Paid to Date
Quebec			
2006-2007	0054	Premiere Nation Malecite	$102,325
2006-2007	0051	Listuguj Mi'Gmaq Government	$644,433
2006-2007	0074	Algonquins of Barriere Lake	$320,620
2006-2007	0052	Micmacs of Gesgapegiag	$386,763
2007-2008	0082	Bande des Innus de Ekuanitshit	$330,573
2007-2008	0083	Bande des Montagnais de Natashquan	$519,299
2007-2008	0069	Mohawks of Kanesatake	$479,029
2007-2008	0084	Montagnais de Unamen Shipu	$659,660
2007-2008	0087	Bande de la Nation Innu Matimekush-Lac	$709,218
2008-2009	0067	Long Point First Nation	$337,414
2008-2009	0088	Bande des Montagnais de Pakua Shipi	$444,057
2008-2009	0053	La Nation Micmac de Gespeg	$159,704
2008-2009	0068	Wolf Lake	$133,044
BC			
2006-2007	0539	Nuxalk	$514,736
2006-2007	0550	Musqueam Indian Band	$409,841
2006-2007	0557	Mount Currie Indian Band	$582,870
2006-2007	0631	Namgis FN (Nimpish)	$504,265
2006-2007	0721	Kluskus	$151,277
2007-2008	0555	Squamish Nation	$569,619
2007-2008	0559	Chehalis Indian Band	$344,876
2007-2008	0610	Kwadacha Idian Band (Fort Ware)	$424,506
2007-2008	0669	Old Masset Village Council	$452,582
2007-2008	0684	Adams Lake Indian Band	$297,437
2008-2009	0530	Moricetown Indian Band	$447,453
2008-2009	0642	Cowichan Tribes	$722,671
2008-2009	0683	Iskut FN	$374,659
2008-2009	0705	Lytton Indian Band	$513,650
2008-2009	0726	Nee-Tahi-Buhn Indian Band	$112,016