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Audit of the Historical Recognition Program: Ex-Gratia Payments

Office of the Chief Audit and Evaluation Executive
Audit and Assurance Services Directorate

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Executive Summary

Introduction

On June 22, 2006, the Prime Minister, on behalf of all Canadians issued a formal apology related to the imposition of a head tax on Chinese immigrants in the late 19th and early 20th century (from 1885 to 1923). To give substantial meaning to the apology, the Government of Canada offered individual ex-gratia symbolic payments of \$20,000 to living Head Tax Payers (HTP) and living spouses or conjugal partners of deceased head tax payers (referred to as Persons in a Conjugal Relationship or 'PCR'). Through an Order in Council, the Minister of Canadian Heritage was given the authority and responsibility for distributing the \$20,000 ex-gratia payment to eligible recipients. The Ex-gratia Symbolic Payments Program ("Program") is managed by the Multiculturalism and Human Rights Division as one of the components of the Historical Recognition Program (HRP).

In the initial phase of the Program, launched on August 29, 2006, HTPs (or those authorized on their behalf) were able to apply for payment. PCRs were able to apply for the \$20,000 ex-gratia payment as of December 1, 2006 as long as the HTP was deceased. The first ex-gratia payment was issued by the Department of Canadian Heritage (PCH) on October 20, 2006.

As of March 31, 2008, the Program assessed and provided approximately 640 payments to eligible HTPs and PCRs for a total disbursement of \$12.8 millions.

Key Findings

Throughout the audit fieldwork, the audit team observed several examples of how controls are properly designed and being applied effectively within the Program. These are:

- The Program has implemented an appropriate governance model that demonstrates sound decision-making in relation to applicant eligibility and the approval of payments;
- Program decision-making is supported by a well implemented and consistently applied applicant risk assessment process; and,
- The Program has in place strong file management procedures which provide the necessary information to support eligibility decisions and payment approvals.

Recommendations

The following are recommendations that address issues where there are opportunities for strengthening controls.

Here are the recommendations:

1. The Director General, Multiculturalism and Human Rights, should conduct regular reconciliations of SAP financial information with program records to identify inaccurate or invalid payments and ensure payments recorded within SAP are accurate. Such reconciliations conducted should be documented and retained for audit trail purposes.
2. The Director General, Financial Management Branch, should ensure that Financial Administration Act (FAA) Section 33 controls are exercised in accordance with the FAA when priority payments are issued, otherwise ensure appropriate and auditable mitigating controls are developed and properly documented.
3. The Director General, Multiculturalism and Human Rights, should review service standards with appropriate consideration given to situations that are beyond the Department's control (i.e., incomplete applications, on-going consultations). When recurring challenges in meeting set service standards are encountered, adjustments to the Program or service standards should be made and communicated.
4. The Director General, Multiculturalism and Human Rights, should notify recipients of all required disclosures of personal information.
5. The Director General, Financial Management Branch should review the Department's Delegated Financial Authorities Chart (DFSAC) and provide clear direction on the delegation of FAA Section 32 approvals for ex-gratia payments.

Statement of Assurance

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 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 to with management. The opinion is applicable only to the entity examined and within the scope described herein. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors. Sufficient evidence was gathered to provide senior management with the proof of the opinion derived from the internal audit.

Audit Opinion

In my opinion, the Historical Recognition Program: Ex-gratia Payments component has implemented good internal controls overall. However, there are moderate issues requiring management focus in the following areas: stewardship, citizen-focused service and accountability.

Original signed by:

Vincent DaLuz
Chief Audit and Evaluation Executive,
Department of Canadian Heritage

NOTE: Subsequent to the completion of this audit, the Multiculturalism Program, including the activities under the scope of this audit, were transferred to the Department of Citizenship and Immigration Canada. This change was announced publicly on October 30, 2008.

Audit Team Members

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With the assistance of external resources

1. Introduction and Context

1.1 Authority for the Audit

The 2007-08 Risk-based Audit Plan of the Assurance Services Directorate, Office of the Chief Audit and Evaluation Executive (OCAEE), identified the requirement to conduct an internal audit of the Historical Recognition Program: Ex-Gratia Symbolic Payments.

1.2 Background

On June 22, 2006, the Prime Minister, on behalf of all Canadians issued a formal apology related to the imposition of a head tax on Chinese immigrants in the late 19th and early 20th century (from 1885 to 1923). To give substantial meaning to the apology, the Government of Canada offered individual ex-gratia symbolic payments of \$20,000 to living Head Tax Payers (HTP) and living spouses or conjugal partners of deceased head tax payers (referred to as Persons in a Conjugal Relationship or 'PCR'). An ex-gratia payment is defined as:

A benevolent payment made by the Crown under the authority of the Governor in Council. The payment is made to anyone in the public interest for loss or expenditure incurred for which there is no legal liability on the part of the Crown. An ex-gratia payment is an exceptional vehicle used only when there is no statutory, regulatory or policy vehicle to make the payment.

Through an Order in Council, the Minister of Canadian Heritage was given the authority and responsibility for distributing the \$20,000 ex-gratia payment to eligible recipients. The Ex-gratia Symbolic Payments Program ("Program") is managed by the Multiculturalism and Human Rights Division as one of the components of the Historical Recognition Program (HRP).

In the initial phase of the Program, launched on August 29, 2006, HTPs (or those authorized to act on their behalf) were able to apply for payment. PCRs were able to apply for the \$20,000 ex-gratia payment as of December 1, 2006 as long as the HTP was deceased. The deadline for applications was March 31, 2008; however, the Minister is able to make exemptions for applications submitted after the deadline if the applicant has a justifiable reason for not submitting the application prior to the deadline. The first ex-gratia payment was issued by the Department of Canadian Heritage (PCH) on October 20, 2006.

As of March 31 2008, the Program had assessed and provided approximately 640 payments to eligible HTPs and PCRs.

2. Objective(s)

The objective of this audit was to provide PCH senior management with assurance that management controls, risk management frameworks and overall governance structure are effective and adequate.

In addition, the audit will also act as a “lessons learned” exercise in that recommendations resulting from audit findings can be used as input to improve similar PCH programs implemented in the future.

3. Scope

The scope of this audit covered the governance, risk management and internal control processes in place for the Program between April 1, 2006 and March 31, 2008. The audit scope included applications received and processed within that time frame including both HTP and PCR applications.

4. Approach and Methodology

The audit was conducted following the Standards for the Professional Practice of Internal Auditing as per the Institute of Internal Auditors (IIA) and in accordance with Federal Government Policy on Internal Audit.

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the audit conclusion provided and contained in this report.

The principal audit techniques used included:

- Interviews with the HRP management and staff;
- Reviewing relevant Program documentation and its compliance with Treasury Board Secretariat (TBS) and departmental policies, guidelines and procedures;
- Evaluating the system of internal controls within the Program; and,
- Conducting a detailed examination of a sample of applicant files to ensure funding decisions made by the Program and payments made were appropriate and supported by appropriate documentation.

The approach used to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. Based on a combination of the evidence gathered through documentation examination, analysis and interviews, each of the audit criteria was assessed by the audit team and a conclusion for each audit criteria was determined. The audit criteria and lines of enquiry developed for this audit are included in Appendix A.

The audit team conducted an examination of 62 applicant files for the 2006-2007 to 2007-2008 fiscal years. This statistical sample was selected to provide a 90% confidence level with a 10% margin of error.

Audit fieldwork was conducted between July 2008 and September 2008.

5. Observations, Recommendations and Management Response

Where a significant difference between the audit criteria and the observed practice was found, the risk of the gap was evaluated and used to develop a conclusion for each audit criteria and document recommendations for future improvement initiatives.

While the Program was found to be generally well controlled, the audit team did identify areas where management controls can be improved. These control deficiencies should be addressed by program management and should be considered in the event that the department is called upon to implement a similar program in the future. Details of these observations are located in the next section and summarized in Appendix A.

5.1 Stewardship

5.1.1 Program Review of SAP Financial Information

The audit team found that the Program did not consistently and formally review SAP payment information to ensure that payments made were accurate and consistent with Program records.

While the Program indicated that at one time a Program Officer tried to review SAP financial information and reconcile this information with the Program's records, the Program could not provide evidence to substantiate the reconciliation exercise. While audit tests conducted showed no anomalies in payments, audit evidence was not available to show that SAP payment information was reviewed and variances with Program records were investigated by the Program.

Risk Assessment

When a Program does not adequately review SAP financial records to ensure their accuracy, there is increased likelihood that unexpected differences and anomalies in payments may go undetected and the reported available balance in SAP may be inaccurate.

Recommendation

1. The Director General, Multiculturalism and Human Rights, should conduct regular reconciliations of SAP financial information with program records to identify inaccurate or invalid payments and ensure payments recorded within SAP are accurate. Such reconciliations conducted should be documented and retained for audit trail purposes.

Management Response

Agreed

5.1.2 Financial Management Controls – Priority Payment Process

The audit team observed that an opportunity exists to strengthen the internal controls used in the departmental priority payment process. Financial officers who exercise payment authority pursuant to Section 33 of the Financial Administration Act (FAA), at a minimum, should ensure that there is auditable evidence that account verification has taken place and that Section 34 of the FAA is signed by an individual with delegated financial signing authority prior to release of a payment.

When the Program was first initiated, it was reported that the Accounting Operations and Financial Policies Directorate was faced with time pressures to provide priority cheques in order to meet Program deadlines. The procedure used was that the payment was released in SAP, the priority cheques were printed on-site and stored within a secured cashier's safe until FAA Section 34 approval for the payment was received; at which time, the Accounting Operations and Financial Policies Directorate transferred the cheques to the Program's Financial/Administrative/Human Resources Officer. For the HRP, only the Deputy Minister (DM) had authority to perform FAA Section 34.

While the audit team did find evidence that the Program's Financial/Administrative/Human Resources Officer obtained the priority cheques from the Accounting Operations and Financial Policies Directorate on a date subsequent to the Program's request for Deputy Minister's FAA Section 34 approval, the audit team did not find sign-off by the FAA Section 33 Accounting Operations and Financial Policies Manager which evidenced that FAA Section 34 was received prior to the release of the cheques. Specifically, there was no evidence that the delegated FAA Section 33 Accounting Operations and Financial Policies Manager formally authorized the release of the cheques from the cashier's safe only after FAA Section 34 authorization was received.

Risk Assessment

When financial controls in place are not exercised as designed, there is increased risk that a payment could be made without proper FAA Section 34 verification and FAA Section 33 payment authorization. In addition, when a priority payment process exists outside of the standard payment process, compensatory controls must be established.

Recommendation

2. The Director General, Financial Management Branch, should ensure that FAA Section 33 controls are exercised in accordance with the FAA when priority payments are issued, otherwise ensure appropriate and auditable mitigating controls are developed and properly documented.

Management Response

Agreed

5.2 Citizen-Focussed Service**5.2.1 Service Delivery Standard**

The service attitude and dialogue approach of the program when working with community associations ensured that eligible applicants were kept informed throughout the multi-phased implementation. The manner in which families were treated throughout the process, often during conversations reliving stressful circumstances, attributed to the success of the program. The on-going consultations with families proved to be a vital component for processing files and often affected whether eligibility could be validated for issuing a payment.

However, the audit team observed that while a service delivery standard was initially developed and communicated at the Program's inception, this standard was dropped when it was realized by the Program that the standard would be unattainable.

Initially, the Program communicated a service standard of two months to process an application and issue a payment. Based on the sample selected, the audit team found, however, that the time taken to process an application from receipt to payment authorization took, on average, four to five months. It was also reported that the lengthy processing time created negative impressions within the Chinese Community that applications were taking too long to process. However, the program did receive positive feedback from the Chinese Canadian National Council in its overall implementation of the program and the program staff's ability to effectively meet applicant needs.

According to Program Management, factors impacting the Program's ability to meet the service standard included:

- The number of applications received outnumbered the estimated number of applications by about 50% ;
- All payments had to be approved by the Deputy Minister (FAA Sec. 34 Authority), who had limited availability for review; and,
- A significant amount of the files required verification with Federal partners and were in differing states of completion. Verification activities significantly impeded the Program's ability to process applications within the service standard.

Risk Assessment

When service standard expectations are not met and there is insufficient communication of standards, there is increased risk that negative impressions will be formed among recipients. In addition, given the nature of this Program, any delay in the processing time that was not adequately communicated could have negatively impacted the Program's ability to achieve its objective of providing "substantial meaning" to the Prime Minister's June 22, 2006 apology, especially given the advanced age of applicants.

Recommendation

3. The Director General, Multiculturalism and Human Rights, should review service standards with appropriate consideration given to situations that are beyond the Department's control (i.e., incomplete applications, on-going consultations). When recurring challenges in meeting set service standards are encountered, adjustments to the Program or service standards should be made and communicated.

Management Response

Agreed

5.2.2 Disclosure of recipient personal information

While the Program undertook measures to ensure applicant privacy and the protection of personal information through the development of a Privacy Impact Analysis (PIA) and Threat Risk Assessment (TRA), the audit team observed that applicant names (i.e. last name and first initial) were disclosed within the Public Accounts of Canada, a public report of the Government of Canada prepared by the Receiver General.

Program Management and Accounting Operations and Financial Policies Directorate reported that a Treasury Board Public Accounts policy requirement required that the names of the applicant (last name and first initial) and the ex-gratia payment amount be publically disclosed within the public accounts. In addition, the Accounting Operations and Financial Policies Manager reported that, in the early stages of the Program, Program

Management was asked if they required an exemption from the requirement but the Program declined since a similar program (Japanese Internship Redress Program) had not used this exemption.

The audit team found that great care was taken to respect the applicants' privacy during the application process. However, privacy statements contained within the Program's application forms and guides did not inform applicants that the names of recipients and ex-gratia payment amounts would be disclosed within the Public Accounts. No other personal identifiable information was published (i.e. address, province of residence, etc.).

Risk Assessment

Although no other personal identifiable information was provided along with the applicants' names, stakeholders may react unfavorably to the fact that names were disclosed without recipients being informed of the disclosure in the Public Accounts.

Recommendation

4. The Director General, Multiculturalism and Human Rights, should notify recipients of all required disclosures of personal information.

Management Response

Agreed

5.3 Accountability

5.3.1 Financial Management Controls – Departmental Delegations

The audit team observed that the FAA Section 32 commitment which was exercised by the Program's Financial/Administrative/Human Resources Officer was not in accordance with the Delegation Financial Signing Authorities Charts (DFSAC).

As part of the audit work conducted to provide assurance on the financial management controls in place, the audit team examined a sample of transactions to verify FAA Sections 32 delegations in accordance with the PCH approved DFSAC. For the HRP, it was stated that the procedure followed was to make one general funding commitment at the beginning of each fiscal year based on the Program's forecast of the number of payments for the fiscal year; separate funding commitments and FAA Section 32 authorization was not conducted for individual payments. The Program's Financial/Administrative/Human Resources Officer was responsible for establishing the general funding commitment within SAP.

The audit team expected to find that the FAA Section 32 delegation exercised by the Program's Financial/Administrative/Human Resources Officer was in accordance with the DFSAC. While the audit team found that a general commitment for the Program was established in SAP by the Program's Financial/Administrative/Human Resources Officer,

a review of the Program's Financial/Administrative/Human Resources Officer specimen signature card which formally documents signing authorities found that this individual did not have the delegated authority to provide FAA Section 32 for ex-gratia payments. Audit tests conducted noted that only the Deputy Minister has the authority to provide FAA Section 32 approval for ex-gratia payments over \$2,000.

Risk Assessment

When FAA Section 32 approval and commitment controls are not effectively implemented, there is increased risk of over committing funds.

Recommendations

5. The DG, Financial Management Branch should review the Department's DFSAC and provide clear direction on the delegation of FAA Section 32 approvals for ex-gratia payments.

Management Response

Agreed

Appendix A – Audit Criteria

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

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> • well managed, no material weaknesses noted; and • effective and sustainable.
2	Controlled	<ul style="list-style-type: none"> • well managed, but minor improvements are needed; and • effective and sustainable.
3	Moderate Issues	<p>it has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> • 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	<p>requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> • financial adjustments material to line item or area or to the department; or • control deficiencies represent serious exposure; or • major deficiencies in overall control structure.

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (4) and/or moderate issues (3) were observed, these were reported in the audit report, and the exposure risk is noted in the table below.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
1	Key documents properly articulate the linkages between the Program and departmental objectives and priorities.	1	<ul style="list-style-type: none"> • The Program's official documents and Order in Council provide authority and linkage to departmental objectives • Interviews, documentation review
2	A plan has been developed to periodically re-assess the Program design and adjust as required.	2	<ul style="list-style-type: none"> • Activities conducted by the Program to make adjustments are informal in nature • Interviews with Program Management
3	Expected results are clearly defined and a plan to measure and demonstrate results is followed.	1	<ul style="list-style-type: none"> • Measuring and demonstration of results for the Program involves the reporting of basic program statistics • Interviews with Program, documentation review
4	Available resources (e.g. human, financial, tools) and competencies are reviewed and match those required to deliver the Program.	2	<ul style="list-style-type: none"> • Tools were developed to assist the program • The Program did not develop formalized plans to guide and operate the Program • Interviews with Program, review of Program budget and expenditure information
5	Standard operating procedures for service delivery and systems to ensure quality have been developed.	3	<ul style="list-style-type: none"> • Tools were developed to assist the program • While initial service standards were developed and communicated, these service standards were dropped when it was realized by the Program that the standard was unattainable • Interviews with Program and community representative, analysis of application processing time

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
6	An appropriate governance structure and mechanisms are in place and being followed to ensure sound decisions are made (e.g. equitable, transparent, and justifiable as well as applicant privacy and security).	3	<ul style="list-style-type: none"> • Appropriate governance structures and mechanisms are in place • However, with respect to applicant privacy and security, applicant names (last name and first initial) were disclosed within the Public Accounts as per a Treasury Board requirement • Interviews with Program, file review, documentation review
7	A mechanism exists to systematically identify, assess, monitor and report on risks faced by the Program.	2	<ul style="list-style-type: none"> • Program implemented a formal applicant risk assessment process to enhance decision-making but does not have a formal risk program in place • Interviews with Program, file review
8	The characteristics and size of the target audience is known.	2	<ul style="list-style-type: none"> • An actuarial analysis was conducted that estimated the number of potential applicants; however, the analysis underestimated the number and ages of applicants • Interviews with Program, documentation review
9	An appropriate method of public communication is used to inform the target audience and its effectiveness is periodically reassessed.	1	<ul style="list-style-type: none"> • Appropriate communication and outreach activities were conducted by the Program • Interviews with Program and community representative, documentation review
10	The public communication clearly explains who is eligible for funding under the Program.	1	<ul style="list-style-type: none"> • Appropriate application guides and forms were developed by the Program • Interviews with Program and community representative, documentation review

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
11	Application forms are readily available, easy to complete, and request all information needed to assess eligibility.	1	<ul style="list-style-type: none"> • Appropriate application forms and guides were developed and communicated by the program • Interviews with Program and community representative, documentation review
12	Applications are completed with reasonable and equitable PCH assistance.	1	<ul style="list-style-type: none"> • Through file review, consistency was observed in how Program Officers provided assistance to applicants • Interviews with Program and community representative, file review
13	Applications are consistently assessed against approved eligibility criteria. When greater diligence is required, additional review procedures exist and are followed.	2	<ul style="list-style-type: none"> • Applications are consistently assessed against approved eligibility criteria • The 20% automatic verification process was consistently applied. There was due diligence in the verification process as evidenced in audit tests. However, the process was not documented. • Interviews with Program, file review
14	Those with financial authority certify that sufficient funds are available in the Program budget and the funds are committed before forwarding recommendations for approval (Sec.32).	3	<ul style="list-style-type: none"> • An overall Sec. 32 approval was not provided by the appropriate delegated authority to certify that sufficient budget was available • Interviews with Program and Finance
15	Applications that are rejected are recorded and contain appropriate evidence of analysis and rationale.	1	<ul style="list-style-type: none"> • Applications that are rejected are recorded and contain appropriate evidence of analysis and rationale • Interviews with Program, file review
16	All funding recommendations are approved by the Minister or delegated authority on a timely basis.	1	<ul style="list-style-type: none"> • All funding recommendations were approved by the Deputy Minister or Acting Deputy Minister based on the Program's recommendation • File review

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
17	Payments are issued only following approval by the Deputy Minister.	4	<ul style="list-style-type: none"> • No auditable evidence of Section 33 being performed in priority payments • Finance interviews, file review, analysis of payment information
18	Where inappropriate payments have been detected, corrective actions are promptly taken.	3	<ul style="list-style-type: none"> • The Program does not regularly review SAP payment information • Interviews with Program and Finance, analysis of payment information
19	All payments are recorded accurately in SAP and in the proper period.	3	<ul style="list-style-type: none"> • The Program does not regularly review SAP payment information • Interviews with Program and Finance, analysis of payment information
20	Upon successful completion of an application, project files are closed and paper files archived.	1	<ul style="list-style-type: none"> • The Program has appropriate file management practices in place to retain documentation that support Program decisions • Interviews with Program, file review
21	Information collected is useful for re-considering the design of Programs, and meets the needs of accountability reporting as defined by stakeholders and Management (e.g. expected results vs. actual results).	2	<ul style="list-style-type: none"> • The Program collected appropriate information given the Program's mandate and the fact that it is a non-reoccurring, sun-setting Program • The Program did not track performance information that would enable the Program to improve its service delivery (continuous improvement) • Interviews with Program
22	Capabilities and resources required to analyze information is available and applied.	1	<ul style="list-style-type: none"> • The Program had sufficient capabilities and resources required to analyze information • Interviews with Program, documentation review

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence/Observation
23	Reports fairly present results.	2	<ul style="list-style-type: none"> • Minor discrepancies between program results, program payments recorded in SAP and results reported in the Department's Performance Report (DPR) were observed • Interviews with Program, documentation review, review of financial information
24	Reports on performance are routinely shared with the appropriate stakeholders and the usefulness of reports is demonstrated.	1	<ul style="list-style-type: none"> • Reports on Program performance are routinely shared with the appropriate stakeholders • Interviews with Program and community representative, documentation review