



**Alberta Indigenous Relations  
Systems to Assess First  
Nations Development  
Fund Grants Followup**

# Contents

Report Highlights	1
Summary	3
About this Audit	4
Objective and Scope	4
Criteria	5
What We Examined	5
Conclusion	5
Why This Conclusion Matters to Albertans	5
Summary of Recommendations	6
Detailed Findings and Recommendations	7
Review and Approval Processes	7
Monitoring Processes	8
Audit Responsibilities and Quality Assurance Statement	9



## Related Reports:

- [Systems to Assess First Nations Development Fund Grants](#) (first followup) (May 2017)
- [Systems to Assess First Nations Development Fund Grants](#) (July 2013)

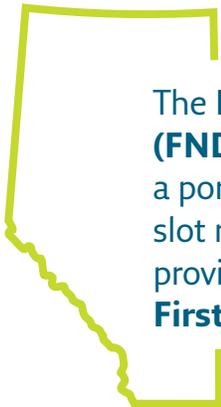
Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

# Report Highlights



## We found:

The department has implemented the recommendations and improved its processes to administer the FNDF program p. 7 & 8



The **First Nations Development Fund (FNDF)** is a lottery grant program supported by a portion of revenues from government-owned slot machines on First Nations in Alberta to provide **a flexible source of funding for First Nations** community projects p. 3

Since 2006, **more than \$1 billion** has been allocated to support hundreds of social, economic and community projects in First Nations communities across the province p. 3

The program represents an **opportunity for the government to support self-determination of First Nations in Alberta** p. 5



**The Department of Indigenous Relations administers the FNDF program** p. 3

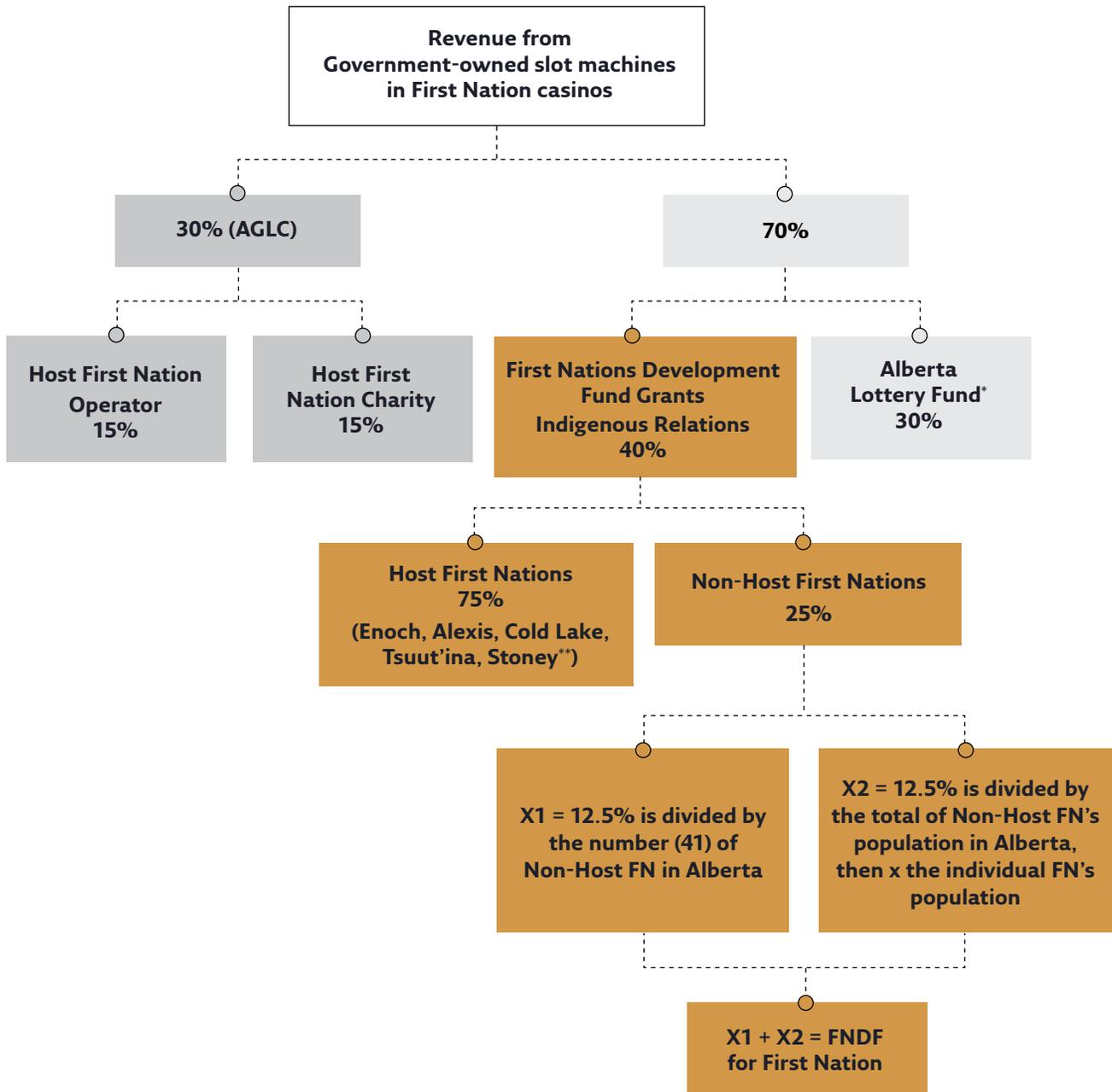


This is our second followup audit on recommendations made in July 2013 and repeated in May 2017 p. 4



**We consider a recommendation implemented** when the deficiencies originally identified have been resolved p. 4

# FNDF Funding Model<sup>1</sup>



\*Alberta Lottery Fund supports a variety of Alberta programs and services in communities throughout Alberta.

\*\*The three Stoney Tribes of Chiniki, Bears paw and Wesley, are considered one Host First Nation

## Legend

Alberta Gaming Liquor and Cannabis	First Nations Development Fund Grants Indigenous Relations	*Culture, Multiculturalism and Status of Women
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<sup>1</sup> Source: First Nations Development Fund Grant Program Guide, Second Edition, March 2018, page 3 accessed July 24, 2019 at <https://open.alberta.ca/dataset/b164e4c0-5e0c-4716-848a-f86012c39257/resource/c3af8969-2061-4c4d-bf6b-e2c967208f4c/download/fndf-program-guide-2018.pdf>

# Summary

The First Nations Development Fund (FNDF) is a lottery grant program administered by the Department of Indigenous Relations available exclusively to First Nations in Alberta. The FNDF program provides First Nations a flexible source of funding that First Nations can direct to meet their needs for social, economic and community projects. FNDF is supported by a portion of revenues from government-owned slot machines in First Nations casinos in Alberta.

Since its inception in 2006, the FNDF has allocated more than \$1 billion to support hundreds of social, economic and community development projects in First Nations in Alberta.

In July 2013, we conducted an audit on the FNDF grant program because it represents a significant portion of the expenditures for the Department of Indigenous Relations, and it was receiving large and complex multi-year grant applications that had a higher level of risk than the less complex applications it typically received. In that audit, we made three recommendations where the department needed to improve its processes.

In May 2017 we performed a followup audit and concluded that the department had implemented one recommendation, but repeated two recommendations because the department was still working on implementing needed improvements to how it administered and monitored the program.

Since 2017, the department has taken several steps to improve its processes to review and approve complex applications, and to monitor compliance with the grant agreement. It has worked with participating First Nations to provide additional training and guidance on program requirements, maintaining regular ongoing communication, and completing some additional improvements to the program.

Based on our examination of these recent improvements, we conclude that the recommendations have been implemented.

# About this Audit

Our July 2013 audit report of the FNDF program found the department needed to improve processes in three key areas:

- communicating program eligibility requirements
- reviewing and approving grant applications
- monitoring grant recipient compliance with grant agreements<sup>2</sup>

Our May 2017 followup audit found that the department implemented needed changes to formalize and communicate eligible uses of FNDF grant program funding to recipient First Nations.<sup>3</sup> At that time, we repeated two recommendations because we found processes to review and approve complex grant applications and to monitor for, and to support First Nations to correct, non-compliance required further improvement.<sup>4</sup>

In March 2018, management asserted it had implemented the two outstanding recommendations.

## Objective and Scope

The objective of this audit was to determine if the Department of Indigenous Relations implemented the following two recommendations to improve its FNDF grant administration processes:

- improve processes to review and approve grant applications by:
  - › formalizing review processes for complex grant applications
  - › obtaining sufficient information to support assessments of complex grant applications
- improve monitoring processes by consistently ensuring that First Nations comply with reporting requirements and acting to correct non-compliance with grant agreements

We consider a recommendation to be implemented when the deficiencies we originally identified, which formed the basis of the recommendation, have been resolved.

We audited the department's processes to manage FNDF grants in place for the 2018-2019 fiscal year.

<sup>2</sup> *Report of the Auditor General of Alberta - July 2013*, pages 17-28.

<sup>3</sup> *Report of the Auditor General of Alberta - May 2017*, pages 63-73.

<sup>4</sup> *Report of the Auditor General of Alberta - May 2017*, pages 63-73.

## Criteria

The criteria we used in our audit were carried forward from our July 2013 Audit Report and our May 2017 Followup Audit Report.

Management of Indigenous Relations acknowledged the suitability of the audit criteria on January 22, 2019.

## What We Examined

We examined the design, implementation and operating effectiveness of key processes and controls put in place by management to administer the FNDF grant program.

We:

- interviewed management and staff
- examined the department's policies, processes and systems to administer the FNDF grant program
- performed detailed testing of the assessment and approval processes for non-complex and complex applications, and the monitoring processes for reporting requirements and non-compliance

We conducted our fieldwork between January and April 2019 and completed our audit on September 20, 2019.

## Conclusion

We conclude that the department implemented our recommendations to administer the FNDF grant program for the fiscal year-ended March 31, 2019 by improving processes to:

- review and approve grant applications by formalizing its review process for complex grant applications and obtaining sufficient information to support its assessment of complex grant applications
- consistently monitor funding recipients' compliance with reporting requirements and clarifying roles and responsibilities for following up on non-compliance with grant agreements



## Why This Conclusion Matters to Albertans

The FNDF program represents an opportunity for the government to support self-determination of First Nations in Alberta. When administered carefully against the grant agreement, the program provides First Nations a flexible source of funding that First Nations can direct to meet their needs for social, economic and community programs

# Summary of Recommendations

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## **IMPLEMENTED** Recommendation: Review and approval processes

We recommend that the Department of Indigenous Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of complex grant applications

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## **IMPLEMENTED** Recommendation: Monitoring processes

We recommend that the Department of Indigenous Relations improve its monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

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# Detailed Findings and Recommendations

## Review and Approval Processes

### IMPLEMENTED

#### Context

The department occasionally receives applications for FNDF funding for projects that are deemed to be more complex than most. The department defines a complex application as proposed projects having one or more of the following factors:

- the potential to include gaming-related activities
- having project costs that include principal and interest payments for a loan of \$5 million or more
- having other complex, technical or unique factors that require additional analysis

In 2013, we found that the department had not formalized processes to review and approve complex FNDF grant applications. We also found the department approved some projects without having sufficient information to support its assessment against required criteria, such as the “rationale for costs in excess of costs of similar projects.”

In 2017, we found the department developed further guidance for assessing complex applications, but had not yet incorporated the guidance into its procedure manual or applied the guidance to any new complex applications. We also identified again instances of projects approved without sufficient support for project costs.

## Criteria

The department should have systems and processes to review and approve grant applications.

## Our followup audit findings

### Key Findings

- The department has formalized and consistently followed processes to assess complex grant applications.
- Complex and non-complex applications we tested included sufficient information to support project approval.

During our followup audit, we found that the department had formalized and consistently followed the processes it developed to assess complex grant applications. Part of formalizing the process included clarifying the types of supporting documentation it may request from applicants to support complex applications.

The department assessed and approved three complex grant applications between April 1, 2018 and March 31, 2019. We examined each of these three applications and found that the complex application assessment process was followed in assessing the applications. We also examined a sample of the 215 non-complex applications received between April and December 2018. We found the department received adequate supporting documentation to support each complex and non-complex application we examined.

# Monitoring Processes

## IMPLEMENTED

### Context

Under the department's grant agreement, funding recipients are required to submit an approved financial report annually, and a final report within 90 days of completing each project. The department provides a series of notices to advise program participants of the reporting deadlines and the consequences of not complying with the requirements. If funding recipients do not provide the required reporting for any project, unpaid grant funding for all projects for the First Nation is withheld by the department.

In 2013, we found the department had not taken corrective actions when funding recipients did not submit project reporting required under the grant agreement. Recipients continued to receive funding despite not complying with the requirements. We also found that when reporting was received, the department did not document its analysis to compare actual to projected project costs, nor did it obtain explanations for significant variances identified.

In 2017, we found that the department's processes to document its analysis of project variances had improved. However, the department was still not consistently following its processes to advise First Nations of reporting deadlines, and did not enforce compliance with reporting requirements by withholding payments when necessary. We also found a lack of clarity between the department's liaison officers and its internal audit group regarding responsibility for following up on non-compliance with the grant agreement.

### Criteria

The department should monitor approved grants to ensure recipients comply with agreements, and should act to ensure recipients correct any identified non-compliance with grant agreements.

## Our followup audit findings

### Key Findings

- Changes to the department's monitoring processes resulted in significant improvements by participating First Nations in providing project reporting on a timely basis.
- The department improved the clarity of roles and responsibilities between the FNDF compliance audit function and program staff, including the design of followup actions related to non-compliance audit findings.

We found the department improved its processes to monitor compliance with reporting requirements by grant recipients. It has worked with participating First Nations to provide training and guidance on program requirements and to maintain regular ongoing communication based on the needs of each individual First Nation.

The department eliminated an expectation that its liaison staff should visit each First Nation twice a year, instead adopting a more risk-based approach to align with the specific needs of each First Nation. For example, some First Nations have many ongoing projects while others may have one. Regular communication includes site visits, in-person visits, email and phone communication.

The department made additional improvements by:

- amending the annual deadline for project reporting from June 30 to July 31 to better align with participating First Nations' timelines for federal reporting requirements
- enhancing guidance for funding recipients and FNDF staff on accountability reporting processes
- documenting site visits and communication between department staff and participating First Nations on program requirements and the department's expectations for program deliverables
- consistently following its processes and controls for providing notifications of upcoming deadlines to funding recipients

These changes resulted in improved compliance by participating First Nations in providing the required project reporting on a timely basis. All but four of the 46 funding recipients submitted required reporting on time. In the four instances where reporting was not received within the timelines, we observed that funding payments were held until the reporting was received and approved by the director.

The department also made improvements to its processes to followup on non-compliance identified through the work of FNDF's compliance audit function. The department improved the clarity of the roles and responsibilities of the FNDF compliance audit function and program area staff. We examined the followup processes related to non-compliance audit findings and found they are clear and appropriately designed.

## Audit Responsibilities and Quality Assurance Statement

Management of the Department of Indigenous Relations is responsible for the systems and processes to administer the FNDF grant program.

**Our responsibility is to express an independent conclusion on whether the department has implemented our outstanding recommendations.**

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.



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