

**Indian and Northern Affairs Canada
Corporate Services**

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**Audit of the Compliance with the
First Nations Land Management Initiative**

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Executive Summary

Background

Under the framework agreement on First Nation Land Management, signatory First Nations have the opportunity to exercise jurisdiction, management and administration of their own reserve lands and resources. First Nation laws replace the statutory scheme of the Indian Act.

In order to achieve this objective, the 1996 framework agreement must be ratified by Canada and by individual First Nation parties. Canada's ratification of the agreement was effected in 1999 by the First Nation Land Management Act. First Nations ratify the agreement by a community vote of approval of the fundamental land law known as a land code and the individual agreement with Canada setting out specifics of the transfer of control.

The framework agreement provides for three types of funding from Canada for implementation of the agreement. Developmental funding is provided to allow First Nations to develop land codes, to negotiate the individual transfer agreement with Canada and to seek community approval. Core funding is provided to support the operations of the First Nations Land Management Resource Centre and operational funding is provided directly from INAC to First Nations that have ratified the framework agreement to enable them to implement their land code.

As of December 31, 2005, there were 52 First Nation signatories to the framework agreement, 28 of them engaged in the ratification process, 16 operational and 8 deemed inactive. The signatory First Nations are located in New Brunswick, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. Approximately half of the participating First Nations are located in British Columbia.

In 2001, the Lands Advisory Board incorporated the First Nation Land Management Resource Centre Inc. as a corporation without share capital pursuant to the Canada Corporations Act. The directors of the Resource Centre are all members of the Lands Advisory Board Finance Committee established in the same year. The Resource Centre discharges the non political functions and duties of the Lands Advisory Board as set out in the framework agreement.

Funding arrangements for the operations of the Lands Advisory Board and the Resource Centre are set out in Comprehensive Funding Arrangements with Canada signed by the Board, the Resource Centre and the Minister of Indian Affairs and Northern Development.

According to Treasury Board funding authority on March 27, 2003, the First Nation Land Management Initiative is to be administered through the Joint Implementation Committee, which consists of representatives from INAC, the Resource Centre and the Lands Advisory Board. The Joint Implementation Committee oversees the implementation plan of the First Nation Land Management Initiative.

Objectives

The objectives of this audit were:

- to verify the Resource Centre's compliance with the Comprehensive Funding Arrangements (financial and reporting); and
- to determine if an effective management control framework is in place to plan, deliver, monitor and report on key activities, results and expenditures.

The scope of the audit was limited to the examination of the expenditures and management controls of the First Nation Land Management Initiative over fiscal periods beginning with the incorporation of the Resource Centre, which occurred in December 2001, and ending at December 31, 2005.

The examination phase was completed on August 15, 2006 in accordance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and Treasury Board's Policy on Internal Audit.

Overall Findings

Overall, our audit findings demonstrate that the Resource Centre has substantially complied with the terms and conditions of the Comprehensive Funding Arrangement.

Internal Audit identified, however, that the Resource Centre did not maintain sufficient supporting documentation as required by the arrangement. Internal Audit could not provide a high level of assurance that recipient expenditures were consistent with the services and activities set out in the operational work plans and/or monthly expenditure plans. Internal Audit sampled over forty seven (47) percent of the population of expenditures (by dollar value) and was able to review certain supporting documentation and obtained proof of payment for the entire sample. Where sufficient supporting documentation was available, in sixty five (65) percent of the sample, Internal Audit found that all expenditures were in compliance with the services and activities set out in the arrangement. As outlined above, Internal Audit was unable to obtain sufficient supporting documentation to provide a high level of assurance for the remaining thirty five (35) percent of the sample. This was observed within travel expenditures and professional fees paid for attendance to events and meetings which could not be substantiated by either a hotel invoice, boarding pass or meeting minutes. In addition, other examples of insufficient supporting documentation included reimbursement based on financial ledgers and advances. Internal Audit was advised that documentation such as signed attendance sheets for reimbursements of honorariums at meetings or detailed time sheets of work performed by coordinators and assistant coordinators might not have been produced and/or may have been subsequently lost or destroyed.

In addition to the above sample, Internal Audit performed other substantive tests on accounts payable and automation expense and found no errors.

Key Findings and Recommendations

Compliance with the terms and conditions of the Comprehensive Funding Arrangement

Findings

- The Comprehensive Funding Arrangement requires that the recipient maintain sufficient financial and other supporting documentation. Our audit demonstrated that, in certain instances, disbursements were made without sufficient supporting documentation.
- The Resource Centre reallocated funds between activities at various times throughout the years reviewed. As the reallocation of funds between budgeted line items would constitute a change in monthly expenditure budgets, the Resource Centre was required to obtain approval from the Minister. Internal Audit identified that these INAC approvals were verbal in nature and not done at the Minister level or formally documented.
- The classification and reporting requirements for interest income earned are unclear in the arrangement.
- During the course of our review of compensation, although in compliance with the arrangement, it was observed that the Executive Director was paid a substantial amount of approved overtime.
- Our review of compensation also identified that employment contracts are not consistent and certain contracts have education leave benefits well in excess of industry standards.
- Based on the nature of the program, travel costs represent a significant portion of total expenditures. A large proportion of this travel was observed to be air travel at the business class level.

Recommendations

1. The Resource Centre should monitor and assess the implementation of its recently developed documentation policies, procedures and directives to help ensure the required supporting documentation is maintained.
2. a) The Director General of Lands Branch should consider requiring that all significant reallocations between First Nations be requested, assessed and approved on a timely basis and in writing, as specified by clause 2.1 Part B of the Comprehensive Funding Arrangement.

2. b) Furthermore, INAC should consider whether clause 2.1 Part B should more clearly define whether the Flexible Transfer Payment portion of the arrangement applies. Given the sometimes minor nature of the reallocations, consideration should also be given to whether it is appropriate to require the Minister to approve all changes.
3. The Director General of Finance Branch should define and document, in the Comprehensive Funding Arrangement, how interest earned by the recipient is to be treated.
4. The Lands Advisory Board, in conjunction with the Resource Centre, should evaluate the functions assigned to the Executive Director and consider the cost/benefit of reassigning certain responsibilities. In addition, INAC should consider providing guidance, in the arrangement, with respect to compensation.
5. The Resource Centre should consider having consistent employment contracts and related benefits. In addition, the Resource Centre should develop, communicate and follow a consistent training and education policy.
6. The Resource Centre should consider reviewing the appropriateness of its travel policy and consider its consistency with the spirit of the Treasury Board travel policy.

Management Control Framework

Findings

- The roles and responsibilities of the Joint Implementation Committee should be formalized through clear and communicated policies and procedures.
- To date, a formal risk assessment has not been completed by the Resource Centre. In addition, a risk assessment should be completed for all First Nation funding decisions.
- Internal Audit noted certain instances where approved budgets under the flexible transfer portion of the arrangement were significantly different than actual expenditures.
- The current arrangement lacks clarity in terms of roles, responsibilities and accountabilities and the current arrangement terms may not sufficiently support INAC's compliance requirements with respect to Treasury Board.
- Prior to February 2006, the Resource Centre's payment process was inefficient and potentially ineffective. Substantial improvements have been made since February and have been observed by Internal Audit.

- It is our understanding that the First Nation Land Management Initiative monitoring and performance measurement process is still being formalized and, to date, the performance expectations have not been formally agreed to, communicated and included in the Comprehensive Funding Arrangement.

Recommendations

7. a) The Director General, Lands Branch and the Chairman of the Board of the Resource Centre should rationalize the Joint Implementation Committee role with that of the Lands Advisory Board and Finance Committee, and formalize its mandate.
7. b) A formal assessment of the membership and function of the Lands Advisory Board and Resource Centre governance bodies should be completed to help ensure they are as fully representative of all stakeholders as possible.
8. The Resource Centre and the Lands Advisory Board should continue to develop its risk profile and further develop, communicate and implement appropriate risk management actions. This should include a risk assessment as a regular part of First Nations funding considerations.
9. a) Sufficient budget assessment and analysis should be completed by the Director General of Lands Branch to assess the reasonableness of the budget amounts before funding is approved. The funding process and related documentation requirements should be discussed and agreed to in advance by the Resource Centre and INAC.
9. b) INAC should ensure that all transfers of funds under the Comprehensive Funding Arrangement are made to the legal entity that is party to the arrangement.
10. a) INAC and the Resource Centre should continue to negotiate refinements to the Comprehensive Funding Arrangement to increase its clarity and direction. In addition, the Resource Centre should ensure that future Community Approval Process Plans with First Nations are consistent with their arrangement with INAC.
10. b) The Director General of Lands Branch should clarify the expectations, responsibilities and accountabilities of the Resource Centre to help ensure the efficient and effective delivery of the required services. These clarifications in roles should include roles with respect to: First Nations funding, selection of verifiers, joint ratification capacity assessment, dealing with environmental issues and other communication and reporting roles.

10. c) The Comprehensive Funding Arrangement should include the requirement for the timely reporting of capacity assessments to the Director General of Lands Branch.
10. d) The Director General of Lands Branch and the Board of the Resource Centre should continue to develop and implement an operational funding formula.
10. e) The Director General of Lands Branch, in cooperation with the Resource Centre, should ensure that all future Comprehensive Funding Arrangements are consistent with INAC's National model arrangement.
10. f) In addition, the Resource Centre and the Director General of Lands Branch should consider revisions to future Comprehensive Funding Arrangements that include clarifying certain expenditure reimbursement practices, a clause to permit access to the ultimate third party recipient's documents and premises as specified by Treasury Board's Policy on Transfer Payments, clarity on the calculation and use of surplus funds and additional clarity (i.e. annexes, schedules, etc.) on what is included in the agreement.
11. The Resource Centre should ensure that the revised payment process is documented, implemented and approved by the Finance Committee. In addition, to ensure that appropriate payments are made, Finance Committee members should only sign cheques once the approved authorization request is received.
- 12 a) The First Nation Land Management Directorate should identify, in consultation with the Resource Centre, appropriate performance expectations for the Resource Centre. These expectations and measures should be communicated and formalized through the Comprehensive Funding Arrangement and related reporting requirements, and timelines should be established and adhered to.
- 12 b) The Resource Centre should in turn identify the performance expectations, measures and reporting requirements of the First Nations to help ensure that the Resource Centre can obtain the information required for its ultimate reporting to INAC.
- 12 c) The Director General of Lands Branch and the Chairman of the Board of the Resource Centre should ensure that the Resource Centre's and First Nations' performance is measured against the relevant Results based Management and Accountability Framework performance indicators, that progress can be assessed and that any required action is taken.

Section 1 - Introduction

Background

Over the last decades there has been a move towards First Nations self governance in the area of land management. The Indian Act, in place since 1876, gave Indian and Northern Affairs Canada (INAC) significant control over reserve lands. Since that time, several actions have been taken to provide First Nations with more control over land management. Delegation of Sections 53 and 60 of the Indian Act, and the Regional Lands Administration Program, gave First Nations increased control over land management, while INAC also still remained intricately involved and ultimately responsible.

Under the framework agreement on First Nation Land Management, signatory First Nations have the opportunity to exercise jurisdiction, management and administration of their own reserve lands and resources. First Nations laws replace the statutory scheme of the Indian Act.

In order to achieve this objective, the 1996 framework agreement must be ratified by Canada and by individual First Nation parties. Canada's ratification of the agreement was effected in 1999 by the First Nation Land Management Act. First Nations ratify the agreement if, by a community vote, the electorate approves the agreement, a fundamental land law known as a land code and an individual agreement with Canada setting out specifics of the transfer of control.

The framework agreement provides for three types of funding from Canada for implementation of the agreement. Developmental funding is provided to allow First Nations to develop land codes, to negotiate the individual transfer agreement with Canada and to seek community approval. Core funding is provided to support the operations of the First Nations Land Management Resource Centre and operational funding is provided directly from INAC to First Nations that have ratified the framework agreement to enable them to implement their land code.

The participating First Nations are responsible for taking their communities through a developmental process. The First Nation develops a land code, negotiates an Individual Transfer Agreement with Canada and develops a community ratification document. The land code and Individual Transfer Agreement are brought to a community vote. A successful vote ratifies the land code and the land management sections of the Indian Act will no longer apply to the community.

According to Treasury Board funding authority of March 27, 2003, the First Nation Land Management Initiative is to be administered through the Joint Implementation Committee, which consists of representatives from INAC, the Resource Centre and the Lands Advisory Board.

The Joint Implementation Committee oversees the implementation plan of the First Nation Land Management Initiative. INAC and the Resource Centre work together to determine:

- procedures for allocating funds;
- systems to address environmental protection issues;
- procedures for the addition of other First Nations; and
- a variety of other matters relating to First Nations land management.

The Resource Centre's activities include:

- supporting developmental First Nations by providing funding for the community developmental process, models for land codes and land laws and providing ongoing developmental and technical support; and
- continuing to support First Nations after ratification by providing ongoing training and capacity building, models for agreements and land laws, land management systems and dispute resolution.

The Lands Advisory Board acts as political representative of the First Nation parties to the framework agreement and provides a number of supportive and advisory services as detailed in the framework agreement. In 2001, the Lands Advisory Board incorporated the First Nation Land Management Resource Centre as a corporation without share capital pursuant to the Canada Corporations Act. The directors of the Resource Centre are all members of the Lands Advisory Board Finance Committee established in the same year. The Resource Centre discharges the non political functions and duties of the Lands Advisory Board as set out in the framework agreement.

INAC and the First Nation are jointly responsible for the appointment of a verifier whose role is to insure that the proposed land code and ratification process are consistent with the framework agreement and the First Nations Land Management Act. Once a First Nation land code comes into effect, INAC is no longer responsible for the governance and management of the reserve land of the First Nation. The First Nations Land Management Directorate within INAC is responsible for implementing INAC responsibilities under the framework agreement, including negotiating the Individual Transfer Agreement, providing First Nations with a land code with operational funding, and providing core funding to the Resource Centre.

Funding

INAC obtained Treasury Board authority for multi year funding for the First Nation Land Management Initiative to 2006-2007 fiscal year as follows:

- 2002-2003 \$18,800,000
- 2003-2004 \$17,400,000
- 2004-2005 \$19,700,000
- 2005-2006 \$21,900,000
- 2006-2007 \$24,100,000

A portion of this funding is provided to the Resource Centre through an annual Comprehensive Funding Arrangement. Prior to fiscal year 2003-2004 the Comprehensive Funding Arrangement consisted of a contribution portion only. Starting with fiscal year 2003-2004, the Comprehensive Funding Arrangement consists of a contribution portion as well as a Flexible Transfer Payment. As defined in the Comprehensive Funding Arrangement, the Flexible Transfer Payment is "A conditional transfer payment for which unexpended balances may be retained by the recipient, provided that the terms and conditions have been fulfilled by the recipient. Any deficit is the responsibility of the recipient". Although the framework agreement is a government to government agreement between participating First Nations and Canada, the Comprehensive Funding Arrangement is a funding agreement between Canada and the Resource Centre.

The traditional contribution portion of the Comprehensive Funding Arrangement is used primarily to fund First Nations in the developmental process. Contribution funds are first provided by INAC to the Resource Centre which is the initial recipient. Under the guidance of the Lands Advisory Board Finance Committee, the Resource Centre further distributes the contribution funds to selected eligible First Nations which become the ultimate recipients of these monies.

The second portion of the Comprehensive Funding Arrangement, the Flexible Transfer portion, is primarily used to fund the operations of the Lands Advisory Board/Resource Centre. This funding can also be referred to as "core funding."

For FYEs 2001-2002 through 2005-2006 the Comprehensive Funding Arrangements provided funding to the Resource Centre as follows:

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Contribution	\$3.4M	\$3.9M	\$3.6M	\$4.3M	\$3.7M
Flexible Transfer Agreement	\$0.0M	\$0.0M	\$3.2M	\$3.4M	\$3.2M
Total	\$3.4M	\$3.9M	\$6.8M	\$7.7M	\$6.9M

The above amounts represent funding approved for each fiscal year. The difference between this table and the audit population described later relates to the audit population representing actual expenditures to December 31, 2005.

Achievements to Date

Fourteen First Nations signed on to the framework agreement in 1996. According to the second Quarter Status Report to the Minister prepared by the First Nations Land Management Directorate, as of December 31, 2005:

- 16 First Nations had ratified and were operational (i.e. managing lands);
- 28 First Nations were in various stages of the developmental process;
- 8 First Nations were in the developmental process but were deemed inactive; and
- 52 First Nations were on the waiting list to begin the developmental process.

There are currently 634 First Nations in Canada, some of which may not be eligible to participate in the Initiative because they are already operating under comprehensive land claims.

Audit Engagement Objectives and Scope

The objectives of this audit were:

- to verify the Resource Centre's compliance with the Comprehensive Funding Arrangement (financial and reporting); and
- to determine if an effective management control framework is in place to plan, deliver, monitor and report on key activities, results and expenditures.

The scope of the audit was limited to the examination of the expenditures and management controls of the First Nation Land Management Initiative over fiscal periods beginning with the incorporation of the Resource Centre, which occurred in December 2001, and ending at December 31, 2005.

The results of the audit are intended to be used by INAC as well as the Resource Centre to improve existing management practices, controls, processes and procedures in their management of the funds for the First Nation Land Management Initiative. The following findings should be read in the context of the overall report and related scope and approach.

The examination phase was conducted over the period extending from January 23, 2006 to August 15, 2006.

Audit Criteria

The audit criteria define the standards against which the audit will be performed. They are expressed in terms of reasonable expectations for these processes and practices to achieve desired departmental and branch results and objectives. The criteria used for this engagement included the requirements under the Comprehensive Funding Arrangement as described in Appendix A.

In addition, Internal Audit considered sound management practices and nationally/internationally recognized control frameworks to identify and assess the control framework applied within the program. As a result, Internal Audit considered the following processes in conducting our review of the management control framework: governance, risk management, contractual arrangements, performance measurement, communication and monitoring.

Approach and Methodology

The audit was conducted in accordance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and Treasury Board's Policy on Internal Audit.

The audit approach included a review of key First Nation Land Management Initiative documents, consultations with key personnel and review of a sample of expenditures and related source documentation, at the Resource Centre and as provided by First Nations, to verify the appropriateness of program expenditures. In addition to the above, based on an assessment of risk, Internal Audit identified and performed other substantive procedures. Finally, Internal Audit proceeded to draft and finalize this report to summarize its engagement findings.

In order to obtain a detailed understanding of the First Nation Land Management Initiative, Internal Audit reviewed relevant documentation as well as the funding arrangements. Internal Audit also reviewed information pertaining to other contributions as well as policies and procedures related to similar governmental funding instruments. In addition, Internal Audit reviewed various other documentation in support of the Resource Centre's processes and management control framework. A listing of certain documentation reviewed is included in Appendix B.

During the course of our engagement, Internal Audit consulted with the Resource Centre's Executive Director, Manager of Finance and other employees. Our consultations were primarily directed at questions related to the Resource Centre's management framework, financial policies and procedures, and expenditures. In addition, regular formal and informal meetings on the status of the audit engagement were held with representatives of INAC's Audit and Evaluation Branch, assisted by KPMG, and members of the Resource Centre's Board of Directors.

In order to determine the extent to which funds were disbursed in compliance with sound business practices as well as the Comprehensive Funding Arrangement between INAC and the Resource Centre, a judgmental sample of disbursement transactions from the Flexible Transfer Payment as well as the contribution portion of the agreement was reviewed. The judgmental sample was selected based on key risk factors identified with the remaining sample items selected randomly.

A total of forty (40) percent of the dollar value of transactions that occurred during the period under scope was verified. Subsequent to the initial sample, additional samples representing approximately seven (7) percent of the population were selected. This was mainly in the area of compensation under the Flexible Transfer category of the arrangement for 2005 and 2006. The final sample was 2,111 sample items with a dollar value of \$10,140,980 out of a population of \$21,464,640. A detail of the amounts reviewed can be found in Appendix C.

Specifically, Internal Audit reviewed each of the sample items selected to determine the following:

- evidence of receipt of services and/or merchandise;
- adequacy of documentation to support payment;
- payment is in compliance with the Comprehensive Funding Arrangement and the Community Approval Process Plans (if applicable);
- approval of disbursement by members of the finance committee;
- approval of cheques by independent reviewers; and
- proper account coding.

During the course of our audit of disbursement transactions, it was identified that source documentation for expenditure reimbursement could be divided into two major categories:

- invoices provided to the Resource Centre directly from suppliers of services and merchandise. These expenses are usually paid under the umbrella of the Flexible Transfer Arrangement, although we have noted instances where payments on behalf of First Nations were made by the Resource Centre. This documentation is kept at the Resource Centre.
- reimbursement requests received from the First Nations. Source documentation for these payments can vary from copies of invoices to copies of the First Nations general ledgers with a request for payments approved by a First Nation representative. All source documents for the payment to the supplier are kept at the First Nation.

Based on our risk assessment, Internal Audit performed other substantive tests as follows:

- review of total compensation paid to Resource Centre staff and executive members for accuracy and authorization (included in sample results summarized in Appendix C);
- review of cheque register for payments made to known related parties and numbered companies;
- review and confirmations of certain Accounts Payables to First Nations at year end for accuracy, completeness and cut off (Appendix E); and
- confirmation of equipment received by First Nations for existence and accuracy (Appendix F).

The results of our fieldwork have been summarized by Comprehensive Funding Arrangement requirement and are noted in the following section of this report. In addition to summarizing our findings with respect to compliance with the Comprehensive Funding Arrangement, other findings and recommendations with respect to the Management Control Framework follow.

Section 2 -

Compliance with the Terms and Conditions of the Comprehensive Funding Arrangement

Compliance with the Comprehensive Funding Arrangement

Overall, our audit findings (Appendix A) demonstrate that the Resource Centre has substantially complied with the terms and conditions of the Comprehensive Funding Arrangement.

Internal Audit identified, however, that the Resource Centre did not maintain sufficient supporting documentation as required by the arrangement. Internal Audit could not provide a high level of assurance that recipient expenditures were consistent with the services and activities set out in the operational work plans and/or monthly expenditure plans. Internal Audit sampled over forty seven (47) percent of the population of expenditures (by dollar value) and was able to review certain supporting documentation and obtained proof of payment for the entire sample. Where sufficient supporting documentation was available, in sixty five (65) percent of the sample, Internal Audit found that all expenditures were in compliance with the services and activities set out in the arrangement. As outlined above, Internal Audit was unable to obtain sufficient supporting documentation to provide a high level of assurance for the remaining thirty five (35) percent of the sample. This was observed within travel expenditures and professional fees paid for attendance to events and meetings which could not be substantiated by either a hotel invoice, boarding pass or meeting minutes. In addition, other examples of insufficient supporting documentation included reimbursement based on financial ledgers and advances. Internal Audit was advised that documentation such as signed attendance sheets for reimbursements of honorariums at meetings or detailed time sheets of work performed by coordinators and assistant coordinators might not have been produced and/or may have been subsequently lost or destroyed.

In addition to the above substantive sample, Internal Audit performed other substantive tests that included tests of accounts payable and automation expense. For accounts payable, Internal Audit confirmed, or agreed to cheque endorsement, a sample of \$717,918 payables as of March 31, 2005. This represented over ninety seven (97) percent of the population and no errors were found. For automation expense, Internal Audit tested the receipt and existence of the equipment through confirmation. Eight (8) of eleven (11) First Nations have confirmed receipt of the equipment purchased by the Resource Centre on their behalf. As of the date of this report, the remaining three (3) confirmations had not been received.

A summary of the compliance findings is outlined in Appendix A and a summary of the sample test results are outlined in Appendices C, E and F.

The following provides further details of the Internal Audit findings and exceptions noted.

Maintenance of Financial and Supporting Records

The Comprehensive Funding Arrangement requires that the recipient maintain financial and other supporting documentation. Our audit found that, in certain instances, disbursements were made without sufficient supporting documentation. This was observed within travel expenditures and professional fees paid for attendance to events and meetings. Although Internal Audit could verify the expenditure and payment (i.e. airline ticket, hotel bill, consolidated invoice without names, detail list of events attended, etc.), we could not sufficiently substantiate the travel or attendance at meetings due to the lack of documentation to attest to the presence of the person in the location. Sufficient supporting documentation could have included: boarding passes, hotel invoice (with name of occupant), or minutes of meetings with a listing of the attendees.

Other examples of insufficient supporting documentation included: reimbursement based on financial ledgers and advances based on budgeted amounts. Internal Audit noted six (6) instances for a total of over \$174,000 where reimbursements were made based solely on copies of the First Nations' financial ledgers. Internal Audit also noted nine (9) instances for a total of over \$240,000 where advance payments were made to some First Nations based on budgets. Per our consultation with representatives of the Resource Centre, such payments were made in circumstances where First Nations did not have the financial means to pay for services. In these cases, supporting documentation had not been submitted by the First Nations. Prior to fiscal 2005-2006, First Nations were not required to provide detailed supporting documentation in order to obtain reimbursement of their expenses by the Resource Centre. Internal Audit was advised that documentation such as signed attendance sheets for reimbursements of honorariums at meetings, or detailed time sheets of work performed by coordinators and assistant coordinators, might not have been produced and/or may have been lost or destroyed.

The Resource Centre has revised the Community Approval Process Plan to now specify to each First Nation which expenses are eligible for reimbursement. The new Community Approval Process Plan also specifies that the Resource Centre will only reimburse the First Nations that provide proper supporting documentation. A list of the type of documentation that will be accepted will be forwarded to all First Nations. In addition, Internal Audit has observed that with the hiring of the Manager of Finance, the Resource Centre has been more diligent in communicating the requirement for supporting documentation.

Internal Audit also noted three (3) cases for a total of \$9,000 where payment of monthly fees to the Lands Advisory Board members had been made in the month prior to the services being rendered.

Based on the above findings, Internal Audit would conclude that, in certain cases, the Resource Centre did not maintain sufficient supporting records as required by the Comprehensive Funding Arrangement.

Recommendation

The Resource Centre should monitor and assess the implementation of its recently developed documentation policies, procedures and directives to help ensure the required supporting documentation is maintained.

Delivery of Services and Activities as per the Arrangement

The Comprehensive Funding Arrangement refers to schedules which provide an operational workplan. This workplan includes budgets detailed by activity, by class of expenditures and by recipient.

Based on the findings related to supporting documentation identified above, Internal Audit cannot provide a high level of assurance that certain services and activities were in compliance with the arrangement.

Recommendation

See preceding recommendation.

Changes to Budgeted Monthly Expenditure

Prior to fiscal 2005-2006, Comprehensive Funding Arrangement Clause 2.1 of Part B, General Terms and Conditions, allowed the recipient to propose changes to monthly expenditures budgets submitted with the Comprehensive Funding Arrangement. These proposed changes were to take effect thirty (30) days after being mutually agreed upon by the recipient and the Minister.

Previous agreements did not specify how these proposed changes and approvals should be communicated.

During the course of our audit it was identified that the Resource Centre reallocated funds between activities at various times throughout the years. As the reallocation of funds between budgeted line items would constitute a change in monthly expenditure budgets, the Resource Centre was required to obtain approval from the Minister. Internal Audit identified that these approvals were not done at the Minister level and were not formally documented. Resource Centre representatives and INAC officials confirmed that such requests and approvals were not documented and that only verbal approval had been given by members of the Lands Branch at INAC to the Lands Advisory Board Finance Committee.

For fiscal 2005-2006, clause 2.1 was modified to specify that changes can be proposed in writing by the Resource Centre to schedule D 3 which specifies the yearly budgets by Developmental First Nations, and that the proposed changes will take effect only if the Minister notifies the

recipient in writing. Internal Audit noted that the revised clause above only refers to the contribution portion of the arrangement and to any reallocation of proposed expenditures between Developmental First Nations. The clause does not make any specific reference to the Flexible Transfer Payment budgets and, therefore, it appears that reallocation between budget items in the Flexible Transfer Payment does not require pre approval by the Minister and the Resource Centre is in compliance.

Internal Audit reviewed the schedule of expenses by Developmental First Nations for 2005-2006 and noted that funds provided under the contribution portion of the funding had been reallocated for four (4) First Nations. In a letter to the Executive Director of the Resource Centre, dated March 14, 2006 and subsequent to the period under review, the reallocation had been approved by the First Nations Land Management Director.

Recommendation

The Director General of Lands Branch should consider requiring that all significant reallocations between First Nations be requested, assessed and approved on a timely basis and in writing, as specified by clause 2.1 Part B of the Comprehensive Funding Arrangement.

Furthermore, INAC should consider whether clause 2.1 Part B should more clearly define whether the Flexible Transfer Payment portion of the arrangement applies. Given the sometimes minor nature of the reallocations, consideration should also be given to whether it is appropriate to require the Minister to approve all changes.

Other Sources of Funding

Comprehensive Funding Arrangement clause 2.2.7 (2.2.8 for 2005-2006) of Part B specifies that the recipient "will promptly notify the Minister in writing of any further such funding that it receives after execution of this Agreement". The clause also specifies that "the total of such amounts received by the recipient from such other sources shall be repaid by the recipient to the Minister".

Although the above clause does not specify how "funding" is to be defined, it was identified that additional interest revenues were earned and neither included as "additional funding" in the budgets or other financial reporting under the arrangement. Although the interest income was not reported as income for the purpose of the Comprehensive Funding Arrangement, the interest expenses noted below as incurred by the Resource Centre have been claimed as eligible expenses. No other additional sources of funding were identified during the course of our audit.

According to the audited financial statements, the following interest income and expenses were reported:

	Interest Earned	Interest Expenses
FYE 2002	\$19,359	\$ 4,846
FYE 2003	\$ 8,548	\$18,919
FYE 2004	\$13,456	\$11,724
FYE 2005	\$12,181	\$10,180
Total	\$53,544	\$45,669

Consultations identified that the Finance Committee believes interest earned on funds received can be retained in order to offset the bank line of credit and credit card interest charges incurred by the Lands Advisory Board/Resource Centre. The Finance Committee further identified that interest charges are incurred in the first months of the year due to the fact that funding from INAC is usually received later in the fiscal period, hence the Resource Centre requires the use of a line of credit in order to finance its activities. A review of deposits at the Resource Centre confirmed that funding for the first three (3) months of the fiscal year is usually received later in the year, usually as a lump sum in the month of June.

Based on the relatively small amount of interest revenue and the lack of clarity over the treatment of interest earned under the arrangement, Internal Audit would conclude that the Resource Centre is in substantial compliance with the requirement to report additional funding received.

Recommendation

The Director General of Finance Branch should define and document, in the Comprehensive Funding Arrangement, how interest earned by the recipient is to be treated.

Other Substantive Tests

The following summarizes additional compliance procedures performed by Internal Audit during the course of the audit.

Review of Compensation

Approximately fifty percent of the budgeted Flexible Transfer Payment portion of the arrangement relates to salaries and compensation paid to Resource Centre staff and executive members. Additional work to determine the accuracy and completeness of the amounts reported to INAC for this expense was completed by Internal Audit.

Internal Audit reviewed the approval of all employee contracts which, in all cases, had been approved by members of the Finance Committee. In addition, Internal Audit reviewed the salaries to ensure that they were in compliance with the salary range specified in the arrangement. Internal Audit did not find any discrepancy between the Comprehensive Funding Arrangement and the contracts.

The results of these additional substantive tests have been included in the other substantive audit results summarized in Appendix C. A detail of compensation by year is included in Appendix D.

Internal Audit also compared actual compensation paid to all employees to their approved contracts. In cases where actual payments differed from the agreed upon salaries, additional work was completed to verify the reason for the difference. In all timesheets reviewed, the difference represented payments for overtime. Only in the case of the Executive Director was compensation identified to be significantly above the range specified. In the case of the Executive Director, overtime represented approximately 40% of total compensation during the period under review. Internal Audit noted that all payments made to the Executive Director were substantiated by timesheets that had been approved by the Finance Committee.

The current employment contracts for all employees, including the Executive Director, specify that the Resource Centre's policy is not to provide performance bonuses. All employees are eligible to overtime pay at a rate of 1.5 times on regular weekdays and 2.0 times on weekends and holidays. Ontario's Employment Standards Act specifies that "for every hour you work over 44 hours a week, your employer must pay you at least one and a half (1.5) times your regular rate of pay".

Although comparative compensation policies (including Treasury Board) do not specifically prohibit payment for overtime work at the executive levels, compensation packages at those levels usually include performance pay instead of overtime. The salaries and related overtime are paid from the Flexible Transfer Payment portion of the arrangement and relate, as required, to work activities for the First Nation Land Management Initiative. As a result, the expenses, including those above budget, meet the terms and conditions of the arrangement for use of the surplus funds.

Recommendation

The Lands Advisory Board, in conjunction with the Resource Centre, should evaluate the functions assigned to the Executive Director and consider the cost/benefit of reassigning certain responsibilities. In addition, INAC should consider providing guidance, in the arrangement, with respect to compensation.

Review and Confirmation of Accounts Payables

In order to audit the accuracy, completeness and validity of expenses paid and payable to First Nations, Internal Audit verified payment of all payables to First Nations, reported at fiscal year end 2003, 2004 and 2005, to recently endorsed cheques. In all cases Internal Audit noted that cheques had been endorsed by the specified First Nations for the payables reported in the audited financial statements shortly after year end.

In addition, confirmations were sent to First Nations to verify the accounts payable at March 31, 2005. Of the twenty (20) confirmations forwarded a total of eleven (11) have responded and agreed to the stated amount. The remaining nine (9) confirmations were not received as at the date of this report, however, as identified above, Internal Audit agreed the remaining payable balances to recently endorsed cheques and found them all in agreement. A detail of the accounts payable is included in Appendix E.

No errors noted.

Review and Confirmation of Automation/Capital Expenses

Internal Audit confirmed receipt and existence of electronic equipment reimbursed with eight (8) of the eleven (11) First Nations approached. Internal Audit confirmed that these First Nations had received the specified equipment and that the equipment remained in their possession. The remaining three First Nations have not confirmed receipt as at the date of this report.

Internal Audit's sample representing fifty one percent (51%) of the \$229,823 in the automation/capital costs expensed within the training and capacity building and administration accounts, was reviewed to determine its existence and accuracy. In all cases sampled, Internal Audit noted that sufficient documentation was available to support the purchases and related reimbursements.

No errors noted.

Comparison with Other Policies

The scope of Internal Audit's audit did not include a complete assessment of the Resource Centre's policies against other relevant policies. In the course of our audit, Internal Audit noted instances where the Resource Centre's policies differ from other relevant policies, such as certain Treasury Board policies.

Treasury Board policies and requirements have been referred to in this section as these policies are highly relevant to INAC, the funding organization, although it should be noted that the Comprehensive Funding Arrangement does not require the Resource Centre to adhere to Treasury Board requirements and/or any other specific policies. As a result, the following findings have been noted for information purposes only.

Educational Leave

The employment contracts of two employees specify that "leave with pay for the purpose of continuing the employee's education will be granted up to a maximum of one (1) day per week". Although the audit team did not find any instances where an unreasonable amount of educational leave was taken, the clause allows for a possible 52 days a year, or approximately ten (10) weeks, by the referenced employees for leave with pay for education purposes.

Treasury Board policy specifies that Education Leave is leave without pay. It also specifies that, in circumstances where the education would bring a benefit to the employer, the employer may provide the employee with an allowance in lieu of salary.

Although it is commonly recognized that training related to an employee's functions can be beneficial to both the employee and the employer, the above noted contracts appear to leave the Resource Centre vulnerable to excessive leave that may be resource draining and adversely affect the morale of other Resource Centre employees.

Recommendation

The Resource Centre should consider having consistent employment contracts and related benefits. In addition, the Resource Centre should develop, communicate and follow a consistent training and education policy.

Air Travel

Due to the nature of the Lands Advisory Board/Resource Centre operations, a significant portion of costs pertains to travel and accommodation costs. Total travel expenses for the periods under scope were as follows:

Fiscal Year	Travel Expenses
2001-2002	\$ 66,338
2002-2003	\$ 856,339
2003-2004	\$ 983,905
2004-2005	\$ 883,689
2005-2006 (9 months)	\$ 396,316
Total	\$3,186,587

Internal Audit tested a sample of travel expenses and noted that in most cases air fare transportation for Members of the Board of Directors, the Chairman of the Lands Advisory Board as well as the Executive Director is booked in "business class".

Per discussions with the Executive Director, revisions to the Resource Centre's travel policy, approved in August 2006, allow only certain Members of the Board as well as the Executive Director to travel business class. Internal Audit also noted eleven (11) instances, being thirty (30) percent of the sample reviewed, where individuals, such as consultants, verifiers or regular employees were permitted to travel business class. The travel policy is somewhat in compliance with Treasury Board's travel policy which allows higher Executive levels to travel business class for trips of 850 air kilometres or more one way. Treasury Board further outlines that for individuals that are not Government of Canada employees, the travel policy permits the use of economy class airfare only.

Recommendation

The Resource Centre should consider reviewing the appropriateness of its travel policy and consider its consistency with the spirit of the Treasury Board travel policy.

Section 3 - Management Control Framework

The following section reflects audit findings based on our review of management practice. Internal Audit used nationally/internationally recognized control frameworks to identify and assess the control framework applied within the program. As a result, Internal Audit considered the following processes and practices in conducting our review of the management control framework: governance, risk management, contractual arrangements, performance measurement, communication and monitoring.

Governance

The Lands Advisory Board and the Joint Implementation Committee have been identified in the agreement as having key roles in the governance of the First Nation Land Management Initiative.

In contrast to the Lands Advisory Board, whose governance mandate is outlined in the framework agreement, the role, mandate and membership of the Joint Implementation Committee and its decision making mechanisms are not formally documented in any agreement. The role of the Joint Implementation Committee is described in the Risk based Audit Framework and Results based Management and Accountability Framework for the First Nation Land Management Initiative, as being part of the governance structure to oversee the overall implementation plan of the First Nation Land Management Initiative. These documents do not have the same authority as the framework agreement and, as described, the roles, responsibilities and accountabilities are not sufficiently clear to prevent overlap of responsibilities.

Recommendation

The Director General, Lands Branch and the Chairman of the Board of the Resource Centre should rationalize the Joint Implementation Committee role with that of the Lands Advisory Board and Finance Committee, and formalize its mandate.

A formal assessment of the membership and function of the Lands Advisory Board and Resource Centre governance bodies should be completed to help ensure they are as fully representative of all stakeholders as possible.

Risk Management

A formal risk assessment and related risk management actions are important elements of any organization's management control framework. In fiscal 2003-2004, the Resource Centre had developed a document which identified potential risks and risk mitigating strategies. As part of these actions Internal Audit understands that, on a yearly basis, each First Nation in the developmental stage is provided with a calendar of expected activities to be completed and milestones to be reached.

We understand that risks and risk mitigation actions were identified by INAC in 2002, as part of preparing a risk based audit framework for First Nations Land Management. This risk based audit framework could help further support the identification of risk and related risk mitigation for the Resource Centre and the First Nation Land Management Initiative. As INAC, the Resource Centre and the Lands Branch share in the ultimate objective, the assessment of any risks related to the achievement of that objective would be beneficial for all parties.

Furthermore, risk assessment should be a regular part of any First Nation funding decision. A sound consideration and understanding of risk will help support decisions with respect to whether funding is appropriate and also support decisions with respect to the degree, use and restrictions that may be appropriate for the funding.

Recommendation

The Resource Centre and the Lands Advisory Board should continue to develop its risk profile and further develop, communicate and implement appropriate risk management actions. This should include a risk assessment as a regular part of First Nations funding considerations.

Flexible Transfer Payment Funding

The Comprehensive Funding Arrangement provides a budget for the activities to be completed by the Resource Centre and funded by INAC. As identified earlier, the Resource Centre is allowed to keep any surplus funds as long as it adheres to the terms and conditions of the agreement.

For example, Internal Audit determined that, for fiscal 2004-2005, a total amount of \$226,500 was advanced by INAC to the Resource Centre to pay for the professional services of the Lands Advisory Board Chairman. This budget translated into a total of 302 days of work per year or 5.8 days per week. In our review of actual payments made to the Chairman, Internal Audit found that the actual payments of \$100,828 were substantially below the amount budgeted and advanced to the Resource Centre. In other instances, funds were budgeted and advanced for

activities with a relatively low likelihood of occurrence. The above examples illustrate instances where budgets and the related analyses may not have been sufficiently robust. This is of particular concern where funding is flexible and the recipient is allowed to keep surplus funds.

In addition, our audit identified that prior to fiscal 2005-2006 payments by INAC were made to the First Nations Land Advisory Board which is not the legal entity under the agreement. Starting with fiscal year 2005-2006, payments were made to the legal entity party to the agreement (First Nation Land Management Resource Centre Inc.).

Recommendation

Sufficient budget assessment and analysis should be completed by the Director General of Lands Branch to assess the reasonableness of the budget amounts before funding is approved. The funding process and related documentation requirements should be discussed and agreed to in advance by the Resource Centre and INAC.

INAC should ensure that all transfers of funds under the Comprehensive Funding Arrangement are made to the legal entity that is party to the arrangement.

Contract Agreement

Overall

A critical element of any third party agreement is to develop a contractual agreement that clearly defines the terms, objective, requirements, allowable expenditures, monitoring/governance, reporting and performance assessment criteria.

In addition, it is important that the objectives and requirements of any agreement between INAC and the Resource Centre be consistent with any subsequent agreements between the Resource Centre and the First Nations. This will help ensure that the Resource Centre is able to adhere to INAC's requirements. For example, if INAC requires certain performance data, reporting and/or supporting documentation from the Resource Centre that the Resource Centre does not require from the First Nations, the Resource Centre will likely not be able to meet their contractual information requirements.

Also, if INAC has specific standards or requirements that it must adhere to, for example, Financial Administration Act and Treasury Board policies, it should consider the inclusion of similar requirements in their agreement. As identified earlier in the section entitled Comparison with Other Policies, Internal Audit noted potential inconsistencies between certain Resource Centre practices and policies required to be followed by INAC.

Over the period under audit scope, changes were observed by Internal Audit that increased the clarity of the arrangement. These changes included changes to identify certain Annexes within the arrangement terms and the addition of an audit clause. In addition, further proposed changes to the Comprehensive Funding Arrangement include: improvements in the detail of attachments (i.e. work plan and expenditure forecasts), increased reporting requirements (i.e. quarterly and annual reports), and an increased threshold for the retention of books and records and further changes to the audit clause.

Recommendation

INAC and the Resource Centre should continue to negotiate refinements to the Comprehensive Funding Arrangement to increase its clarity and direction. In addition, the Resource Centre should ensure that future Community Approval Process Plans with First Nations are consistent with their arrangement with INAC.

Clarity of Roles, Expectations and Accountabilities

A critical element of any service agreement is clarity of roles and responsibilities and clarity of performance expectations and related measures in an effort to achieve clear accountability. During the course of our audit, a number of potential improvements to the agreement were noted.

Internal Audit observed that the Comprehensive Funding Arrangement does not establish the criteria to be used in making key funding decisions. As a result, criteria used by the Resource Centre may be inconsistently applied and/or may be inconsistent with the criteria envisaged by INAC. In support of participating First Nations, for example, the Resource Centre conducts an assessment of their capacity prior to preparing a Community Approval Process Plan. INAC also conducts a capacity assessment of First Nations with a recommendation to the Minister on whether or not to admit the First Nation to the framework agreement. The Resource Centre's capacity assessment is not shared with INAC nor is there any assurance that the two assessments are based on the same, or similar, criteria.

Although the First Nation Land Management Initiative process map describes the roles and responsibilities with respect to ratifying a land code and land management, the roles and responsibilities for ongoing support and training have not been clarified. This clarity is important for efficiency and effectiveness purposes, as it may reduce any potential overlap of services. We understand, for example, that a key role for INAC includes supporting First Nations by providing funding for actions that may include ongoing training of land managers and others. Additionally, the Resource Centre plays a key role in providing training that other organizations, such as, the National Aboriginal Land Managers Association may also provide. In addition, other roles and responsibilities that have been identified that may lack clarity include roles with respect to: joint ratification and approving related action plans, verifier selection, reporting of the signed joint ratification action plans and quarterly financial reporting.

Increased clarity with respect to roles and responsibilities may also reduce the potential for gaps in service. Although the responsibility for dealing with extraordinary environmental liabilities uncovered during the First Nation Land Management Initiative process has been established and appears to be understood by all; the process for dealing with environmental issues that may occur once a First Nation takes on land management responsibilities has not been formalized, accepted and communicated within INAC and the First Nations.

As further outlined below in the section entitled Monitoring and Measuring Progress, once the services and roles of the Resource Centre are accepted and formalized, it is important that both parties have a clear understanding of the performance expectations and related measures.

With respect to funding, we understand that operational funding is provided to the Resource Centre and ultimately to the First Nation through annual funding arrangements under separate agreements. We understand that further work is currently being done to formalize the operating funding formula to alleviate some of the uncertainty regarding the level of funding and professional support for individual First Nations.

Recommendations

The Director General of Lands Branch should clarify the expectations, responsibilities and accountabilities of the Resource Centre to help ensure the efficient and effective delivery of the required services. These clarifications in roles should include roles with respect to: First Nations funding, selection of verifiers, joint ratification capacity assessment, dealing with environmental issues and other communication and reporting roles.

The Comprehensive Funding Arrangement should include the requirement for the timely reporting of capacity assessments to the Director General of Lands Branch.

The Director General of Lands Branch and the Board of the Resource Centre should continue to develop and implement an operational funding formula.

Clarity of Certain Arrangement Clauses

A number of areas were noted in the arrangement that lack clarity and consistency:

- during the period under audit, Internal Audit observed that the audit clause under the Comprehensive Funding Arrangement has been clarified by removing the reference to the requirement of "reasonable cause". Based on our review of the current INAC National model arrangement and the current Comprehensive Funding Arrangement, the access of INAC to the ultimate recipient's books and records is unclear.
- Treasury Board's current Policy on Transfer Payments states agreements should specify that "the departmental right of access to relevant initial recipient's, and where warranted, ultimate recipient's documents and premises" is to be included in agreements with third parties. The current INAC National model arrangement does not differentiate between the "recipient" and "ultimate recipient".
- the Comprehensive Funding Arrangement is not sufficiently clear on how surpluses and deficits under the Flexible Transfer Payment portion of the Comprehensive Funding Arrangement are to be calculated, and any related requirements on the use of these funds.
- Clause 3.1 of Part B of the Comprehensive Funding Arrangement stipulates that "The recipient: shall maintain records for a period of three (3) years from the end of the fiscal year covered by this agreement." This clause was determined to be identical to the suggested wording in INAC's Comprehensive Funding Arrangement national model at the time of the agreement. The INAC National model arrangement has been modified to increase the period from three (3) years to seven (7) years.

Recommendation

The Director General of Lands Branch, in cooperation with the Resource Centre, should ensure that all future Comprehensive Funding Arrangements are consistent with INAC's National model arrangement.

In addition, the Resource Centre and the Director General of Lands Branch should consider revisions to future Comprehensive Funding Arrangements that include clarifying certain expenditure reimbursement practices, a clause to permit access to the ultimate third party recipient's documents and premises as specified by Treasury Board's Policy on Transfer Payments, clarity on the calculation and use of surplus funds and additional clarity (i.e. annexes, schedules, etc.) on what is included in the arrangement.

Expenditure Payment Process

Prior to February 2006, the Resource Centre's payment process consisted of a number of clerical steps that culminated in payment requests, with all accompanying supporting documentation being presented to members of the Finance Committee at their various locations throughout Canada. Approval of the expense by the members would be substantiated by their signatures on the payment authorization sheet. In addition, all cheques required the signature of two of the members.

Considering the physical distance that separates the Finance Committee members, it was necessary to either have them travel to the Resource Centre premises or, alternatively, courier the payment requests with supporting documentation and cheques to each individual member. This process proved to be costly and inefficient. In addition, Internal Audit found two instances of cancelled cheques which appeared to have been pre signed substantially reducing the effectiveness of the approval process.

In February 2006, after the hiring of the Manager of Finance, a new process was implemented requiring the review of all payment requests by the Manager of Finance and the Executive Director. A list of the approved payment requests is then e mailed to all members of the Finance Committee and discussed at the next bi monthly conference call documented by the Manager of Finance. If accepted by this committee, all cheques are signed by the Executive Director and one of the members of the Finance Committee.

Our limited review of payments made subsequent to the implementation of this process identified that payments were being made only on presentation of proper supporting documentation and that better segregation of duties occurred as a result of having all members of the finance committee present as well as other individuals. In addition, the process appeared to save time and money, by limiting the amount of travel.

Recommendation

The Resource Centre should ensure that the revised payment process is documented, implemented and approved by the Finance Committee. In addition, to ensure that appropriate payments are made, Finance Committee members should only sign cheques once the approved authorization request is received, consistent with the revised process identified above.

Monitoring and Measuring Progress

It is our understanding that the First Nation Land Management Initiative monitoring and performance measurement process is still being formalized. In addition, we understand that certain measures have been identified in the Results based Management and Accountability Framework, with a portion of this information being gathered through regular reporting, while another is only compiled on an ad hoc basis. As identified above, however, the performance expectations have not been formally agreed to, communicated and included in the Comprehensive Funding Arrangement.

After the performance expectations have been agreed to, the format of the quarterly activity and other reports needs to be formalized and implemented. The requirement to complete these reports, and the related timeframes, should be communicated in order that appropriate monitoring and evaluation can occur. Once these INAC expectations and measures have been established, the Resource Centre can review and finalize consistent reporting requirements from First Nations.

Recommendations

The First Nation Land Management Directorate should identify, in consultation with the Resource Centre, appropriate performance expectations for the Resource Centre. These expectations and measures should be communicated and formalized through the Comprehensive Funding Arrangement and related reporting requirements, and timelines should be established and adhered to.

The Resource Centre should in turn identify the performance expectations, measures and reporting requirements of the First Nations to help ensure that the Resource Centre can obtain the information required for its ultimate reporting to INAC.

The Director General of Lands Branch and the Chairman of the Board of the Resource Centre should ensure that the Resource Centre's and First Nations' performance is measured against the relevant Results based Management and Accountability Framework performance indicators, that progress can be assessed and that any required action is taken.

Appendix A - Audit Criteria

Audit Criteria	Expectations	Findings	Summary
<p>1. Compliance with the Comprehensive Funding Arrangement.</p>	<p>a) The recipient shall abide by the services and activities as determined in the Service or Activity Delivery Operational Work Plan.</p>	<p>The Activity Delivery Operational work plan provides detail of the activities to be completed by the Resource Centre under the Flexible Transfer Payment as well as the contribution portion.</p> <p>Sample of 47% of the total value of the expenses incurred during the period under scope (refer to Appendix C for detail on the sample reviewed), Internal Audit could not find sufficient supporting documentation in 35 % of the sample to determine if the activities were in compliance with the arrangement.</p> <p>For all cases where sufficient supporting documentation was available, Internal Audit concluded that the activities or services incurred were in compliance with the arrangement.</p>	<p>Insufficient evidence to conclude.</p>

Audit Criteria	Expectations	Findings	Summary
	<p>b) The recipient shall deliver the services and activities as set out in the Monthly Expenditure Plans and Payment Schedule.</p>	<p>The monthly expenditure plans provide monthly budgets by major class of expenditures for the Flexible Transfer Payment and by First Nations for the contribution portion of the arrangement.</p> <p>In our review of a sample of 47% of the total value of the expenses incurred during the period under scope (refer to Appendix C for detail of the sample reviewed) Internal Audit could not find sufficient supporting documentation in 35% of the sample to determine if the activities were in compliance with the arrangement.</p> <p>For all cases where sufficient supporting documentation was available, Internal Audit concluded that the activities or services incurred were in compliance with the arrangement.</p>	<p>Insufficient evidence to conclude</p>
	<p>c) The recipient shall abide by the reporting requirements.</p>	<p>Throughout the years, a number of financial and activity/progress reports have been required to be produced by the Resource Centre. Previous studies stated that for fiscal years 2001 to 2004, these requirements had been met.</p>	<p>In compliance.</p>

Audit Criteria	Expectations	Findings	Summary
	d) The recipient shall maintain a system of accountability in accordance with the framework set out in the accountability framework.	The Resource Centre hired a full time experienced Finance Manager in January of 2006. Prior to this, the Resource Centre had a number of less qualified individuals fulfilling the internal responsibilities of the Finance Manager and additional support was provided by a third party organization.	Insufficient evidence to conclude.
	e) Changes must be mutually agreed by the recipient and the Minister.	As discussed in the section entitled Changes to Budgeted Monthly Expenditure, prior to fiscal 2005-2006, approvals by INAC of changes to First Nations budgets were not formally documented, however, consultations identified that verbal approval was provided. In 2005-2006, changes to these budgets were approved in writing by INAC.	In compliance.
	f) The recipient shall declare in writing to the Minister any amounts it owes the Crown.	For each year under review the recipient has provided audited financial statements to the Minister. The statements provide details of the surplus or deficit incurred by the Resource Centre. Internal Audit has received copies of the statements of all years under scope.	In compliance.

Audit Criteria	Expectations	Findings	Summary
	g) The recipient will notify the Minister of any other sources of funding.	As discussed in the section entitled Other Sources of Funding, the Resource Centre has received income interest throughout the years for which there has been discussion on the eligibility of the Resource Centre to keep this income. The income is reported in a separate line in the audited financial statements.	In compliance.
	h) For each service identified as a contribution any surplus shall be reimbursed by the recipient to the Minister.	For each year under review the recipient has provided audited financial statements to the Minister. The statements provide details of the surplus or deficit incurred by the Resource Centre. Internal Audit has received copies of the statements of all years under scope.	In compliance.
	i) The recipient shall engage an independent auditor.	Audited financial statements for all periods under scope have been submitted.	In compliance.
	j) The recipient shall maintain financial statement records and prepare financial statements in accordance with GAAP.	Internal Audit was given access to financial records for all years under scope. Audited Financial statements were provided for each year.	In compliance.

Audit Criteria	Expectations	Findings	Summary
	k) The recipient shall maintain financial and other supporting documentation and records for each service.	As discussed in the section entitled Maintenance of Financial and Supporting Records, Internal Audit noted instances where proper supporting documentation was not kept by the Resource Centre.	Not in compliance.
	l) The recipient shall provide the Minister reports as prescribed in the reporting requirements.	Throughout the years, a number of financial and activity/progress reports have been required to be produced by the Resource Centre. Previous studies for fiscal years 2001 to 2004 stated that these requirements had been met by the Resource Centre.	In compliance
	m) The recipient shall allow the Minister access to all financial and other records relating to any information reported under the terms and conditions of this agreement.	As requested by the Minister, Internal Audit was given access to financial records for all years under scope. Audited Financial statements were provided for each year.	In compliance

Appendix B - Documentation Examined

- First Nations Land Management Act (Bill C 49)
- Framework Agreement on First Nations Land Management
- Funding Arrangements between INAC and the RC
- INAC Comprehensive Funding Arrangement National Model
- Relevant INAC policy and procedure manuals and directives
- Community Approval Process Plan
- Resource Centre accountability reports
- Resource Centre organizational charts
- Resource Centre financial policies and procedures
- Resource Centre travel policies
- Program Terms and Conditions
- Results of previous reviews/audits
- Resource Centre's prior years audited financial statements
- Treasury Board's Policy on Transfer Payments
- Treasury Board's Travel Directive
- Treasury Board's Special Travel Authorities
- KPMG's best practice database in grants and contributions and alternative service delivery

Appendix C - Sample Representativeness and Results

Fiscal Year End March 31	Funding Type	Total Population¹	Sample (items)	Sample (\$ value)	Proof of payment verified²	Sufficient info to conclude compliance	Insufficient info to conclude compliance	Not in compliance %
2002	Contribution	\$1,319,754	90	\$579,685	100%	41%	59%	
2003	Contribution	\$3,900,453	398	\$1,589,410	100%	66%	34%	
2004	Contribution	\$2,998,983	170	\$1,249,070	100%	51%	34%	
2004	Flexible Transfer	\$3,224,267	365	\$1,329,341	100%	59%	41%	
2005	Contribution	\$2,941,140	222	\$1,256,213	100%	28%	72 %	
2005	Flexible Transfer	\$3,459,711	389	\$2,137,268	100%	92%	8%	
2006	Contribution	\$1,184,043	98	\$498,821	100%	21%	79% ³	
2006	Flexible Transfer	\$2,436,289	379	\$1,501,172	100%	99%	1%	
Totals		\$21,464,640	2111	\$10,140,980				

¹Dollar value of actual disbursements. For fiscal year end March 31, 2006, disbursements were only to December 31, 2005.

²The report findings in Section 2 of this report are an integral part of this schedule and should be read to place the schedule above in proper context.

³A significant portion of the sample that lacked sufficient information to conclude related to advances paid as at December 31, 2005 based on general ledger support.

Appendix D- Salaries/Consultation¹ Fees by Position

Title - Land Advisory Board	2001-2002	2002-2003	2003-2004	2004-2005
Chair	\$173,250	\$106,261	\$100,828	\$108,862
Title - Resource Center	2001-2002	2002-2003	2003-2004	2004-2005
Director of the Board	\$25,550	\$118,810	\$133,500	\$121,290
Director of the Board	\$52,500	\$100,500	\$99,815	\$60,750
Director of the Board	\$15,000	\$22,500	\$64,500	\$77,819
Director of the Board	\$11,300	\$77,625	\$78,000	\$59,250
Executive Director	\$180,000	\$258,950	\$256,236	\$271,761
Total	\$457,600	\$684,646	\$732,879	\$699,732

¹Salaries/consultation fees relate to Resource Center only.

Appendix E - Accounts Payable Confirmations

First Nation	Confirmed ¹	Cheque Endorsement ²	Total Payable
Beecher Bay			\$576.00
Dokis	\$64,078.34		\$64,078.34
Flying Dust		\$42,212.14	\$42,212.14
Garden River	\$16,641.29		\$16,641.29
Kinsclear		\$17,750.00	\$17,750.00
Kitselas	\$18,980.27		\$18,980.27
Lheidli T'enneh		\$46,310.00	\$46,310.00
Moose Deer Point	\$20,649.29		\$20,649.29
Muskeg Lake		\$68,134.50	\$68,134.50
Osoyoos			\$960.00
Siksika			\$6,742.57
Skeetchesn		\$35,035.75	\$35,035.75
Songhees		\$39,512.15	\$39,512.15
Squamish	\$50,138.28		\$50,138.28
Saint Mary's	\$93,614.88		\$93,614.88
Tswawout	\$26,601.65		\$26,601.65
Tsawwassen	\$12,113.81		\$12,113.81
T'souke		\$7,060.71	\$7,060.71
Tsleil Waututh	\$54,008.62		\$54,008.62
Westbank	\$82,369.54		\$82,369.54
Whitecap Dakota		\$9,871.65	\$9,871.65
Total	\$439,195.97	\$265,886.90	\$713,361.44
Percentage	62 %	37 %	100 %

¹Account payable amount as at December 31, 2005 was confirmed and agreed to by First Nation.

²IA verified that cheque for payment of Accounts Payable at March 31, 2005 was endorsed by the First Nation within a reasonable period of time.

Appendix F - Automation Expenses

First Nation ¹	2002-2003	2003-2004	2004-2005	2005-2006	Total
Beecher Bay	\$12,191				\$12,191
Cowessess	\$2,437				\$2,437
Dokis		\$478	\$20,380		\$20,858
Flying Dust			\$3,950		\$3,950
Garden River		\$8,695	\$5,781		\$14,476
Kinistin		\$3,496			\$3,496
Kitselas			\$22,071		\$22,071
Leq'amel			\$27,919		\$27,919
Mississauga	\$2,840	\$18,880	\$228	\$3,260	\$25,208
Moose Dear			\$150		\$150
Muskeg Lake		\$3,399	\$331		\$3,730
Skeetchestn		\$15,209	\$15,216		\$30,425
Skway		\$3,604	\$28,947		\$32,551
Sliammon		\$2,803			\$2,803
Songhees	\$8,815	\$13,380	\$13,758		\$35,953
Squamish		\$41,673	\$1,750		\$43,423
Saint Mary's		\$26,619	\$5,537		\$32,156
Swan Lake			\$23,883		\$23,883
Tsleil Waututh		\$14,644	\$2,405		\$17,049
Tsouke			\$24,857		\$24,857
Whitecap		\$9,952			\$9,952
Resource Center	\$125,040				\$125,040
Total	\$151,323	\$162,832	\$197,163	\$3,260	\$514,578
Sample Total	\$48,740	\$84,782	\$94,651	\$1,650	\$229,823
Sample %	32 %	52 %	48 %	51 %	45 %

¹Eight (8) confirmations were received out of eleven (11) confirmation requests sent. Of the eight (8) confirmations received each First Nation confirmed receipt of all (100%) equipment purchased on their behalf by the Resource Centre.

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<p>2. b) Furthermore, INAC should consider whether clause 2.1 Part B should more clearly define whether the Flexible Transfer Payment portion of the arrangement applies. Given the sometimes minor nature of the reallocations, consideration should also be given to whether it is appropriate to require the Minister to approve all changes.</p>	<p>The Director General of Finance Branch has clarified that clause 2.1 Part B of the CFA National Model applies to the FTP portion of the Arrangement. This will be re-confirmed in a formal letter from Director General of Finance Branch to the First Nation Land Management (FNLM) Directorate, a copy of which will be provided to the LAB/RC.</p> <p>The Director General of Finance has agreed that the Director of the FNLM Directorate should approve re-allocations of funding.</p>	<p>Director General, Finance Branch</p>	<p>March 31, 2007</p>
<p>3. The Director General of Finance Branch should define and document, in the Comprehensive Funding Arrangement, how interest earned by the recipient is to be treated.</p>	<p>The Director Generals of Finance Branch and Lands Branch will define and document, in the Comprehensive Funding Arrangement how interest earned and spent by the Recipient is to be treated.</p>	<p>Director General, Finance Branch Director General, Lands Branch</p>	<p>March 31, 2007</p>

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<p>4. The Lands Advisory Board, in conjunction with the Resource Centre, should evaluate the functions assigned to the Executive Director and consider the cost/benefit of reassigning certain responsibilities.</p> <p> In addition, INAC should consider providing guidance, in the arrangement, with respect to compensation.</p>	<p>The LAB/RC and INAC agree that, while preserving their respective autonomies, they will review on a continuing and functional basis organizational structures and linkages to ensure the most effective implementation of the Framework Agreement and service to the First Nation parties and will seek, through regular consultation, to achieve continuing improvement.</p> <p>The LAB/RC has commissioned and shared with INAC a study of compensation of the members of both the LAB and RC Boards of Directors. The LAB/RC will further commission and share a study which evaluates the functions assigned to the Executive Director and considers the cost/benefit of reassigning certain responsibilities. This study will also include a review of the compensation of the Executive Director and all RC staff.</p> <p>INAC has considered, and decided against providing guidance in the arrangement with respect to compensation.</p>	<p>Chair, LAB</p> <p>Chair, RCBD</p> <p>Director General, Finance Branch</p> <p>Director General, Lands Branch, Chair, RCBD</p>	<p>July 31, 2006 (Addressed)</p> <p>March 31, 2007</p>
<p>5. The Resource Centre should consider having consistent employment contracts and related benefits. In addition, the Resource Centre should develop, communicate and follow a consistent training and education policy.</p>	<p>RCBD has employment contracts for all employees. RCBD will develop and implement a policy on training and educational leave. Reference to the policy on training and educational leave will be added to each employment contract (existing and future).</p>	<p>Chair, RCBD</p>	<p>November 30, 2006 (Addressed)</p>

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6. The Resource Centre should consider reviewing the appropriateness of its travel policy and consider its consistency with the spirit of the Treasury Board travel policy.	RCBD amended its travel policy consistent with the guidelines provided by the Treasury Board, as required under the 2006-2007 CFA signed on September 13, 2006.	Chair, RCBD	September 13, 2006 (Addressed)
7. a) The Director General, Lands Branch and the Chairman of the Board of the Resource Centre should rationalize the Joint Implementation Committee role with that of the Lands Advisory Board and Finance Committee, and formalize its mandate.	The Joint Implementation Committee (JIC) has completed a Protocol Agreement which identifies its membership, roles and responsibilities. INAC and the LAB/RC will rationalize the JIC role with that of the LAB and Finance Committee.	Chair, RCBD Director General, Lands Branch	June 30, 2007
7. b) A formal assessment of the membership and functions of the Lands Advisory Board and Resource Centre governance bodies should be completed to help ensure they are as fully representative of all stakeholders as possible.	In March 2002 the Minister and 13 original signatories to the Framework Agreement signed Amendment No. 3 which established the current structure of the LAB. The RC agreed to provide to INAC a written explanation of the history of the LAB and RC Governance bodies and copy of the current organizational structure, roles and responsibilities, and current staff or board members of the: <ul style="list-style-type: none"> • LAB • RC • RC Board of Directors • LAB Finance Committee; and • Any other LAB/RC structures that exist. 	Chair, LAB Chair, RCBD	January 31, 2007

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8. The Resource Centre and the Lands Advisory Board should continue to develop its risk profile and further develop, communicate and implement appropriate risk management actions. This should include a risk assessment as a regular part of First Nations funding considerations.	The Chair of the RCBD and the Chair of the LAB will continue to develop its risk profile and further develop, communicate and implement appropriate risk management actions, including a First Nation risk assessment as a regular part of any First Nation funding considerations, as well as an assessment at the proposed time of entry into the Framework Agreement.	Chair, LAB Chair, RCBD	March 31, 2007
9. a) Sufficient budget assessment and analysis should be completed by the Director General of Lands Branch to assess the reasonableness of the budget amounts before funding is approved. The funding process and related documentation requirements should be discussed and agreed to in advance by the Resource Centre and INAC.	Budget assessment and analysis were completed by the RC and INAC prior to signing the 2006-2007 CFA. This included detailed analysis of work plan, strategic overview, budget and deliverables. A similar budget assessment and analysis will be conducted prior to completing the 2007-2008 CFA.	Director, First Nations Land Management Executive Director RC	August 31, 2006 (Addressed)
9. b) INAC should ensure that all transfers of funds under the Comprehensive Funding Arrangement are made to the legal entity that is party to the arrangement.	The Director of the FNLM Directorate has informed the RC that future payments will be made to the RC, not the Lands Advisory Board.	Director General, Finance Branch	October 31, 2005 (Addressed)

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10. a) INAC and the Resource Centre should continue to negotiate refinements to the Comprehensive Funding Arrangement to increase its clarity and direction. In addition, the Resource Centre should ensure that future Community Approval Process Plans with First Nations are consistent with their arrangement with INAC.	<p>INAC and the RC negotiated significant refinements to the 2006-2007 Comprehensive Funding Arrangement and will continue to negotiate refinements to future CFAs as required.</p> <p>The 2006-2007 CAPPs include the relevant clauses from the 2006-2007 CFA to ensure that the requirements of the CFA between INAC and the RC are consistent with the subsequent CAPPs between INAC, the RC and First Nations.</p>	<p>Chair, RCBD</p> <p>Director General, Lands Branch</p>	September 30, 2006 (Addressed)
10. b) The Director General of Lands Branch should clarify the expectations, responsibilities and accountabilities of the Resource Centre to help ensure the efficient and effective delivery of the required services. These clarifications in roles should include roles with respect to: First Nations funding, selection of verifiers, joint ratification capacity assessment, dealing with environmental issues and other communication and reporting roles.	The DG, Lands Branch and Chair, RCBD will clarify existing roles, responsibilities and accountabilities to help ensure the efficient and effective delivery of the required services. The DG Lands Branch and Chair, RCBD will establish consistent criteria to be applied in making decisions with respect to First Nations funding, selection of verifiers, capacity assessment, environmental issues and other communication and reporting roles.	<p>Director General, Lands Branch</p> <p>Chair, RCBD</p>	March 31, 2007
10. c) The Comprehensive Funding Arrangement should include the requirement for the timely reporting of capacity assessments to the Director General of Lands Branch.	The Director General of Lands Branch, jointly with the RC, will ensure that all future Comprehensive Funding Arrangements include the requirement for the timely reporting of capacity assessments to the Director General of Lands Branch.	<p>Director General, Lands Branch</p> <p>Chair, RCBD</p>	March 31, 2007

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<p>10. e) The Director General of Lands Branch, in cooperation with the Resource Centre, should ensure that all future Comprehensive Funding Arrangements are consistent with INAC's National model arrangement.</p>	<p>The Director General of Lands Branch, in cooperation with the RC, will ensure that all future Comprehensive Funding Arrangements are consistent with INAC's model National Comprehensive Funding Arrangement.</p>	<p>Director General, Lands Branch Chair, RCBD</p>	<p>March 31, 2007</p>
<p>10. f) In addition, the Resource Centre and the Director General of Lands Branch should consider revisions to future Comprehensive Funding Arrangements that include clarifying certain expenditure reimbursement practices, a clause to permit access to the ultimate third party recipient's documents and premises as specified by Treasury Board's Policy on Transfer Payments, clarity on the calculation and use of surplus funds and additional clarity (i.e. annexes, schedules, etc.) on what is included in the agreement.</p>	<p>The Director General of Lands Branch and Finance Branch will clarify in the Comprehensive Funding Arrangement what are surpluses and deficits, and how they are to be disposed of.</p> <p>A revised clause clarifying that annexes and associated schedules form part of the CFA was added to the 2005-2006 CFA and will continue in future arrangements.</p> <p>A revised clause to permit access to the ultimate third party recipients' documents and premises was included in the 2005-2006 CFA and will continue in future CFAs.</p>	<p>Director General, Lands Branch Director General, Finance Branch</p>	<p>March 31, 2007</p>

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<p>11. The Resource Centre should ensure that the revised payment process is documented, implemented and approved by the Finance Committee.</p> <p>In addition, to ensure that appropriate payments are made, Finance Committee members should only sign cheques once the approved authorization request is received.</p>	<p>The Finance Committee has implemented and documented in their meeting minutes the revised payment process which is more effective, efficient, transparent and accountable.</p> <p>The Finance Committee will only sign cheques in accordance with the revised documented payment process.</p>	Chair, RCBD	February 28, 2006 (Addressed)
<p>12. a) The First Nation Land Management Directorate should identify, in consultation with the Resource Centre, appropriate performance expectations for the Resource Centre. These expectations and measures should be communicated and formalized through the Comprehensive Funding Arrangement and related reporting requirements, and timelines should be established and adhered to.</p>	<p>The Director General of Lands Branch will continue to identify, in consultation with the RC, appropriate performance expectations for the RC. These expectations and measures will be discussed, communicated and formalized in future Comprehensive Funding Arrangements and related reporting requirements, and timelines will be established and adhered to.</p>	Director General, Lands Branch Chair, RCBD	March 31, 2008
<p>12. b) The Resource Centre should in turn identify the performance expectations, measures and reporting requirements of the First Nations to help ensure that the Resource Centre can obtain the information required for its ultimate reporting to INAC.</p>	<p>The 2006-2007 CAPPs identify the performance expectations, measures and reporting requirements of the First Nations to help ensure that the RC can obtain the information required for its ultimate reporting to INAC. Future CAPPs will continue to do so.</p>	Chair, RCBD	July 31, 2006 (Addressed)

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<p>12. c) The Director General of Lands Branch and the Chairman of the Board of the Resource Centre should ensure that the Resource Centre's and First Nations' performance is measured against the relevant Results based Management and Accountability Framework performance indicators, that progress can be assessed and that any required action is taken.</p>	<p>The Director General of Lands Branch and the Chair, Resource Centre Board of Directors will ensure that the RC's and First Nations' performance is measured against the relevant Results-based Management and Accountability Framework jointly agreed performance indicators on a quarterly basis using a format to be determined. The Director General of Lands Branch and the Chair, Resource Centre Board of Directors will ensure that progress is assessed and that any required action is taken.</p>	<p>Chair, RCBD Director General, Lands Branch</p>	<p>June 30, 2007</p>