Health Canada Santé Canada

Final Audit Report

Audit of the Management Control Framework for Contribution Programs

June 2011

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Executive Summary

This report sets out the observations, recommendations, and conclusion from the Audit and Accountability Bureau's Audit of the Management Control Framework for Contribution Programs. This audit was included in the departmental Risk-Based Audit Plan for 2009-10.

In its *Three-Year Risk-Based Horizontal Internal Audit Plan for Large Departments and Agencies* (2010-11 to 2012-13), the Office of the Comptroller General (OCG) identified the need to conduct a government-wide horizontal audit of grants and contributions. In order to gain the benefits of comparability and best practice sharing with other participating departments, Health Canada agreed to take part in the OCG audit.

In fiscal year 2009–2010, Health Canada's grants and contributions expenditures amounted to nearly $296 million and $1.29 billion respectively (see **Appendix A**). Within Health Canada, three branches are involved in the design, delivery, management and reporting of contribution programs: the First Nations and Inuit Health Branch (FNIHB), the Regions and Programs Branch (RAPB) and the Strategic Policy Branch (SPB). First Nations and Inuit health programs are delivered regionally by RAPB. The Centre of Expertise on Grants and Contributions, within the Chief Financial Officer Branch (CFOB), supports the effective management of grant and contribution programs and has been responsible for implementing the Health Portfolio's[1] Action Plan in response to recommendations by the *Independent Blue Ribbon Panel on Grant and Contribution Programs*.

The objective of the audit was to provide the Deputy Minister and the Departmental Audit Committee with reasonable assurance that the design of the management control framework, including risk management, controls, and governance processes, in place to manage Health Canada contribution programs, is both adequate and effective in support of compliance with the *Policy on Transfer Payments*. The four following lines of enquiry were assessed: Governance and Control Framework; Program Eligibility and Funding Decisions; Recipient and Program Monitoring; and New Requirements of the *Policy on Transfer Payments* (see **Appendix B**).

The audit involved the conduct of sufficient and appropriate procedures and the gathering of evidence to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

[1] The Health Portfolio includes Health Canada, the Canadian Institute for Health Research and the Public Health Agency of Canada.

The audit concludes that the overall design of the management control framework that is in place to manage Health Canada contribution programs is both adequate and effective in support of compliance with the *Policy on Transfer Payments*. Clarity of roles and responsibilities, fulfilment of training needs and collaboration within and outside Health Canada are adequate. In addition, there is progress in the standardization of processes, service standards and the engagement of recipients. However, the need for improvement was noted in some areas, more particularly under the line of enquiry dealing with Governance and Control Framework. Overall, the following areas require management's attention:

- Clarification of the role and responsibilities of the functional authority (CFOB-Centre of Expertise) and branches;
- Maintenance of the Departmental financial signature database and adherence to Health Canada's Delegation of Financial Signing Authorities;
- Controls to mitigate risks of possible conflicts of interest; and
- Documentation of funding decisions for special project initiatives in FNIHB.

The report includes four recommendations aimed at addressing these areas.

1. Introduction

1.1 Background

Grants and contributions are transfer payments made up of funds disbursed by governments to further a policy or priority for which the Government does not receive goods, services or assets in return. The Government of Canada is committed to ensuring that transfer payment programs are managed with integrity, transparency and accountability, in a manner that is sensitive to risks; are citizen-focused; and are designed and delivered to address government priorities in achieving results for Canadians.

In October 2008, changes were made to the *Policy on Transfer Payments* to reflect recommendations made by the *Independent Blue Ribbon Panel on Grant and Contribution Programs*. The Blue Ribbon Panel's report, entitled ''From Red Tape to Clear Results'', recommended the following: use of multi-year agreements, where appropriate; reductions in costs of compliance measures to the recipient; establishment of service standards; and horizontal approaches for consistency across departments.

Within Health Canada, the three branches involved in the design, delivery, management and reporting of grant and contribution programs are the First Nations and Inuit Health Branch (FNIHB), the Regions and Programs Branch (RAPB) and the Strategic Policy Branch (SPB). In addition, the Centre of Expertise on Grants and Contributions, within the Chief Financial Officer Branch (CFOB), was put in place to support the effective management of grant and contribution programs.

FNIHB governs health-related programs and services for First Nations and Inuit people. First Nations and Inuit Health programs are in large part delivered in regional offices through RAPB and cover a wide range of initiatives. The main categories of programs or program clusters are: Health Promotion and Disease Prevention, Public Health Protection, Primary Care, Health System Capacity, Health System Transformation and Supplementary Health Benefits.

RAPB delivers programs to Canadians through eight regional offices under its direction. An important part of its regional delivery is the First Nations and Inuit Health programs[2] that entail mandatory health programs, comparable in most part to provincial health services, as well as community evidence-based programming. RAPB also delivers its own grant and contribution programs mainly at headquarters for women's health, official languages, controlled substances and illicit drugs.

SPB aims to maintain and improve the health of Canadians through the provision of corporate policy leadership and coherent, evidence-based policy advice to advance

[2] This explains why Recommendation 5 of this report is addressed to both the Assistant Deputy Minister of the First Nations and Inuit Health Branch and the Assistant Deputy Minister of the Regions and Programs Branch.

government and Health Portfolio[3] priorities. The Branch is responsible for the management of the Health Care Policy Contribution Program, delivered in the National Capital Region, as well as nine grants.

1.2 Objective

The audit objective was to provide reasonable assurance that the design of the management control framework, including risk management, controls and governance processes, in place to manage Health Canada contribution programs, is both adequate and effective in support of compliance with the *Policy on Transfer Payments*.

1.3 Scope and Approach

Health Canada adopted the lines of enquiry and audit criteria (see **Appendix B**) established by the Office of the Comptroller General (OCG) for its ''Horizontal Audit of the Grants and Contributions Control Framework in Large Departments and Agencies – Phase 1'', which are aligned with the following:

- Governance and Control Framework;
- Program Eligibility and Funding Decisions;
- Recipient and Program Monitoring; and
- New Requirements of the *Policy on Transfer Payments.*

The OCG's audit criteria were expanded, where necessary, to test the key controls in place as identified in *Health Canada's Grants and Contributions Internal Control Framework.*

The period under examination was from April 1, 2009 to December 31, 2010.

The methodology used to assess the design of the management control framework in place included interviews of staff at both headquarters and in two regions as well as relevant documentation review (policies, processes and reports).

To confirm the presence of designed controls and to obtain a reasonable level of assurance on their effectiveness, tests were performed on a sample of project files. One program was selected for each of the three branches involved in contribution programs: Aboriginal Head Start on Reserve Program (within FNIHB); the Official Languages Health Contribution Program (within RAPB); and the Health Care Policy Contribution Program (within SPB). An overview of these programs is provided in **Appendix C**.

The Aboriginal Head Start on Reserve Program is delivered in the regions by RAPB. The Alberta and British Columbia regions were selected for file testing as they represent one third of the program expenditures and had not been subject to a visit by internal auditors in more than five years.

[3] The Health Portfolio includes Health Canada, the Canadian Institute for Health Research and the Public Health Agency of Canada.

Additional documentation review and interviews took place with CFOB's Internal Control Division and the Centre of Expertise on Grants and Contributions, and with FNIHB's Health Funding Arrangements Division, which is involved in areas of management related to FNIHB's grants and contributions.

Given the small number of grants at Health Canada and since most significant ones are considered for audit on a regular basis, the audit does not cover this category of transfer payments.

1.4 Statement of Assurance

In the professional judgement of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing.*

2. Findings, Recommendations and Management Responses

2.1 Governance and Control Framework

2.1.1 Roles, Responsibilities and Accountabilities

Audit Criterion: *Roles, responsibilities and accountabilities for program governance, decision-making and program delivery are clearly defined and communicated.*

Most of the First Nations and Inuit health programs are managed by two branches. Within the First Nations and Inuit Health Branch (FNIHB), program directorates set strategic policy direction, program guidance and national program funding allocations. On the other hand, the Regions and Programs Branch (RAPB), with its staff located across Canada, is responsible for program delivery. Most regions have an oversight committee, comprised of Health Canada and other Federal government departments and First Nations community officials that provide input in priority-setting and decision-making. This was the case in the two regions visited.

Outside of its regional responsibilities, RAPB also administers its own programs. These programs are managed by the Programs Directorate, which is responsible for program design and overall coordination. RAPB's programs are delivered mainly at Health Canada headquarters, in Ottawa.

Within the Strategic Policy Branch (SPB), program oversight is provided by the Program Management Committee and its sub-committees. Their roles and responsibilities include overseeing the management and operations of contributions, accountabilities for performance measurement and evaluation, managing stakeholder relations and ensuring comprehensive risk management.

Funding applications for RAPB's and SPB's programs are analysed by review committees. These review committees consist of one or two members from another division within RAPB or SPB, one or two from other departments, and external consultants, as deemed necessary.

The audit concluded that roles, responsibilities and accountabilities relating to key functions such as program coordination, proposal review, signature of contribution agreements, monitoring of recipients and agreements, claims processing and recipient audits, are clearly defined and understood.

2.1.2 Program Guidance and Guidelines

Audit Criterion: *Program guidance and guidelines are communicated to ensure consistency of program delivery.*

Clarity of program guidance, particularly for programs that are delivered regionally, is critical to ensure consistency of operations and control.

At the departmental level, standard operating procedures were recently updated by the Centre of Expertise in collaboration with members of a Health Portfolio working group. At the time of the audit, these procedures were expected to be disseminated by April 2011.

At the branch level, within FNIHB, documents have been developed to provide both recipients and program managers with specific guidelines on individual programs. For instance, in the Aboriginal Head Start on Reserve Program, specific guidance regarding the program's objectives, focus and expectations are provided within its *Standards Guide*, developed to provide assistance to First Nations people involved in the development of their projects.

Across FNIHB, a suite of guides is in place to assist program officers in all aspects of program management. Examples of key documents are ''A Guide to Monitoring FNIH Contribution Agreements'' and the "Knowledge in a Book" (a training manual). At the time of the audit, these documents were being updated to reflect the changes in requirements from the 2008 *Policy on Transfer Payments* and were soon to be shared with program staff (reporting to RAPB).

In RAPB, desk procedures have been developed by the Programs Directorate for each contribution program. Procedures are comprehensive and current and encompass guidance on approving contribution agreements, making payments, taking holdbacks, conducting site visits, preparing ministerial briefings and communicating with stakeholders. Also issued is a guide to assist recipients in the development of proposals.

As for SPB, program guidelines such as the "Guide for Applicants" (updated in 2009) and the Recipient Reporting and Evaluation Template assist recipients in developing proposals for funding and reporting on project activities.

The audit concluded that guidance and guidelines are in place both at the departmental and branch levels. Furthermore, updated versions of these documents, soon to be shared with program staff, including those working in the regions, will reflect requirements stated in the 2008 *Policy on Transfer Payment Policy*.

2.1.3 Training

Audit Criterion: *Training provided addresses program needs.*

Training is provided both at the departmental and branch levels. Across the Department, courses are offered by the Centre of Expertise and the Health Funding Arrangements Division in areas such as financial signing authorities and the use of the Department's Enterprise Risk Management - Agreement/Recipient Risk Assessment Tool (ERM-ARRAT). To respond to individual needs, employees are directed to attend training provided by the Canada School of Public Service, on subjects such as the *Policy on Transfer Payments* and project management.

Branch and program specific training was also noted. In FNIHB, training is provided by the Business Planning and Management Directorate and tailored to its needs. A train-the-trainer approach was used to accommodate geographic dispersion. In 2008, training was delivered in response to the introduction of new funding arrangements and planning processes.

In RAPB, the Programs Directorate has provided ad hoc training, such as a three-day performance measurement workshop in April 2009.

In SPB, some staff has taken introductory training on transfer payments and on the Recipient Reporting and Evaluation Template. However, some interviewees expressed the need for more training in the management of grants and contributions.

In general, the audit found that, appropriate training was provided and was responsive to the needs of staff involved in the management of contribution programs.

2.1.4 Development of a Risk-based Approach

Audit Criterion: *A risk-based approach has been developed for program design, delivery and management.*

The three branches have taken risk into account in the design of their programs, as evidenced by the process used for submissions to the Treasury Board of Canada. Furthermore, interviews showed a high level of risk awareness amongst staff.

The audit found that while risks specific to programs and recipients have been identified, links between these risks and the mitigating measures were not sufficiently documented in project files. However, this situation is expected to be addressed by the implementation of the new Enterprise Risk Management – Agreement/Recipient Risk Assessment Tool (ERM-ARRAT), of which the use is mandatory for all contribution agreements signed after March 31, 2010. For this reason, no recommendation is made in the current section. This issue is further discussed in the section dealing with recipient and program monitoring.

2.1.5 Standardization of Processes, Systems and Procedures

Audit Criterion: *Processes, systems and procedures have been standardized and streamlined across the Department in support of efficiencies in the administration of programs.*

In response to the recommendations made by the *Independent Blue Ribbon Panel on Grants and Contributions Programs*, Health Canada developed the Health Portfolio Action Plan in collaboration with the Canadian Institute for Health Research and the Public Health Agency of Canada. This plan was approved by senior management in October 2007 and its implementation is coordinated by a committee that is chaired by the Centre of Expertise on Grants on Contributions and supported by six sub-committees.

This Action Plan has set a series of objectives and expected outcomes in six streams:

- Ensuring sustained leadership and culture;
- Achieving effective risk management and practices;
- Achieving clarity and consistency in funding practices within the Portfolio and across departments;
- Using technology efficiently to improve the delivery and organization of G's and C's information;
- Achieving flexibility and reduced administrative burden; and
- Building relationships and horizontal coordination.

The most important achievement of the Action Plan is the development and implementation of the Integrated Risk Management Framework for Grants and Contributions, which included the Enterprise Risk Management – Agreement/Recipient Risk Assessment Tool (ERM-ARRAT). The ERM-ARRAT is a new tool for use in assessing and managing recipient risk in relation to grants and contributions. It is an example of efforts to standardize program management functions – in this case, related to risk assessment. By April 2011, after a full year of implementation, all recipients are expected to have a risk assessment completed which will be used to both determine the appropriate level of recipient monitoring and plan for recipient audits. The Action Plan resulted in the development of the *Management-led G's and C's Recipient Audit Framework*, although this framework has yet to be implemented. Although progress has been made on a number of fronts over the last three years, there has been some delay in expected deliverables. The current timelines of deliverables under the Action plan run until 2013.

The Centre of Expertise plays a resource and coordination role for the management of transfer payments within the Department but a much lesser role with the First Nations and Inuit Health Branch's grants and contributions. Within FNIHB's Business Planning and Management Directorate, the Health Funding Arrangements Division acts as the functional authority for contribution agreements. As such, the Department has two separate entities responsible for providing guidance on the management of grants and contributions. The Health Funding Arrangements Division and the Centre of Expertise work independently to develop contribution agreement templates, ensure compliance with departmental contribution agreement policies, procedures and best practices, and to provide advice on Treasury Board Secretariat guidelines.

While the Centre of Expertise has also developed documented standard operating procedures for most of the Department, FNIHB maintains additional procedures which provide further specificity for FNIH programs, including a document titled "Knowledge in a Book". The Centre of Expertise has also developed documented standard operating procedures. Besides the apparent duplication of efforts, the lack of a centralized effort curtails consistency in the way contribution agreements are put in place and monitored between branches and regional operations.

It was also noted that the Department has been maintaining two contribution management systems for some time. A Lotus Notes-based system used by the entire Department except FNIHB, and then FNIHB's own Management of Contracts and Contributions

System (MCCS). However, approval in principle has been made by Senior Management to implement a single grant and contribution management system for all of Health Canada and the Public Health Agency of Canada.

It is important to note that in SPB and RAPB (non-First Nations and Inuit Health programs), standardized contribution agreements are being developed, and that the ERM-ARRAT and recipient reporting and evaluation tools have been implemented.

The audit concludes that while there are efforts to standardize systems and procedures in support of efficiencies in the administration of programs, progress still needs to be accomplished in terms of clarification of roles and responsibilities between entities responsible for providing guidance on the management of grants and contributions, within FNIHB and CFOB's Centre of Expertise on Grants and Contributions.

Recommendation 1

It is recommended that the Chief Financial Officer, in collaboration with the assistant deputy ministers of the three branches managing contribution programs, ensure that the roles and responsibilities of entities responsible for providing guidance on the management of grants and contributions, both at the departmental and the branch levels, are clarified.

Management Response

Management agrees with this recommendation.

CFOB in consultation with the assistant deputy ministers of the three branches managing contribution programs will clarify roles and responsibilities of the Departmental functional authority for G's and C's (i.e. CFOB Centre of Expertise) and those of branches delivering G&C programs.

This will be done via the development of a departmental policy on the management of transfer payments.

2.1.6 Control Framework

Audit Criterion: *Controls are in place to ensure compliance with policies and directives.*

Financial Controls

In keeping with the aforementioned criterion on common guidance and standardized processes, the audit also examined the degree to which a standardized control framework is in place.

As part of its mandate, CFOB's Internal Control Division is responsible for ensuring that effective financial controls over financial reporting exist. In the area of contribution programs, the work of this unit has so far primarily involved documenting controls,

although testing in both the National Capital Region and in regional offices has recently been conducted.

Within FNIHB, as noted in the previous section, the Health Funding Arrangements Division acts as the functional authority on contribution agreement management and has the responsibility for gauging regional compliance to it. Compliance visits, using standardized compliance checklists, were performed in 2009 and 2010 in the regions. However, the process is not yet formalised as an annual exercise.

In addition to seeking evidence of the existence of controls and their effectiveness, the audit also examined the manner in which key financial controls, including certifications performed under Sections 32 and 34 of the *Financial Administration Act* (FAA) were being applied.

As detailed below, in both regional offices examined, tests performed on certifications made under the FAA identified concerns with regard to expenditure initiation and Section 32 certifications.

In the British Columbia Region, out of the twelve agreements examined:

- one was signed by someone, presumably in an acting position, who did not have the delegated financial signing authority registered in the departmental specimen signature card database for the contribution amount on the date of the signature. As per departmental guidelines, delegated financial signing authorities are not valid until approved by the manager of the position (delegating the authority) and validated in the database by the specimen signature card editor;
- in seven cases, FAA Section 32 certification (financial commitment responsibility) was exercised by an individual whose signing authority could not be traced in the specimen signature card database.

In the Alberta Region, out of the ten agreements sampled:

- four were signed by two people whose acting assignments were not correctly documented in the specimen signature card database.

In addition, the review of contribution files sampled in RAPB's Official Languages Health Contribution Program and in SPB's Health Care Policy Contribution Program demonstrated that, while controls tested were effective in ensuring compliance with program guidelines, approvals of financial commitments by managers against their budgets were not documented. The current practice is to prepare a Funding Approval Form (FAF) accompanied by an approval slip but neither of these forms have an explicit expenditure initiation certification.

Recommendation 2

It is recommended that the Chief Financial Officer, in collaboration with the assistant deputy ministers of the Regions and Programs Branch and the Strategic Policy Branch, ensure that:

- *funding approval documents explicitly identify the managers that initiate expenditures against their budgets (FAA – Expenditure Initiation); and*
- *officers who certify that funds are available under Section 32 of the FAA have the required delegated financial signing authority.*

Management Response

Management agrees with this recommendation.

CFOB in consultation with branches delivering G&C programs will review current practices and make necessary adjustments to ensure managers with delegated expenditure initiation authority certify expenses against their budget.

CFOB will require that branches confirm that program officers have the appropriate delegations as part of the annual review of the financial signing authorities.

Controls Dealing with Conflict of Interest Risks

A management control framework on grants and contributions should encompass efforts to reduce conflicts of interest in order to uphold the public trust. Conflict of interest management is important in a transfer payment environment, for a number of reasons, including the discretionary aspect of the decisions that have to be made on applications, high dollar values and public scrutiny. As such, this area has been the focus of audits that the Office of Auditor General of Canada (OAG) has conducted in recent years. In its 2010 Fall Report (Chapter 3), the OAG has proposed approaches to managing potential conflicts of interest through recommendations dealing with: *"…public servants in identified high-risk areas to report regularly, whether or not they have a conflict of interest."* and training based on, *"…the conflict of interest risks that staff in specific areas face…"*. The report noted that the departments examined were already taking measures or were in the process of doing so.

In the project files reviewed for this audit, members of external review committees signed a conflict of interest declaration. However program officers are not required to sign such declarations.

Furthermore, when joining the Department, employees are required to fill out a confidential report, should they feel they may be in a real, perceived or potential conflict of interest (i.e. standard Government of Canada requirement); however there are no further awareness measures even though G&C program delivery is a high risk area for potential conflicts of interest.

No training is currently offered on conflicts of interest, as the Department has opted to instead issue reminders through *Health Canada Broadcast News*, advising employees of their obligations under the *Values and Ethics Code for the Public Service*. At the time of this audit, the most recent reminder dated back to March 2009.

Although file review conducted during this audit did not identify apparent or real conflicts of interest, the absence of proactive measures on conflict of interest in the management of contribution programs puts both programs and employees at risk of real or apparent conflicts of interest and could hurt the Department's reputation.

Recommendation 3

It is recommended that the Chief Financial Officer and the Assistant Deputy Ministers of the three branches managing contribution programs examine methods to reinforce controls to reduce the risks of possible conflict of interest.

Management Response

Management agrees with this recommendation.

Currently, Health Canada is compliant with standard Government of Canada conflict of interest requirements.

Understanding that G&C program delivery is a high risk area for potential conflicts of interest, CFOB in consultation with the Assistant Deputy Ministers of the three branches managing contribution programs will review how existing controls could be reinforced.

2.2 Program Eligibility and Funding Decisions

2.2.1 Program Information and Promotion

Audit Criterion: *Potential recipients have ready access to information about programs and program descriptions are made public.*

The *Policy on Transfer Payments* states that potential recipients should have ready access to information about transfer payment programs and that a description of each program be made public, including application and eligibility requirements and the criteria against which applications will be assessed.

With respect to FNIHB's programs, dissemination of program information is done in two ways. The first is through ongoing contact between First Nations communities and program officers acting as points of contact in the regions. Secondly, FNIHB publishes a comprehensive program compendium which outlines all program options for potential recipients.

RAPB's own programs, in general, deal with an established base of recipients. In the case of the Official Languages Contribution Program, potential recipients are informed by consultative committees that act as intermediaries, one for English-speaking minorities and one for French-speaking minorities. The networks to reach these communities are well established.

Within SPB, proposals for funding are solicited from eligible recipients, including provincial/territorial governments and non-government organizations that demonstrate the necessary capacity and expertise. Information for applicants on open calls is well documented in a guide supplemented by specific information tailored to each solicitation. Through Health Canada's website, potential applicants have access to detailed program information.

Overall, the audit concluded that potential recipients have ready access to information about programs and program descriptions are made public.

2.2.2 Transparency in the Assessment of Recipient Applications

Audit Criterion: *Assessment of recipient application is conducted through an open process and supported by transparent controls.*

For SPB and RAPB's own programs, controls over transparent administration were found to be adequate and effective. Highlights of the appropriate control measures include:

- the mandatory review of proposals by committees;
- the use of guides for applicants, describing the assessment process;
- documentation of the process through the use of screening and evaluation forms;
- the use of the Lotus Notes Gs & Cs System to ensure that all applications are followed through the process.

As for FNIHB, in the two regions examined, the application process is generally a renewal process whereby eligible recipients, generally an established group from previous years, are provided with funding based on an annual activity report. This is the case for over 90% of the recipients, yet guides have been developed to assist them. In addition, to ensure that all requests for the renewal of funding are followed through, the Branch's Management of Contracts and Contribution System identifies all the steps required in the renewal of funding and payment processing.

In conclusion, the audited branches have developed effective processes to allow the transparent assessment of applications or requests of the renewal for funding for their respective contribution programs.

2.2.3 Compliance with Program Terms and Conditions

Audit Criterion: *Funding decisions are consistent and based on approved program terms and conditions.*

Within FNIHB's programs, recipients receive resources allocated as a function of their status, population and geographic isolation. As mentioned in the previous section, the funding application process is generally a renewal process, whereby established recipients are provided with annual funding based on a historic amount. In the Alberta Region, the funding formula is set by the Co-Management Sub-Committee on Children and Youth. In the British Columbia Region, the funding formula is approved by the Regional Advisory Committee.

Eligibility for funding is documented in an Agreement Summary Form; however, details on the calculations used to determine the funding level (e.g. number of spaces, rate based on zone, extras for small communities or collaborations) are not subject to annual revisions, and are thus not well known by regional staff.

In both regions, file review showed a need for more documentation on the rationale for approving funding of special project initiatives (i.e., program enhancement and capital funds also referred to as special project initiatives). In addition, the alignment of special project initiatives to program objectives, expected results and outcome measures was not well-documented.

To conclude on FNIHB programs, it was found that improvement is needed in the documentation of decisions for special project initiatives, particularly in terms of substantiation of funding levels and articulation of program objectives and outcomes. With respect to RAPB's own programs as well as SPB programs, the audit concluded that controls are adequate to ensure this criterion is met.

Recommendation 4

It is recommended that the Assistant Deputy Minister of the First Nations and Inuit Health Branch, in collaboration with the Assistant Deputy Minister of the Regions and Programs Branch and the Chief Financial Officer, ensure that the rationale for First Nations and Inuit Health program funding decisions for special project initiatives, including links with program objectives and expected outcomes, is documented in project files.

Management Response

Management agrees with this recommendation.

FNIHB in consultation with RAPB and CFOB will develop and implement documentation requirements, for FN&I special project initiatives, particularly in terms of substantiation of funding levels and articulation of program objectives and outcomes.

2.3 Recipient and Program Monitoring

2.3.1 Monitoring of Individual Recipients

Audit Criterion: *Monitoring of individual recipients is performed proportionately to their risk level and in accordance with program terms and conditions.*

Monitoring methods include program officers interacting with recipients by phone or email, reviewing recipient reports, using feedback from other departments dealing with those same recipients and conducting site visits.

In the case of FNIHB, regional managers for First Nations and Inuit Health programs receive information from Regional Accountability and Review Committee discussions,

from coordinators and program liaison officers, from Regional Advisory Committee discussions, and through the results of site visits.

Interviews and file review demonstrated that managers were aware of risk factors and that they were now using a risk management tool (i.e. ERM-ARRAT or Enterprise Risk Management - Agreement/Recipient Risk Assessment Tool, introduced in 2010-11) that provided an appropriate documentation of how risk levels influenced recipient monitoring decisions.

For RAPB and SPB, the audit revealed that, notwithstanding a few exceptions, recipients are either institutions (hospitals, universities) or well established organizations where the risk levels tend to be lower, which results in lesser monitoring activities.

The audit concludes that sound practices and tools are in place to help ensure monitoring decisions are based on recipient risk levels.

2.3.2 Coordination of Recipient Audits

Audit Criterion: *Recipient audits are coordinated within the Department and, to the extent possible, with other departments.*

Under this criterion, it is expected that templates, policies, procedures, databases and services are harmonized, where appropriate, to enhance coherence in supporting recipient audits, and that coordination exists at the departmental level.

At the departmental level, coordination of recipient audits is done through the annual review by the Centre of Expertise on Grants and Contributions of each branch's audit plan in order to avoid duplication of audits with a recipient within a given year.

A working group made up of representatives from Health Canada and the Public Health Agency of Canada was also set up to advance a "Portfolio-wide Recipient Audit Management Framework". This work group has developed a recipient audit policy, to become effective April 2011, which provides a portfolio framework for the coordination of recipient audits.

In terms of audit coordination with other departments, efforts are notable. For instance, FNIHB has recently been sharing information with other departments, such as Indian and Northern Affairs Canada (INAC) on common recipients. More recently, the extent of the collaboration with INAC has resulted in agreements to coordinate audits and align financial reporting requirements for client First Nations.

In summary, the Department has made considerable progress in an effort to coordinate audits both at the intra and inter departmental levels.

2.3.3 Program Results and Evaluations

Audit Criterion: *Program results are reported to senior management and program evaluations are conducted as planned.*

The Departmental Performance Measurement and Evaluation Directorate is responsible for reviewing all performance measurement strategies as well as the portions of the Treasury Board Submissions and Memoranda to Cabinet that deal with performance measurement. Additionally, program results and outputs are reported to senior management (i.e. Executive Committee - Finance, Evaluation and Accountability) through annual program cluster reports and periodic program evaluations.

FNIHB has recently completed the first evaluation of its Children and Youth Cluster (combining Aboriginal Head Start on Reserve; Canada Prenatal Nutrition Program; Foetal Alcohol Spectrum Disorder; and Maternal Child Health). The regionally delivered First Nations and Inuit Health programs now collect data for program results and performance measurement from the Community-Based Reporting Template (CBRT). FNIHB has identified challenges in collecting performance data from First Nations recipients through this tool and is addressing this problem.

SPB and RAPB also completed their evaluations of the Health Care Policy Contribution Program and the Official Languages Health Contribution Program. Furthermore, there are now requirements for applicants to submit performance measurement plans that provide information on data and resource requirements in a consistent manner over the life of a project.

Overall, there are processes to measure and report results to senior management and conduct program evaluations.

2.4 New Requirements of the *Policy on Transfer Payments*

2.4.1 Collaboration within and outside the Department

Audit Criterion: *Collaboration exists within the Department and with other departments and agencies to harmonize contribution programs.*

With the First Nations and Inuit Health programs, according to the 'flexible model' of contribution agreements, new funding agreements combine activities under the Child and Youth Cluster and allow recipients to re-allocate funding between programs within the same cluster. It is also possible to re-allocate funding between program clusters in some cases.

Interactions with the Department of Indian and Northern Affairs (INAC), Human Resources and Skills Development, and the Public Health Agency of Canada occur through a horizontal policy table which originated with the development of the Early Childhood Development Strategy in 2002. In the British Columbia Region, representatives from the other departments and Health Canada meet to set priorities and

have established working groups. In the same region, some funding is already delivered to communities through contribution agreements led by INAC. Furthermore, a conversion to a tripartite agreement, involving Health Canada, the British Colombia First Nations Health Council and the Province of British Columbia, is under way. This agreement will set out broad outlines for negotiating the transfer of funds to a British Columbia First Nations Health Authority that will administer federal health services to First Nations in the Province.

At the national level, INAC and Health Canada have recently set up a committee (the ''Joint Standardized Financial Reporting Working Group'') with a view to harmonize financial statements submitted by recipients.

SPB's Health Care Policy Contribution Program links with program areas located in other branches. The Program has established multi-level working relationships through participation in departmental and portfolio initiatives, for example, the development and implementation of standard operating procedures and service standards. In addition, the Program collaborates with other government departments, including Citizenship and Immigration Canada and Human Resources and Skills Development Canada, on issues such as foreign qualification recognition for health care professionals and on program activities such as proposal reviews.

Within RAPB, the Official Languages Health Contribution Program is a good example of harmonization as it is part of the inter-departmental initiative *Roadmap for Canada's Linguistic Duality* under the leadership of Canadian Heritage. This initiative involves coordination and alignment in the areas of financial management, performance measurement strategy and, strategy for reporting and evaluation and risk management. Another example of interdepartmental collaboration in RAPB's programs includes the *National Anti-Drug Initiative* with the Royal Canadian Mounted Police.

In conclusion, strong collaboration exists between Health Canada and other departments and agencies to harmonize contribution activities and to deal with common horizontal issues.

2.4.2 Service Standards

Audit Criterion: *Plans are in place to implement service standards.*

The Grant and Contribution Service Standards Working Group, under the leadership of the Centre of Expertise on Grants and Contributions, was created in 2008-09 with membership from both Health Canada and the Public Health Agency of Canada. In 2009-10, it conducted a survey to identify existing service standards and drafted a strategy, supported by a work plan. This proposal specifies some elements of service (i.e., accessibility, timeliness and knowledgeable service) and specific service standards for FNIHB and for the other branches. The Working Group is working with branches towards piloting projects on service standards in 2011-12.

In conclusion, the Department has developed service standards in areas identified as having the potential for the greatest positive impact on client service. This process is expected to be implemented in 2011.

2.4.3 Streamlining of Administrative and Reporting Requirements

Audit Criterion: *An engagement strategy has been developed to involve recipients in streamlining administrative and reporting requirements.*

The Department, through the Centre of Expertise on Grants and Contributions, created the Health Portfolio Recipient Engagement Working Group with members from Health Canada and the Public Health Agency of Canada. This working group is mandated to develop a common strategy that meets the requirements of all grant and contribution programs and recipients.

Branches have also developed plans to formally engage recipients on key program elements and administrative issues. In FNIHB, recipient engagement includes national meetings with representatives of First Nations and Inuit organizations. In the Alberta Region, a committee has been established whereby First Nations representatives and regional staff oversee the region's programs and services.

Within SPB and RAPB programs, engagement of recipients has come through consultations to obtain views on their recipient and evaluation tools, and the level of detail required in reporting. Recipients have also been consulted on the development of service standards.

Therefore, there are engagement strategies to involve recipients in streamlining administrative and reporting requirements.

3. Conclusion

The audit concludes that the overall design of the management control framework in place to manage Health Canada contribution programs is both adequate and effective in support of compliance with the *Policy on Transfer Payments*. Clarity of roles and responsibilities, fulfilment of training needs and collaboration within and outside Health Canada are adequate. In addition, there is progress in the standardization of processes, service standards and the engagement of clients.

However, the need for improvements was noted in a number of areas, most particularly under the line of enquiry dealing with the Governance and Control Framework. The following areas require management's attention:

- Clarification of the role and responsibilities of the functional authority (CFOB-Centre of Expertise) and branches;
- Maintenance of the Departmental financial signature database and adherence to Health Canada's Delegation of Financial Signing Authorities;
- Controls to mitigate risks of possible conflicts of interest; and
- Documentation of funding decisions for special project initiatives in FNIHB.

Appendix A – 2009–2010 Grants and Contributions Expenditures

Branch	Program Group / Program	Contribution (Thousands $)	Grants (Thousands $)	Total (Thousands $)
FNIHB	**Community Programs**			
	Aboriginal Diabetes Initiative	41,317	25,667	66,983
	National Native Alcohol & Drug Abuse (1)	59,227		59,227
	Mental Health & Addiction -Transfers	51,887		51,887
	Aboriginal Head Start On Reserve (2)	45,843		45,843
	Brighter Futures	37,158		37,158
	Building Healthy Communities	28,753		28,753
	Indian Residential Schools	24,045		24,045
	Maternal & Child Health	19,862		19,862
	Fetal Alcohol Spectrum Disorder	18,428		18,428
	Youth Solvent Abuse Program	17,113		17,113
	Chronic Disease Prevention -Transfer	12,240		12,240
	National Aboriginal Youuth Suicide Prevention	11,714		11,714
	9 Community Programs < $5M	10,437		10,437
	Canada Prenatal Nutrition Program	10,314		10,314
	Governance and Infrastructure Support			
	Health Planning Management	93,324		93,324
	Aboriginal Health Transition Fund	52,101		52,101
	Facilities Construction, Operations & Maintenance (1)	42,109		42,109
	Health Human Resources	22,156		22,156
	Health Consultation & Liason	20,123		20,123
	Hospital Health Care Services	16,330		16,330
	Health Info Systems & Tele Health	15,239		15,239
	5 Health Governance & Infrastruc. Support Programs < $5M	7,569		7,569
	Security Services in Health Facilities	5,610		5,610
	National Aboriginal Health Organization	5,000		5,000
	Grants to Territories		4,333	4,333
	First Nations and Inuit Primary Care			
	Home and Community Care	99,809		99,809
	PHC Prog - Transfers (1)	44,377		44,377
	Nursing Services	40,517		40,517
	Community Primary Care	21,359		21,359
	3 Primary Care Prgrams < $5M	10,148		10,148
	Non-Insured Health Benefits (Supplemental)			
	FNI Non-Insured Health Transportation Benefits (MT) (1)	146,401		146,401
	FNI Non-Insured Health Dental Benefits (1)	13,589		13,589
	FNI Non-Insured Health Pharmacy Benefits (3)	8,762		8,762
	FNI Non-Insured Health Vision Benefits	5,067		5,067
	2 Non-Insured Programs < $5M	3,526		3,526
	FNI Health Protection and Public Health			
	7 HPPH Programs < $5M	16,131		16,131
	Environmental Health Program	8,818		8,818
	Immunization	5,856		5,856
	Environmental Research Program	5,757		5,757
	Other	26		26
	FNIHB Total	**1,098,042**	**30,000**	**1,128,042**

Notes

(1) Program audited during the period 2005-2010
(2) Program selected for audit in the current audit
(3) Program to be audited in fiscal years 2010-11 or 2011-12 as per the Risk-based Audit Plan approved for 2009-2012

Appendix A – 2009–2010 Grants and Contributions Expenditures (Cont'd)

Branch	Program Group / Program	Contribution (Thousands $)	Grants (Thousands $)	Total (Thousands $)
HECSB	**Management Oversight Accountability**			
	Grant World Health Organization		100	100
	HECSB Total		**100**	**100**
RAPB	**Governance and Infrastructure Support**			
	Capital Investment	71,683		71,683
	Facility Operations & Maintenance	3,536		3,536
	Official Language Minority Community Development (2)	35,510		35,510
	Controlled Substances	14,886	3,750	18,636
	International Affairs	12,975	2,124	15,098
	Tobacco	12,709	371	13,080
	Grant Blood Safety/ Effectiveness R&D (1)		5,000	5,000
	Public Policy Service	3,551		3,551
	Women's Health	2,850		2,850
	RAPB Total	**157,700**	**11,244**	**168,944**
SPB	Grant Canadian Institute of Health Information (1)		81,746	81,746
	Grant Canada Health Infoway Inc. (1)		64,490	64,490
	Grant Canadian Partnership Against Cancer (3)		57,500	57,500
	Grant to the Canadian Agency for Drugs and Technologies in Health (3)		16,904	16,904
	Grant Mental Health Commission of Canada (3)		12,000	12,000
	Grant VCU Disbursement to Provinces & Territories		9,328	9,328
	Grant Canadian Patient Safety Institute		8,000	8,000
	Grant Health Council		4,828	4,828
	G Post-Doctoral Fellowship Pmt to Individual		232	232
	Health Care Policy Contribution Program (2)	40,898		40,898
	SPB Total	**40,898**	**255,028**	**295,925**
Total - Health Canada		**1,296,640**	**296,372**	**1,593,012**

Notes
(1) Program audited during the period 2005-2010
(2) Program selected for audit in the current audit
(3) Program to be audited in fiscal years 2010-11 or 2011-12 as per the Risk-based Audit Plan approved for 2009-2012

Appendix B - Lines of Enquiry and Audit Criteria

Line of Enquiry 1: Governance and Control Framework

- Roles, responsibilities and accountabilities for program governance, decision-making, and program delivery are clearly defined and communicated.
- Program guidance and guidelines are communicated to ensure consistency of program delivery.
- Training provided addresses program needs.
- A risk-based approach has been developed for program design, delivery and management.
- Processes, systems and procedures have been standardized and streamlined across the Department in support of efficiencies in the administration of programs.
- Controls are in place to ensure compliance with policies and directives.

Line of Enquiry 2: Program Eligibility and Funding Decisions

- Potential recipients have ready access to information about programs and program descriptions are made public.
- Assessment of recipient application is conducted through an open process and supported by transparent controls.
- Funding decisions are consistent and based on approved program terms and conditions.

Line of Enquiry 3: Recipient and Program Monitoring

- Monitoring of individual recipients is performed proportionately to their risk level and in accordance with program terms and conditions.
- Recipient audits are coordinated across the Department and, to the extent possible, with other departments.
- Program results are reported to senior management and program evaluations are conducted as planned.

Line of Enquiry 4: New Requirements of the *Policy on Transfer Payments*

- Collaboration exists within the Department and with other departments and agencies to harmonize contribution programs.
- Plans are in place to implement service standards.
- An engagement strategy has been developed to involve recipients in streamlining administrative and reporting requirements.

Appendix C – Overview of Contributions Programs Selected for File Review

Aboriginal Head Start on Reserve Program (FNIHB)

This program provides early childhood intervention that targets the needs of young First Nations children up to six years of age. There are six core elements in this program. Contributions totalled $45.8 million in 2009-10. Regional expenditure details for this program and all other First Nations and Inuit health programs for 2009-10 are provided below (in millions $).

PROGRAM		HQ	Atlantic	QC	ON	MB & SK	AB	BC	Northern	Total
Aboriginal Head Start On Reserve	$	0.4	2.9	5.0	5.4	16.7	6.4	9.0	-	**45.8**
	%	0.9%	6.3%	10.9%	11.8%	36.5%	14.0%	19.7%		100.0%
All First Nations & Inuit Health Program	$	66.8	56.2	114.2	219.0	273.9	130.1	160.7	77.1	**1,098.0**
	%	6.1%	5.1%	10.4%	19.9%	24.9%	11.8%	14.6%	7.0%	100.0%

Official Languages Health Contribution Program (RAPB)

Part of a five-year government-wide initiative (the *Roadmap for Canada's Linguistic Duality*) that engaged 14 departments and agencies. Within Health Canada, this program is aimed at improving the access to health services for Official Language Minority Communities. Total contribution expenditures totalled $35.5 million in 2009-10.

Health Care Policy Contribution Program (SPB)

This program is designed to support the Government of Canada's commitment to improving the health care system. While provincial and territorial governments have jurisdiction over most aspects of health care delivery in Canada, the federal government uses the Program to fulfill important policy commitments. Currently, program funding is delivered within the Branch by the Health Care Policy Directorate and the Office of Nursing Policy. Total expenditures amounted to $40.9 million in 2009-10.