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Final Audit Report

Audit of the Management Control Framework in support of funding to the Canadian Institute for Health Information

June 2008

Table of Contents

Executive Summary	ii
Introduction.....	1
Background	1
Objectives.....	1
Scope and Approach.....	1
Findings, Recommendations and Management Responses	2
Wording of the Funding Agreements.....	2
Monitoring of the Funding Agreements.....	3
Risk Management related to Funding Agreements	4
Financial Audit Results	5
Review of Internal Controls	6
Appendices	9
Appendix A: Summary of Contribution Agreements and Audited Amounts	9
Appendix B: Summary of Audit Adjustments	10

Executive Summary

This report summarizes the main findings of an audit of the Health Policy Branch's (HPB) Management Control Framework, and of a recipient audit of five contribution agreements and related amendments entered into with the Canadian Institute for Health Information (CIHI) for the period April 1, 2005 to December 31, 2006.

The objectives of this audit were to provide reasonable assurance on the appropriateness of the Management Control Framework within the Health Policy Branch for transfer payment agreements and to provide assurance that the payments to CIHI are in compliance with the terms and conditions of the contribution agreements. The audit was conducted by Health Canada's Audit and Accountability Bureau in accordance with the Government of Canada's *Policy on Internal Audit*.

Within HPB there are adequate controls in place to manage the activities of the programs. However, the management control framework requires improvement with regards to regular and ongoing communication of the results of monitoring, reporting and prioritization of recipient audits. The audit also concluded that CIHI's books and records do not provide a clear breakdown of results by activity, and found insufficient evidence of performance monitoring and management, particularly with respect to non-financial information. There is a risk that Health Canada management may not have the necessary information for oversight at the branch level.

The audit also identified that the wording of the contribution agreements required improvement. Eligible expenses were so broadly defined in most agreements as to effectively include any and all costs incurred by CIHI. In addition, a few agreements lacked explicit clauses to ensure travel was in accordance with Treasury Board guidelines.

The audit determined that the costs claimed by CIHI and allowable under the contribution agreements were presented fairly. The internal controls in place at CIHI to manage the contribution agreements were compliant with the terms and conditions with the exception of two ineligible expenses. The audit identified \$27,465 for office expenses relating to the National Prescription Drug Utilization Information System agreement and \$12,000 for capital costs charged to the Health Care Indicators & Data Collection Infrastructure agreement. As a result, a total of \$39,465 is to be recovered.

Introduction

Background

The Canadian Institute for Health Information is an independent not-for-profit organization represented nation-wide. CIHI maintains programs administered by two founding partners: the Hospital Medical Records Institute and the Management Information Group. CIHI builds consensus on health standards and definitions and collects comparable data. It receives 70% of its funding of approximately \$22 million annually, from the Federal Government primarily through grants. The remaining annual funding is provided through contribution agreements of approximately \$6 million from Health Canada.

The Health Policy Branch (HPB) of Health Canada has three Programs that provide transfer payments to CIHI: Health Information Program under the Applied Research and Analysis Directorate and the Health Care Strategies program and the Primary Health Care Transition program which are under the Health Care Policy Directorate (HCPD).

Objectives

The objectives of the audit were to provide assurance that:

- Health Canada has an appropriate Management Control Framework in place within the Health Policy Branch for transfer payment agreements entered into with CIHI; and
- Payments to CIHI are made in accordance with the terms & conditions of the contribution agreements.

Scope and Approach

The audit focussed on the Management Control Framework within the Health Policy Branch for the administration of transfer payments made to CIHI. The auditors conducted interviews of key personnel, reviewed documentation, and examined evidence of the internal control processes to manage CIHI. The audit also examined five contribution agreements and related amendments for the period April 1, 2005 to December 31, 2006. The total value audited was \$10 million and consisted of one contribution agreement managed by the Applied Research and Analysis Directorate and four contribution agreements of the Health Care Policy Directorate, three related to Care Strategies and one related to Primary Health Care Transition. See Appendices A and B for details.

During the examination phase of the CIHI audit, the auditors assessed evidence supporting amounts and disclosures included in the financial information. An assessment of the accounting principles used by CIHI, significant estimates made by management, and an evaluation of the overall presentation of the financial information was performed.

The audit was undertaken by the Audit and Accountability Bureau in accordance with the Health Canada Multi-Year Risk-Based Audit Plan for the period 2006-2007 to 2008-2009. The audit plan was approved by the Departmental Audit and Evaluation Committee on October 4, 2006. The audit was conducted in accordance with the Government of Canada's *Policy on Internal Audit*.

Findings, Recommendations and Management Responses

Management Control Framework for Transfer Payment Agreements with CIHI

Wording of the Funding Agreements

We expected to find contribution agreements with clear terms and conditions detailing activities and eligible expenses. The audit identified that eligible expenses were not clearly defined in all contribution agreements. Eligible expenses were too broadly defined in most agreements and effectively included any and all costs incurred by CIHI. Furthermore, two agreements lacked explicit clauses to ensure travel was in accordance with Treasury Board guidelines.

Transfer payments were consistent with the level of funding approved, and payments did not exceed approved funding levels. Signed agreements were in place before any funds were advanced. All payments were subject to commitment control and certification of available funds. Program managers relied on CIHI's financial statements for assurance that the recipients were complying with the terms and conditions of the agreements. However, the contribution agreements' eligible expenses were not explicitly defined, creating uncertainty during the decision-making process.

There is a risk that program funds may be used for purposes not intended by the programs in the absence of clearly defined eligible expenses.

Recommendation No. 1

It is recommended that the Assistant Deputy Minister of Health Policy Branch ensure that eligible expenses are explicitly defined for the renewal of all transfer payment agreements with the Canadian Institute for Health Information, so that only appropriate costs are funded by the programs, and ensure that all travel costs claimed are in accordance with the Treasury Board Travel Directive.

Management Response

Management accepted the recommendation.

This is currently the practice for funding agreements administered by Health Care Policy Directorate (HCPD), as eligible expenses are explicitly defined in the Terms and Conditions of the Health Care Policy Contribution Program (HCPCP), and this information is both communicated to all recipients (both NGO and P/T) of Program funding, as well as outlined in all Contribution Agreements (CAs). Similarly, when travel is required for a project, every CA ensures that travel costs claimed are in accordance with the Treasury Board Travel Directive.

All CIHI transfer payment agreements previously administered by ARAD, including the Health Information Contribution Agreement (effective April 1, 2008), have recently been consolidated into a single funding vehicle, the Health Information Initiative (HII). As per Treasury Board direction, the newly consolidated CIHI funding is governed through a conditional grant (CG). Given CIHI works with many stakeholders, including P/Ts, this arrangement allows CIHI to effectively operate as an independent body at arm's length from the federal government, a factor critical to the success of the program. Reporting requirements, approved by Treasury Board, are set out in the terms and conditions of the conditional grant agreement, and are less stringent than under a CA. Currently there is detailed financial cash flow reporting and monitoring of HII expenses to ensure compliance with eligible expenses under the new conditional grant funding, although there is no explicit clause on eligible expenses or requirement for compliance with the Treasury Board Travel Directive. Every effort will also be made to integrate these recommendations into subsequent transfer payment agreements upon the renewal of the HII funding.

Monitoring of the Funding Agreements

We expected to find regular communication between the senior program managers of Health Canada and managers of CIHI along with financial compliance statements with supporting documentation for the five contribution agreements. The audit identified that there are controls in place to manage the day-to-day activities of the programs. However, the management control process requires improvement with regards to regular and ongoing communication of the results of monitoring and reporting.

Audit results indicate that information on program spending is gathered. Health Canada's program managers and project officers are involved in monitoring the contribution agreements. They receive reports, are active in committee work, and have regular contact with CIHI staff. However, the financial information supplied by CIHI does not provide a clear breakdown of the results by activity or by funding agreement.

HPB program managers were unable to distinguish activities carried out under the Health Information Program contribution agreement from those carried out under the "Roadmap" grant which is also administered by the Applied Research and Analysis Directorate. The combined reporting format does not delineate activity reporting by contribution agreement. Furthermore, several of the performance measurement indicators were not followed up. Assurance that the terms and conditions of the contribution agreements have been satisfied cannot be provided at

this time, due to incomplete monitoring and reporting and the lack of clarity in distinguishing contribution agreements activity from grant activity.

Individual program managers of Health Care Policy Directorate (HCPD) carry out project monitoring and results assessment. However, we found little evidence of performance and financial monitoring and management across HPB. HCPD produces financial reports for the Health Care Strategies program, but non-financial information is neither captured in a formal reporting system, nor reported to management on a regular basis.

Management does not have the necessary information for oversight at the branch level. It should be noted however, that HPB management initiated a process to amalgamate the transfer payments systems and review the performance measurement system related to the Health Information Program.

Recommendation No. 2

It is recommended that the Assistant Deputy Minister of Health Policy Branch ensure that the recipient's management reporting provides adequate financial and non financial information to monitor performance and ensure compliance to the terms and conditions of each funding agreement.

Management Response

Management accepted the recommendation

While this is currently the practice, we recognize that there are areas where improvements could be made and steps have already been taken to address these. The Health Care Policy Contribution Program is in the process of revising its RMAF and performance measurement framework pursuant to commitments made to Treasury Board. Tools and templates to reflect improved integration of financial and non-financial reporting are being created and will be implemented in this fiscal year. Appropriate training related to tools and templates usage will be provided to staff involved with the monitoring process.

The new Health Information Initiative funding agreement clearly outlines the financial and non-financial reporting and monitoring requirements. Tools and templates to ensure compliance with reporting requirements are being created and will be implemented this fiscal year.

Risk Management related to Funding Agreements

We expected to find a risk management framework and an assessment of CIHI's strategic and operational risks as it relates to other recipients of Health Canada's funds. The audit found that HPB staff did not appreciate the differences in purpose and scope of financial statement audits

performed by an external auditor, compared to financial compliance audits performed by internal auditors. This resulted in less attention being provided to financial compliance issues.

Program managers relied primarily on quarterly statements to ensure that the recipient was in compliance with the terms and conditions of the contribution agreements. These reports provided limited assurance that funded activities were compliant with the terms and conditions of the funding agreements. Recipient audits would ideally provide the required assurance. Even though the overall funding to CIHI is significant, no recipient audits were planned by any program, as it was considered that the financial statement audits provided adequate assurance.

Recommendation No. 3

It is recommended that the Assistant Deputy Minister of Health Policy Branch direct preparation of a Risk-Based Recipient Audit Plan in accordance with Treasury Board policies and guidelines.

Management Response

Management accepted the recommendation

This is currently the practice for the CAs under HCPD. A Departmental Risk-Based Recipient Audit Plan is prepared on an annual basis. In addition, the Health Care Policy Contribution Program has just completed the revision of its RBAF. Implementation of an integrated RMAF/RBAF is underway.

As per direction of Treasury Board, RMAF/RBAF are not required for a conditional grant. There are also no provisions for an Annual Recipient Audit Plan under the CG. The HII CG funding agreement has alternative provisions for audit, including the authority to audit at the discretion of the Office of the Auditor General and Minister. In addition, Health Canada is represented on the CIHI Board of Directors, and reporting based on the terms and conditions of the CG funding agreement allows active monitoring of risks.

Canadian Institute for Health Information

Financial Audit Results

This audit found that the audited amounts presented fairly the costs claimed for the period of April 1, 2005 to December 31, 2006. Audited amounts were in compliance with the financial terms and conditions of the five contribution agreements and their related amendments.

The expenditure audit for the five (5) contribution agreements with CIHI provided the following results:

Amount of funding available for the contribution agreements	<u>\$19,260,234</u>
Amount paid by Health Canada	\$10,428,364
Ineligible Expenditures	\$39,465
Eligible Expenditures	\$10,388,899
Recoverable Amount	<u>\$39,465</u>

A summary of amounts and details can be found in Appendices A and B.

The recovery is broken down into two amounts: \$27,465 from the Expansion of the National Prescription Drug Utilization Information System (NPDUIS) agreement as a result of ineligible office expenses, and \$12,000 from the Health Care Indicators & Data Collection Infrastructure agreement for ineligible capital charges related to a staffing issue (for more details see Appendix B, Schedules 1-A and 1-B).

Recommendation No. 4

It is recommended that the Assistant Deputy Minister Health Policy Branch recover \$39,465 from the Canadian Institute for Health Information.

Management Response

Management accepted the recommendation.

In progress - CIHI is aware of the audit findings and documentation is being prepared to effect the recovery.

Review of Internal Controls

The auditors conducted a review of the accounting system, compensation, direct costs, other costs, and capital costs. During the period assessed, \$10 million was audited and an overpayment of \$39,465 was identified. This relatively insignificant recovery indicates that CIHI's internal controls are adequate and effective.

Overview of the Accounting System and Internal Controls in place to manage the Contribution Agreements

The audit concluded that the accounting system and internal controls were adequate and effective, and provided sufficient information to support the financial transactions.

Compensation

Compensation accounts for over 60% of the various project costs and consists of direct labour and fringe benefits. The examination indicated that compensation information is adequate and provides sufficient information to support decision making.

Direct Labour

CIHI has a methodology to allocate the time and costs of every employee to the projects. The allocation is reviewed quarterly and revised if the time spent per project differs from the forecasted by 10% or more. This process was tested and it was determined that this control mechanism was sufficient and worked as intended when allocating time to projects.

Fringe Benefits

Fringe benefits are claimed as a percentage of direct labour. The auditors confirmed that the fringe benefit rate represented the actual cost paid by CIHI for the various benefits to which the employees are entitled.

Direct Costs (External and Professional Services & Travel Expenses)

Direct costs consist of professional fees, contractual employees, travel expenses and other. The auditors reviewed controls related to direct costs and deemed them appropriate. There is a pre-approval process for each related project. Direct cost information is adequate and provides sufficient information to support decision making.

Other Costs (Office - Supply and Services & Computers/Telecommunications)

CIHI claims an overhead amount, consisting of costs related to office, supply and services (i.e. photocopies, office supplies, courier and rent). The amounts claimed for these costs are based on an overhead charge that is calculated per employee and allocated to each agreement. The auditors reviewed the costs included in the overhead for reasonableness and considered the eligible costs requirements for each contribution agreement. Some of the costs included in the calculation of the overhead percentage were ineligible, such as coffee service and bank charges; while other costs were ineligible in certain agreements, such as rent and insurance.

The auditors determined that CIHI claimed an amount of \$27,465 higher than evidence supported. The ineligible costs resulted in adjustments in one project, National Prescription Drug Utilization Information System (NPDUIS).

Capital Costs

“Capital Costs” are composed of specific and directly related information technology equipment purchases, and were calculated by CIHI at \$12,000 for each new indeterminate employee hired. The auditors examined the specific equipment charged and reviewed the justification for the “Capital Costs” claimed to Health Canada. While the auditors determined that the “Capital Costs” charge per new employee was appropriate, they also observed that CIHI had claimed \$12,000 for a contractual employee. This contractual employee was not a CIHI indeterminate staff and should not have triggered a new “Capital Cost”. Consequently, an audit adjustment of \$12,000 was made.

Recommendation No. 5

It is recommended that the Assistant Deputy Minister Health Policy Branch direct the Canadian Institute for Health Information to review its overhead allocation formula to be in compliance with the terms and conditions of the contribution agreements.

Management Response

Management accepted the recommendation.

As the recently approved Terms and Conditions of the HCPCP explicitly state that ‘overhead’ is not an eligible expense, CIHI is required to remove all overhead allocations from their expenditure reports.

Given the HII GC grant funding provides ongoing stable funding for CIHI’s core operations and activities, “overhead” is an allowable expense when consistent with the objectives of the HII funding agreement.

Appendices

Appendix A: Summary of Contribution Agreements and Audited Amounts

Health Canada Program	Project	Agreement Number	Audit Coverage	Agreement Effective Date
Health Information Program	Maintaining Core Datasets	6805-06-2005/ 5220002	April 1, 2005 – December 31, 2006	April 1, 2005
Health Care Strategies	Expansion of NPDUIS	6804-15-2004/ 5590029	April 1, 2005 – September 30, 2006	March 5, 2004
Health Care Strategies	Canadian Medication Incident Reporting	6804-15-2003/ 6410001	April 1, 2005 – December 31, 2006	December 11, 2003
Health Care Strategies	Health Human Resources Database Development Project	6804-15-2004/ 6700008	April 1, 2005 – December 31, 2006	November 29, 2004
Primary Health Care Transition	Health Care Indicators & Data Collection Infrastructure	6799-15-2004/ 6760025	April 1, 2005 – March 31, 2006	November 30, 2004

	Maintaining Core Datasets	Expansion of NPDUIS	Canadian Medication Incident Reporting	Health Human Resources Database Development	Health Care Indicators & Data Collection Infrastructure	Total
Value of CA	\$ 4,460,000	\$ 735,481	\$ 4,000,000	\$ 8,250,000	\$ 1,814,753	\$ 19,260,234
Actual funding paid	\$ 3,905,400	\$ 526,337	\$ 1,836,381	\$ 2,664,578	\$ 1,495,668	\$ 10,428,364
Reported amount	\$ 3,905,400	\$ 526,337	\$ 1,836,381	\$ 2,664,578	\$ 1,495,668	\$ 10,428,364
Audit Adjustments	\$ -	(\$ 27,465)	\$ -	\$ -	(\$ 12,000)	(\$ 39,465)
Funding supported	\$ 3,905,400	\$ 498,872	\$ 1,836,381	\$ 2,664,578	\$ 1,483,668	\$ 10,388,899
Recoverable amount	\$ -	\$ 27,465	\$ -	\$ -	\$ 12,000	\$ 39,465

Supporting information is provided for each Contribution Agreement in the following schedules:

Appendix B: Summary of Audit Adjustments

- Schedule 1-A: Expansion of NPDUIS
- Schedule 1-B: Health Care Indicators & Data Collection Infrastructure

Appendix B: Summary of Audit Adjustments

Schedule 1-A: Expansion of NPDUIS

Description of Expenses	Total Reported Amounts	Audit Adjustments	Audited Amounts
	\$	\$	\$
Compensation	321,006	-	321,006
External and Professional Services	141,043	-	141,043
Travel Expenses	19,889	-	19,889
Office - Supply and Services	29,148	(27,465) 1	1,683
Computers / Telecommunications	15,251	-	15,251
TOTAL	526,337	(27,465)	498,872

Explanation of Audit Adjustments

1. Office expenses

CIHI reported office expenses equal to \$10,500 per Full-Time Equivalent per year. The auditors reviewed the expenses making up the indirect cost amount charged to every contribution agreement. It was found that the National Prescription Drug Utilization Information System (NPDUIS) contribution agreement did not allow for some costs claimed - the major item being rent. This adjustment reduced the office expenses by \$27,465.

Schedule 1-B: Health Care Indicators & Data Collection Infrastructure

Description of Expenses	Total Reported Amounts	Audit Adjustments	Audited Amounts
	\$	\$	\$
Compensation	856,572	-	856,572
External and Professional Services	153,218	-	153,218
Travel Expenses	260,650	-	260,650
Office - Supply and Services	150,288	-	150,288
Computers / Telecommunications	63,140	-	63,140
Capital Costs	12,000	(12,000) 1	-
TOTAL	1,495,868	(12,000)	1,483,868

Explanation of Audit Adjustments

1. New Full-Time Equivalent Capital Charge

CIHI claims a "Capital Cost" of \$12,000 for every new indeterminate employee. The "Capital Cost" consists of computer, software, and furniture required when a new position is created at CIHI. New employees are considered to be new positions filled. It was determined that one "Capital Cost" was claimed for a contractual worker. Therefore, it should not have triggered a new "Capital Cost". As a result, an adjustment of \$12,000 was made.