

Final Audit Report

Audit of Transfer Payments to Canada Health Infoway Inc.

May 2009

Table of Contents

Executive Summary	i
Introduction.....	1
Background	1
Objectives	2
Scope and Approach	2
Findings, Recommendations and Management Responses.....	4
Management Control Framework within Strategic Policy Branch	4
Cash Flow Statement Submitted for 2007-2008	6
Registration of Lobbyists	10
Management Control Framework within Infoway	12
Compliance and Use of Funds	14
Other Considerations	16
Appendices.....	17
Appendix A: Audit Criteria	17
Appendix B: Overview of Audited Amounts for 2007 and Sample Coverage.....	18
Appendix C: Overview of Amounts Examined for 2006	19

Executive Summary

This report sets out the observations, conclusions and recommendations from the Audit and Accountability Bureau's audit of Transfer Payments to Canada Health Infoway Inc. Funding to Canada Health Infoway Inc. includes three initial conditional grants, totaling disbursements of \$1.2 billion; and a grant approved March 30, 2007 in the amount of \$400 million, to be disbursed based on cash requirements over the next five years. Canada Health Infoway Inc. is an independent, not-for-profit organization whose Members are Canada's 14 federal/provincial/territorial Deputy Ministers of Health, and its purpose is to accelerate the development and adoption of health information systems, as well as define and promote standards in this field.

The objectives of the audit were to provide the Deputy Minister with assurance that a management control framework is in place within the Strategic Policy Branch¹ and Canada Health Infoway Inc. for the monitoring and administration of Transfer Payment funds; and that Canada Health Infoway Inc. is using funds in compliance with the terms and conditions of the funding agreements. The audit was conducted by the Audit and Accountability Bureau in accordance with the Government of Canada's *Policy on Internal Audit*. Audit work for this report was substantially completed in April 2008, except for Infoway's Internal Records Supporting Lobbying Activities, for which work was extended to January 2009.

Department officials have been tabling information on Infoway results in Parliament, maintaining frequent communications with the recipient and conducting ad hoc analysis. However, management practices within Strategic Policy Branch such as ongoing monitoring, risk management, comparison of results against expectations and defined accountabilities surrounding funding to Infoway need to be developed.

The initial Cash Flow Statement submitted by Canada Health Infoway Inc. for the fiscal year 2007/2008 was a high level document comprised of 10 line items listing total projected expenditures by program initiative. The amount requested as part of the initial Cash Flow Statement was based on estimated projected costs associated to projects that were at the stage of conceptualization; no contractual commitments were in place. The terms of the 2007 Funding Agreement do not empower Health Canada to require enough information to adequately monitor where funds are being spent and ensure that funds are actually required to meet short-term cash flow requirements. This elevates the risk that Health Canada is ultimately unable to ensure that these funds will be used for their intended purpose. As at March 31, 2007, nearly 100% of the total funding (\$1.2 billion) paid to Infoway from previous grants had been designated towards projects. Of this amount, \$134.5 million had been committed under contractual agreements. As at March 31, 2007, Infoway had \$1.068 billion on hand held in investments.

¹ Prior to July 2008, the Strategic Policy Branch was referred to as the Health Policy Branch.

The payment of the initial installment of the 2007 Funding Agreement revealed that information received in support of the payment was inadequate to fulfill verification responsibilities, and certification under Section 34 was not signed by an authorized management level. This has been retroactively corrected.

Infoway has In-house Organization Lobbyists, who conduct lobbying activities as defined in the *Lobbying Act*. Awareness of risks and obligations surrounding recipients' lobbying activities and related compensation has increased within the Branch, and actions have been initiated to incorporate this aspect into the overall monitoring framework currently being developed.

Overall, Canada Health Infoway Inc. has an effective management control framework in place surrounding the administration of grant funds. However, we noted weaknesses with respect to the adequacy of Canada Health Infoway Inc.'s documentation supporting claims verification, travel policy and the tracking of efforts devoted to lobbying activities. Approved expenditures were related to the Scope of Work and Outcomes as defined in the Funding Agreements. For the fiscal years ending in 2006 and 2007, Canada Health Infoway Inc. has been compliant with the terms and conditions of its agreements as they relate to reporting, policies, and investments.

Management agrees with the recommendations, its response indicates its commitment to take action and many of the proposed actions that will address the findings have already started to be implemented.

Introduction

Background

On October 20, 2000, the *Canada Health Care, Early Childhood Development and Other Social Services Funding Act* received royal assent, allowing the Minister of Finance to make a direct payment to a corporation, to be named by order of the Governor in Council. The purpose of this corporation was to define standards governing shared data to ensure the compatibility of health information networks. As a result, on January 22, 2001, Canada Health Infoway Inc. (Infoway) was incorporated and commenced active operations in March, 2001. Infoway is an independent, not-for-profit organization whose Members are Canada's 14 federal, provincial and territorial Deputy Ministers of Health. In line with the purpose set out in the *Act*, the objectives of the Corporation are to accelerate the development and adoption of modern systems of health information and communication technologies, and to define and promote standards governing shared data to ensure the compatibility of health information networks.

Funding to Infoway includes three initial conditional grants, respectively \$500 million March 21, 2001, \$600 million July 31, 2003, and \$100 million June 8, 2004, for a total disbursement of \$1.2 billion. During this time, Health Canada's Corporate Services Branch was responsible for the management of these agreements.

In 2006, Health Canada commissioned an independent study, entitled *Federal Review of Progress: Electronic Health Records in Canada and the Role of Canada Health Infoway*, which provides an independent assessment of strategic approaches to the development and implementation of electronic health records (EHR) in Canada, including the role of Infoway. The report supports investment in a nationally consistent comprehensive approach to EHR development, and determined that Infoway is an appropriate vehicle for such an initiative.

On March 30, 2007, Health Canada entered into a new agreement with Infoway for additional funding approved in the amount of \$400 million. This recent funding agreement introduces new accountability provisions including the disbursement of funds based on cash requirements as identified annually by Infoway over the next five years. The responsibility for these agreements was transferred to the Strategic Policy Branch (SPB) in August 2007. In October 2007, Infoway submitted a Cash Flow Statement for the year 2007/08 and a first installment was paid in the amount of \$38,740,000.

In the report titled "*2015 - Advancing Canada's Next Generation of Health Care*", Infoway reports that the following investments will be required: incremental capital costs over the next ten years are estimated to be between \$10-12 billion in additional capital, \$1.5-1.7 billion in operating costs and \$3.5-4.0 billion for integrated systems destined to

serve health professionals and the broader community environment, totaling between \$15-17.7 billion.

The audit was undertaken by the Audit and Accountability Bureau in accordance with the Health Canada Multi-Year Risk Based Audit Plan, approved October 4, 2006 by the Departmental Audit and Evaluation Committee and its amended audit plan approved June 18, 2007. The audit was conducted in accordance with the Government of Canada's *Policy on Internal Audit*.

Objectives

The objectives of the audit correspond to the two lines of enquiry of the audit, which were to provide the Deputy Minister with the assurance that:

- A Management Control Framework is in place within the Strategic Policy Branch and Canada Health Infoway Inc. (Infoway) for the monitoring and administration of Transfer Payment funds; and
- Infoway is using funds in compliance with the terms and conditions of the funding agreements.

These objectives are consistent with the Audit and Accountability Bureau's (AAB) responsibility to assess Health Canada's strategy and practices relating to risk management, control and governance.

Scope and Approach

The audit focused on the management control framework within the Strategic Policy Branch and within Infoway for the monitoring and administration of related Transfer Payments. Specifically:

- Administration procedures and controls implemented by the SPB and the financial recording of the payments made according to the funding agreements;
- Governance structure, administration procedures and controls implemented by Infoway to ensure the administration of funds and monitoring of investment programs; and
- Eligibility of expenses reported by Infoway for the fiscal years ending March 31, 2006 and 2007, and compliance with the terms and conditions of funding agreements.

Infoway is a nation-wide Canadian organization, with offices in Toronto, Montreal, Halifax and Vancouver. The audit covered Infoway's head office in Montreal and the regional Toronto office.

The audit approach included:

- Interviews with key staff from the SPB and the Corporate Services Branch (CSB), involved in the management of these funding agreements, regarding the control framework and monitoring activities in place, as they relate to activities conducted from inception in 2001 until March 2008;
- Interviews with management and staff from Infoway Finance, Procurement and Project Financing divisions, regarding the control framework in place surrounding the administration of government funds, as it relates to activities conducted between April 2005 and March 2008;
- Review of Infoway's various policies, practices and procedures;
- Review of Health Canada documents, including Aide Memoire, and funding agreements;
- Analytical review of Infoway's audited financial statements (2001/02 to 2006/07);
- Testing of a judgemental sample of Infoway's transactions incurred in fiscal year ending March 31, 2007;
- Assessment of recent procedures surrounding the preparation and payment of the Cash Flow Statement submitted in October 2007;
- Review of meeting minutes from Infoway's Governance Committee, Finance Investment & Audit Committee, as well as from its Board of Directors.

Criteria for this audit are presented in Appendix A.

Overview of Audited Amounts for 2006, 2007 and Sample Coverage is presented in Appendix B and C.

Audit work for this report was substantially completed in April 2008, except for Infoway's Internal Records Supporting Lobbying Activities, for which work was extended to January 2009.

Findings, Recommendations and Management Responses

Management Control Framework within Strategic Policy Branch

Prior to 2007, funding to Infoway was provided in the form of a conditional grant. The approved funding was disbursed as an upfront lump sum payment. The terms and conditions of the funding agreement did not require formal reporting to Health Canada. There were no ongoing monitoring activities, except for informal communications and some analysis by staff. Under the previous governing agreements, Infoway's reporting requirements were limited to its Members, the Board of Directors and making certain information available to the public.

New provisions were included in the recent funding agreement signed in 2007. These include a requirement for direct reporting to Health Canada, provisions related to non-performance and authority to table the recipient's corporate plans and performance results in Parliament. Further, Health Canada reports on Infoway in its *Report on Plans and Priorities* (RPP) and *Departmental Performance Report* (DPR).

Despite the absence of these provisions prior to 2007, department officials were proactive in tabling information on Infoway results in Parliament, maintained frequent communications with the recipient and conducted ad hoc analysis. However, management practices such as ongoing monitoring, risk management, comparison of results against expectations and defined accountabilities surrounding funding to Infoway need to be developed. At the time of the audit interviews, SPB had only recently assumed responsibility for the management of the Infoway agreements and had begun to develop a monitoring framework to serve as a tool to help staff operationalise the monitoring of the agreements. This tool was not assessed during this audit.

As a corporate member of Infoway, the Deputy Minister appoints two members to the Board of Directors. Currently, the Assistant Deputy Minister (ADM) of Health Canada from SPB is occupying one of these positions.

In July 2008, the dual role of Health Canada officials exercising their duties as public servants, and simultaneously participating on the Boards of Not-for-Profit Corporations, and risk mitigation strategies were discussed by the department's senior management board. As a result, Health Canada will develop a framework to guide employees in considering new invitations to participate on boards and to re-assess ongoing participation; to explore potential training opportunities to help guide employees; and to develop and maintain an inventory of Health Canada employee's participation on boards. The safeguards to be developed will help to mitigate the risks associated with the participation of Health Canada officials on Boards of Not-for-Profit Corporations.

Recommendation No. 1

It is recommended that the ADM SPB develop and implement a comprehensive monitoring framework relating to funding of Infoway to ensure that timely information is available on the results achieved and overall compliance with terms and conditions of the Funding Agreement; and that the Department review regularly its participation on Infoway's Board to appropriately manage any ensuing risk.

Management Response

Management accepts the recommendation.

The Branch began developing a monitoring framework, to support the accountable management of the Infoway funding agreements, in late 2007 and its development was informed by the audit process. The framework was shared with Infoway and the Audit and Accountability Bureau during the audit.

In addition, Infoway is required, under the terms of all funding agreements, to report on results achieved. Moreover, SPB will ensure that subsequent funding agreements include additional requirements for Infoway to report on results, such as providing more detail on projects and submitting reports on progress against Infoway's goal.

The Department recognises that there are risks and benefits to officials' participation on the Boards of third party organisations. The Department makes decisions about federal appointees on a case-by-case basis, taking into consideration the underlying policy rationale and value-added of Health Canada's participation, the potential for conflict of duties and conflict of interest, legal risks, and the knowledge, skill and time commitment involved in participation.

SPB will track situations of conflict of interest and/or duties and seek advice as needed on a case-by-case basis.

The following are the deliverables and expected completion dates:

- Evergreen monitoring framework – The monitoring framework was approved by the ADM, SPB in June 2008 and is now in use.
- Inventory of situations of conflict of interest and/or duties – Ongoing.

Cash Flow Statement Submitted for 2007-2008

Provisions of the current Funding Agreement have been modified to reduce advance payments to what is needed during an upcoming 12-month period. Funding is provided to Infoway through annual installments based on its projected cash flow requirements for the upcoming fiscal year. This is a significant departure from previous agreements, moving from the notion of budgetary funding requirements to that of forecasted cash flow requirements. In the event that additional funding is required to meet cash flow requirements related to newly signed contractual agreements during the year, Infoway may make supplementary requests for funding under the 2007 agreement.

The initial Cash Flow Statement submitted for fiscal year 2007/08 was a high level document comprised of 10 line items, listing total projected expenditures by program initiative. In addition to this Statement, Infoway's Corporate Plan was also reviewed. Neither of these documents provide comprehensive information on individual projects being funded or associated contractual commitments. Although Infoway fulfilled the reporting requirements as stated in the 2007 Funding Agreement, the information in support of the payment of the initial installment of the new funding was inadequate to verify the validity and appropriateness of the projected expenditures under the terms of the agreement. Project costs consist of two components: the direct costs that will be paid out to Infoway's sponsors, and Infoway's internal operating costs (indirect costs) as they are allocated to projects and programs. In the absence of detailed project information, SPB cannot effectively assess the eligibility and reasonableness of reported budgeted costs, obtain an acceptable level of assurance that projects have not already been funded under previous agreements, or that the project costs submitted as part of a cash flow statement have not already been submitted in support of a previous cash installment.

In addition to the weakness noted above, review of the documentation supporting the first payment to Canada Health Infoway Inc. under the 2007 Funding Agreement revealed an oversight surrounding compliance with sections 33 and 34 of the *Financial Administration Act*. Certification pursuant to Section 34 of the entitlement for the payment of this first grant installment, in the amount of \$38,740,000, was signed at the Director General Level. Because the payment was above the \$10-million limit delegated to Director General Management Level, Section 34 for the payment to Infoway should have been certified by a Branch Head. While the approval per Section 34 was exercised at a Director General level, a memorandum dated October 4, 2007 destined to the Deputy Minister and the Associate Deputy Minister prior to the payment being issued indicates that "The Department will work to ensure the \$38.7 M required by Infoway for 2007-08 is disbursed within the 45 day time limit as set out in the funding agreement". The memorandum is signed by the A/Branch Head on October 7, 2007. This memorandum was part of the documentation sent to Accounting Operations, and served to support the payment. On August 29, 2008, the current Assistant Deputy Minister approved a Memorandum seeking an after-the-fact approval of the 2007 payment, and certification pursuant to Section 34 was retroactively corrected.

The finance officer verifying and authorizing Section 33 of the *Act* for the payment to Infoway, relied on appropriate supporting documentation to release the funds, including the memorandum from the Branch Head referenced above. Although the payment to Infoway is legitimate; there was an oversight in relation to the certification process.

The current agreement does not specifically address the intended use of this new funding in regards to old and/or new projects. Health Canada's position, and one agreed to by Infoway, is that the new funding would only be used for new projects presented since March 2007. Because these projects are at the stage of conceptualization, Infoway has based its recent Cash Flow Statement amount on estimated projected costs allocated to these new projects. At the time the Cash Flow Statement was submitted, Infoway had no actual contractual commitments in place for these new projects. According to Infoway management, the reality is that some of the projects identified on the Cash Flow Statement may ultimately never get approved by the Board, and may eventually be replaced by other projects. Funding has been disbursed to Infoway for projects at a time when the corporation was not in a position to fully commit to these projects. This situation presents flexibility for the recipient to re-align funding on different project initiatives after disbursement of funds by SPB, therefore elevating the risk that Health Canada is ultimately unable to ensure that these funds will be used for the intended purpose.

In agreements issued prior to 2007, funding was provided in advance of needs, through grant transfer payments. As at March 31, 2007, nearly 100% of the total funding (\$1.2 billion) paid to Infoway from previous grants had been designated towards projects. Of this amount \$134.5 million had been committed under contractual agreements. As at March 31, 2007, Infoway had \$1.068 billion on hand held in investments.

Where contractual agreements are in place, Infoway practices control over disbursements to its Sponsors with a gated funding approach which consists of paying its recipients based on milestones². This practice is used due to the considerable complexity that exists in introducing system-wide change involving electronic solutions. The pace of implementation is affected by a number of factors such as stakeholder engagement and readiness, technical factors and the need to re-engineer business processes. Ultimately, the pace of progress is largely determined by jurisdictional readiness and their ability to allocate resources for their share of the funding.

The 2007 Agreement does not clearly address the issue surrounding unutilized funds from previous grants. In determining cash flow requirements, the Agreement requires that funding from other sources for same activities be taken into consideration, but it does not

² *Infoway enters into contracts in which payments are made when the recipients (namely, P/T governments or their approved partners) reach pre-established milestones. Payments are not made at pre-established dates. This type of funding referred to as "gated funding", ensures that payments are made for deliverables, not just activity.

specifically state whether funding received from previous grants constitutes as funding from another source. There is also a requirement that the new funding be held separately from that received prior to 2007. In accordance with this requirement, Infoway has excluded unutilized funds from previous grants in determining its need for cash flow for 2007-2008.

Funds received from grants paid out prior to 2007 must be segregated from those received in accordance with the 2007 Agreement, as interest generated from monies received from previous grants may be held by the recipient, while interest generated from monies received from the 2007 funding agreement must be taken into account in reducing the amount of funding payable to the recipient.

The terms of the 2007 Funding Agreement do not empower Health Canada to require enough information to adequately monitor where funds are being spent and ensure that funds are actually required to meet short-term cash flow requirements. Although SPB and Infoway have been operating with the understanding that funds from the 2007 Agreement are to be used to support new projects as well as subsequent new phases of existing projects, this agreement does not clearly identify the intended purpose of the funding with respect to projects currently underway and the undertakings of new projects. Infoway continues to request funding for newly conceptualized projects under the same program initiatives as previous funding agreements and requests are based on estimated projected costs. This situation, combined with the uncertainty surrounding ultimate use of funds for intended purposes, elevates Health Canada's exposure to payments made in advance of need. If cash reserves remain unspent and uncommitted as of April 1, 2012, the recipient is free to use the monies as it may determine in its sole discretion for any purpose consistent with its objectives described in the Letters Patent.

Recommendation No. 2

It is recommended that the ADM SPB consider clarifying the purpose of funds provided under the 2007 agreement with Infoway (\$400 million) with respect to support for the continued funding of existing projects and/or support for new projects. Similarly, consideration should be given to establishing the basis for the timing of grant installments in relation to the timing of amounts claimed by Infoway and the actual timeframe when cash flow is required to meet their contractual obligations.

Management Response

Management accepts the recommendation.

SPB affirms that these funds may be used to support new projects as well as subsequent phases of previously existing projects. Further, these funds may be used for such projects under Infoway's existing strategic investment programs, which were established by Infoway to support the establishment of a comprehensive network of interoperable EHR

solutions. These investment programs are: Registries, Diagnostic Imaging Systems, Drug Information Systems, Laboratory Information Systems, Interoperable EHR, Telehealth, Public Health Surveillance, Innovation and Adoption, Infostructure, and Patient Access to Quality Care. Funds from the 2007 agreement may not be used to support phases of projects that were approved and funded under previous funding agreements. This was raised with and agreed to by Infoway in the Fall of 2007 (verbally) and again in July 2008 in the course of this audit (email). Further, SPB will ensure that subsequent funding agreements include a provision reflecting a similar understanding.

The 2007 funding agreement outlines the timing of grant installments. Infoway is to provide an annual cash flow statement and may also submit an additional request for funds should the need arise. SPB will ensure that future funding agreements include additional provisions relating to the submission of cash flow statements and the disbursement of funds. More specifically, it will be a requirement that cash flow statements must be accompanied by detailed information on each project to be funded in the corresponding fiscal year, and that Infoway certify that it will not disburse funds to recipients until a signed agreement is in place.

SPB will formally reconfirm with Infoway, in writing that funds from the 2007 funding agreement are to be used to support new projects as well as subsequent new phases of existing projects.

SPB will continue to monitor Infoway's use of funds to gauge compliance with the intended purposes of the funds. In future funding agreements, SPB will obtain information from Infoway that will further support its annual cash flow requests – namely, information to support verification that funds requested are closely aligned with project requirements, and that they are based on Infoway's obligations.

The following are the deliverables and expected completion dates:

- Correspondence between Health Canada and Infoway, which confirms in writing that funds from the 2007 agreement may be used to support new projects as well as subsequent phases of previously existing projects, but may not be used to support phases of projects that were approved and funded under previous funding agreements. – December 2009;
- Future funding agreements will formally reflect the understanding that Infoway will not use new funding to support projects approved under previous funding agreements; and
- Future funding agreements will include provisions requiring Infoway to submit more detailed cash flow statements, and to commit to only disbursing funds to recipients with whom written agreements exist.

Recommendation No. 3

It is recommended that the ADM SPB consider requesting more comprehensive project information from Infoway in order to obtain sufficient level of assurance that grant installments are based on clearly defined projects with specific expenditure commitments and timelines. The ADM SPB should also consider conducting further analysis and monitoring activities as they relate to Infoway projects and related cash flow requirements, in accordance with the Financial Administration Act and the Policy on Transfer Payments.

Management Response

Management accepts the recommendation.

As noted for Recommendation No. 1, a monitoring framework to support the accountable management of the Infoway funding agreements has been developed and is in use. The framework encompasses a number of procedures, including those related to assessing Infoway's cashflow requirements and monitoring.

Further, as noted for Recommendations No. 1 and 2, SPB will ensure that future funding agreements contain additional reporting provisions, and requirements to submit additional detail with cash flow requests.

As part of the ongoing implementation of the monitoring framework, SPB is enhancing its operational tools and procedures for a range of monitoring responsibilities, including assessing cashflow requirements. SPB will consult with or will engage experts help to develop these resources, as required.

As noted in Recommendation No. 2, SPB will continue to monitor Infoway's use of funds and will obtain information from Infoway that will further support its annual cash flow requests.

The following are the deliverables and expected completion dates:

- Operational tools and procedures related to assessing Infoway's cash flow requirements and the payment of grant installments— Ongoing.

Registration of Lobbyists

Since 2003, the terms and conditions of the funding agreements include a clause pertaining to the registration of lobbyists and prohibited payment of contingency fees, as required by Treasury Board policies. Section 16 of the 2007 funding agreement, titled "Registration of Lobbyists", stipulates that "Infoway certifies that any individual

lobbying on behalf of Infoway in relation to this Funding Agreement is registered in accordance with the *Lobbying Act*. Infoway shall ensure that fees paid to lobbyists are not paid on a contingency fee basis or related to the value of the Grant Funding”. In accordance with Treasury Board Policy on Transfer Payments and related Guidelines, verification of the continuing eligibility, entitlement and qualification of a recipient should be performed prior to making payments.

In October 2008, at the time the first installment was requested, SPB relied on the initial certification of compliance by Infoway as it was at the time the agreement was signed; current status of compliance regarding registration had not been requested and verified by SPB. Awareness of risks and obligations surrounding recipients’ lobbying activities and related compensation has increased within the Branch, and actions have been taken to incorporate this aspect into the overall monitoring framework currently being developed.

Recommendation No. 4

It is recommended that the ADM SPB monitor Infoway’s compliance to the Lobbyist Registration clause of the 2007 Funding Agreement and continued eligibility, in accordance with the Transfer Payment Policy and related Guidelines, in order to obtain an acceptable level of assurance that lobbying activities remain under the threshold for registration and that Infoway staff salary, performance pay and any other compensation are not paid on a contingency fee basis or related to the value of the Grant Funding.

Management Response

Management accepts the recommendation.

As noted above for Recommendation 1, a monitoring framework to support the accountable management of the Infoway funding agreements has been developed. The framework encompasses procedures related to monitoring lobbying activities.

Under the monitoring framework, SPB is developing operational tools and procedures for a range of monitoring responsibilities, including monitoring lobbying activities. SPB will consult with or will engage experts help to develop these resources, as required.

Further, SPB will include the following clauses in future funding agreements:

“Infoway certifies that any individual lobbying on behalf of Infoway in relation to obtaining funding, and is registered is in compliance with the *Lobbying Act*.

Within thirty days of the end of each Fiscal Year, Infoway shall provide to the Minister a written certificate from a duly authorized officer of Infoway, certifying that Infoway and any individual lobbying on behalf of Infoway is in compliance with the *Lobbying Act*.”

Further, SPB will request that Infoway provide a description of how they monitor lobbying activities and to report, in a prescribed form, on their lobbying activities, both by consultants and in-house lobbyists.

The following are the deliverables and expected completion dates:

- Operational tools and procedures related to monitoring lobbying activities – December 2009; and
- Inclusion of the clause in subsequent funding agreements, requiring Infoway to report annually on lobbying activities.

Management Control Framework within Infoway

Overall, Infoway has an effective management control framework in place surrounding the administration of grant funds. A broad set of policies and procedures are communicated, implemented, followed by staff and enforced by the Finance division. However, we noted some weaknesses with respect to the adequacy of documentation supporting Infoway's claims verification process, travel policy and internal records supporting lobbying activities.

Claims Verification Process

Infoway has put in place a claims verification process aimed at ensuring that claims submitted by sponsors for reimbursement include only those costs that have been described as eligible in sponsor agreements, and that such costs have been incurred for the specific purpose of the project funded by Infoway. This process requires that sponsors submit their claims once they have completed a deliverable or a milestone described in the agreement.

Infoway's claims verification process puts significant emphasis on the examination of expenses that sponsors submit for reimbursement. However, this process is seen as being cumbersome as it involves obtaining and reviewing up to 100 percent of expenses supporting costs. In addition, the analysis that supports the approval of associated deliverables is not sufficiently documented to provide a reasonable level of assurance that expenses claimed are linked to deliverables and that project requirements have been met.

At the time of this audit, Infoway had recognized the above-noted issues and was in the midst of replacing the above process by sponsor audits whereby they intend to assess the adequacy and effectiveness of the control frameworks that sponsors have implemented to manage funds provided by Infoway.

Travel Policy

Infoway purchases flight passes for the purpose of employee travel. Due to the Pan-Canadian nature of Infoway's mandate, certain employees are required to travel frequently in order to fulfill this mandate. Corporate Flight Passes are used because of associated cost savings. Over the course of a 12-month period in 2007, a total of 2,600 tickets were purchased for \$901,000. Finance monitors the passenger usage of these passes through the travel service provider's website on a monthly basis. Infoway's travel agency has a list of authorized employees having the right to use Corporate Flight Passes and only authorized Infoway employees may book flights.

While Infoway's travel policy requires authorization prior to travel, only verbal authorization is required. Consequently, there is no evidence that travel expenses are approved prior to incurring costs. Infoway's representatives have concurred that in certain circumstances, travel is not always authorized in advance. This situation elevates the risk to Health Canada as it relates to the eligibility of Infoway's travel expenses being funded.

Internal Records Supporting Lobbying Activities

Audit procedures included the review of meeting minutes from Infoway's Board of Directors, log reports on annual lobbying activities and performance assessments of selected Infoway senior officials, working papers from external compliance auditors hired by Infoway; as well as interviews with a senior official of the Corporation and consultation with representatives of the Strategic Policy Branch.

Infoway has In-house Organization Lobbyists, who have been conducting lobbying activities as defined in the Lobbyist Registration Act. Since September 2006, Infoway has been keeping a log of time spent for lobbying activities on an Excel spreadsheet and has been reporting the hours to its Board of Directors.

Analysis of the logs indicates that certain key activities related to lobbying, such as time spent on email and telephone communications, and traveling for meetings are not consistently recorded. To ensure that all time spent in relation to lobbying activities is accurately captured and is adequately supported, best practices would suggest that Infoway incorporate employees' time tracking requirements for lobbying activities within its existing administrative processes, policies and procedures. Namely, Infoway's time recording system and travel claims could be used to systematically/formally track lobbying. It is understood that subsequent to this audit process, Infoway has undertaken to enhance its tracking efforts.

Review and analysis of Infoway's compensation governance structure and processes as well as documented corporate and selected senior officials' individual goals indicate that

there is no direct linkage with compensation paid to In-house lobbyists on a contingency fee basis. Also, time reported by Infoway for lobbying activities is below the applicable 20% threshold for registration.

Recommendation No. 5

It is recommended that the ADM SPB encourage Infoway to complete the implementation of a stronger claims verification process, a more robust control environment relating to travel expenses; and improved tracking of efforts devoted to lobbying activities.

Management Response

Management accepts the recommendation.

SPB will correspond with Infoway to encourage the implementation of stronger claims verification procedures, more robust travel expense controls, and improved tracking of efforts devoted to lobbying activities (see also action on response to recommendation four).

SPB will address lessons learned in future funding agreements.

The following are the deliverables and expected completion dates:

- Correspondence between Health Canada and Infoway; and documentation of Infoway's controls - April 2009/ongoing; and
- Inclusion a new clause in future funding agreements, requiring Infoway to report annually on lobbying activities.

Compliance and Use of Funds

The audit included an assessment of Infoway's compliance with the terms and conditions of the funding agreements, specifically in terms of reporting, maintaining specific policies, and administration of investments of grant funding. In this regard, Infoway is compliant. Infoway has had independent compliance audits carried out annually, as required in the funding agreements. However, Infoway's compliance auditors have based their results on Infoway's Board-approved interpretation of the terms and conditions. This situation impairs somewhat the objectivity and independence of these reports. In fact, the auditor's report contains to this effect a restriction limiting the use of Infoway's compliance audit reports. Although Infoway is meeting its obligations to carry out compliance audit reports annually, Health Canada should not rely on the results of these reports for decision purposes or legal determinations.

The assessment of invested funds has indicated that, as of March 31, 2007, Infoway's investments amounted to \$1.068 billion. Notes of the audited financial statements report that bond maturities ranged between May 2007 and December 2049. It is also reported that it is the Corporation's policy to strictly invest in debt of counterparties with at least A- (or its equivalent category) investment ratings; and that the principal amount will not be invested in shares, warrants, or other equities, convertible debt securities, derivatives, swaps, options or futures. Infoway has a governance structure in place surrounding its financial investments, which includes an investment committee and an investment policy. This structure meets the requirements of the terms and conditions of the Funding Agreement. We tested a sample of items and transactions, and found Infoway to be in compliance with the investment framework and criteria articulated in the funding agreements.

The audit also included audit procedures to determine whether funds were being used for their intended purpose. The audit revealed that approved expenditures were related to the *Scope of Work* and *Outcomes* as defined in the Funding Agreements. The audit team tested a directed sample of 93 transactions paid during the period. The types of transactions selected are detailed in Appendices B and C.

Summary of amounts subject to this audit, as follows:

Total Approved Funding:	
As at March 31, 2007 (since inception)	\$1,200,000,000
During 2007-2008 (under new funding agreement)	<u>400,000,000</u>
	<u>\$1,600,000,000</u>
 Total Paid to Infoway:	
As at March 31, 2007 (since inception)	\$1,200,000,000
During 2007-2008 (under new funding agreement)	<u>38,740,000</u>
	<u>\$1,238,740,000</u>
 Investments Subject to this Audit (as at March 31, 2007)	<u>\$1,068,000,000</u>
 Expenses Subject to this Audit (2005-06 and 2006-07)	<u>\$ 292,444,644</u>

Expenses recorded by Infoway include a significant amount of accrued costs, particularly in the case of project expenses. Accrued project expenses include a combination of direct project expenses and Infoway internal operating expenses. Accrued project expenses are incurred before legal agreements with Infoway recipients are signed. This method respects the conservatism and matching principles of accounting. Annual accrued amounts are based on estimated dollar values allocated to project milestones and deliverables. In the absence of contractual commitments, i.e. signed agreements with

Infoway recipients, Infoway cannot make payments to its recipients for projects even though some project milestones have been reached, deliverables rendered and in some cases claims received. On average, it takes between nine to twenty-four months for agreements to be actually signed. Consequently, expenses are accrued during this time and accounts payable are accounted for. Accrued expenses do not affect cash flow.

For the fiscal year ending March 31, 2007, Infoway's project expenses breakdown was as follows:

○ Recorded Project Expenses for 2006-07:	\$ 124,068,937
○ Accrued, included in Accounts Payable at year end:	<u>(102,027,014)</u>
○ 2006-07 Project Expenses actually paid:	<u>\$ 22,041,923</u>

Considering this information and other related findings, additional recommendations are not necessary.

Other Considerations

Although not subject to any recommendation, the following observation deserves management's attention. All disbursements related to grants paid to Infoway have been recorded by Health Canada as Grant Expenditures in the fiscal year they were disbursed. This does not reflect the actual use of funds by Infoway or the significant portion of these funds currently held in investments. Funding paid in advance and being retained by Infoway in relation to approved projects is expected to be utilized in future fiscal periods. Recording of disbursements of grants will be reviewed when the department's financial statements are audited.

Appendices

Appendix A: Audit Criteria

Management Control Framework

Objective:

A Management Control Framework is in place within the Strategic Policy Branch and Canada Health Infoway Inc. for the monitoring and administration of Transfer Payment funds

Criteria:

- Reporting to Parliament and the Public
- External audit and evaluation regime
- Ministerial oversight.

Compliance and Use of Funds

Objective:

Infoway is using funds in compliance with the terms and conditions of the funding agreements

Criteria:

- Terms & Conditions of the Funding Agreements
 - Representation and Warranties
 - Minimum Reporting Requirements
 - Performance Evaluation
 - Investment of Funds
 - Confidentiality of Information
 - Conflict of Interest
 - Intellectual Property
 - Conflict Management
 - Lobbyist's Registration and Lobbyist's Contingency Fees
 - Outcomes.

Appendix B: Overview of Audited Amounts for 2007 and Sample Coverage

FYE March 31, 2007				
<u>Expense Category</u>	<u>Total Amount</u>	<u>Number of Tests</u>	<u>Sample \$ Coverage</u>	<u>% Coverage</u>
Compensation & Benefits, including Contractors	\$ 29,335,578	21	\$ 5,404,077	18%
Recruiting	22,147	0	0	0%
Training & Conferences	172,147	1	10,300	6%
Workshops	248,591	0	0	0%
Travel & Meals	3,318,414	13	155,173	5%
Consulting Services & Travel	8,166,265	27	1,871,203	23%
Board & Committee Members	362,161	4	51,280	14%
Legal & Audit Fees	150,384	0	0	0%
Projects/Sponsors	124,068,937	26	78,306,094	63%
Compliance	68,710	0	0	0%
Office Expenses	2,375,097	2	1,184,215	50%
IT & Telecom	971,635	0	0	0%
Communications	1,271,232	5	92,308	7%
Bilingualization	493,248	1	72,864	15%
Flat Fees	<u>3,610,508</u>	<u>0</u>	<u>0</u>	0%
Total	<u>\$ 174,635,054</u>	<u>100</u>	<u>\$ 87,147,514</u>	<u>50%</u>

Appendix C: Overview of Amounts Examined for 2006

<u>FYE March 31, 2006</u>	
<u>Expense Category</u>	<u>Total Amount</u>
Compensation & Benefits, including Contractors	\$ 22,069,971
Recruiting	290,645
Training & Conferences	88,352
Workshops	939,726
Travel & Meals	2,958,113
Consulting Services & Travel	5,108,206
Board & Committee Members	247,564
Legal & Audit Fees	193,608
Projects/Sponsors	76,560,853
Compliance	171,861
Office Expenses	2,164,326
IT & Telecom	1,027,787
Communications	1,083,248
Bilingualization	547,091
Depreciation	1,074,968
Flat Fees	3,277,766
Collaborative Planning	5,218
Other	<u>287</u>
Total	<u>\$ 117,809,590</u>