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Final Audit Report

Audit of the Management of Contribution Agreements with the Canadian Council for Donation and Transplantation and the Canadian Blood Services

September 2009

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Executive Summary

For the period April 1, 2005 to March 31, 2008, Health Canada has funded the activities of the Canadian Council for Donation and Transplantation (CCDT) activities in Canada through a Contribution Agreement which totalled \$10.8 million over three years. As of April 1, 2008, such activities have been transferred to the Canadian Blood Services (CBS), also funded by a Contribution Agreement signed with the Department (\$17.9 million for a 5-year period). Both agreements have been managed by the International, Federal, Provincial and Territorial Portfolio Affairs Division, part of the Health Products and Food Branch. As of December 2008, all management responsibilities for the CBS Contribution Agreement still in place have been transferred over to the Regions and Programs Branch (RAPB).

The objectives of this audit were to provide the Deputy Minister with assurance that there is an appropriate management control framework with regards to Contribution Agreements falling under its responsibilities; that CCDT has been using the funds received in compliance with the terms and conditions of the Contribution Agreement (up to transfer of mandate completed in 2008); and that CBS has an appropriate system of internal controls to manage the Contribution Agreement. The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada, and has examined sufficient, relevant evidence and obtained sufficient information and explanations to provide a reasonable level of assurance in support of the audit conclusion.

An appropriate management control framework is in place to monitor these Contribution Agreements. This said, opportunities for improvement were identified in the following areas (covered by two recommendations):

- Lessons learned from managing the CCDT Contribution Agreement should be incorporated into program monitoring practices in order to improve risk management, including consultation with the Chief Financial Officer Branch's Centre of Expertise for Grants and Contributions.
- Additional guidance for the recipient to be added as part of the Contribution Agreement to avoid misinterpretation with respect to travel and meeting costs.

CCDT was in compliance with the terms and conditions of the Contribution Agreement (for the fiscal years 2005-06 to 2007-08).

CBS has an appropriate system of internal controls in place to manage the Contribution Agreement funding.

Due to the organizational changes indicated above, this report's two recommendations have been made to RAPB. Management agrees with the recommendations and has indicated its commitment to take action.

Introduction

Background

Health Canada is committed to improving the organ and tissue donation and transplantation (OTDT) system in Canada, and has over the years made continued efforts to support a strong and safe system. While the organization and execution of tissue and organ donation and transplantation fall under provincial and territorial (P/T) jurisdictions, the federal government has been supportive of P/T activities and initiatives to improve organ and tissue donation and transplantation.

Recognizing the need to coordinate Federal/Provincial/Territorial (F/P/T) policies and procedures relating to the safety, effectiveness and efficiency of organ and tissue donation and transplantation across Canada, the F/P/T Conference of Deputy Ministers of Health has established in October 2001 a non-profit organization, the Canadian Council for Donation and Transplantation (CCDT). CCDT Board members were selected for their expertise and knowledge of OTDT, and they reflected broad national representation in areas related to these issues.

Starting in fiscal year 2005-06, Health Canada has provided sole financial support for the efforts of the CCDT, including a Contribution Agreement providing \$10.8 million of funding for the years 2005-06, 2006-07 and 2007-08. A key objective of these efforts has been to improve the delivery of OTDT activities through the development of a nationally integrated system, which ultimately would be implemented with P/T support and financial contribution.

The advisory role of the CCDT has provided much needed coordination, knowledge and advice to support organ and tissue donation and transplantation (OTDT) activities. However, it later became apparent that important changes were required to integrate the delivery of OTDT activities and systems at a national level, including patient and donor registries. This led to the transfer of the mandate, previously assumed by CCDT, to the Canadian Blood Services (CBS), effective April 1, 2008. This transfer was recognized by the signature of a Contribution Agreement between Health Canada and CBS with annual funding of \$3.6 million for the fiscal years 2008-09 to 2013-14. CBS's mandate also includes public education and awareness; support for leading clinical practices; and system performance improvement.

The Contribution Agreements with both CCDT and CBS, including the transition of the mandate between the two organisations have been managed by the International /F/P/T Portfolio Affairs Division (F/P/T Affairs) within the Health Products and Food Branch (HPFB). Apart from two small grants, these two Contribution Agreements have been the only transfer payments managed by the HPFB over the past years. As of December 2008, all management responsibilities for the CBS Contribution Agreement still in place have been transferred over to the Regions and Programs Branch.

The Centre of Expertise for Grants and Contributions, part of the Chief Financial Officer Branch (CFOB), is responsible for providing guidance and direction on Grants and Contributions in the Department.

Objectives

The objectives of this audit were to determine whether:

- There is an appropriate management control framework with regards to Contribution Agreements signed with CCDT and CBS;
- CCDT has been using the funds received in compliance with the terms and conditions of the Contribution Agreement (April 2005 – March 2008); and
- CBS has an appropriate system of internal controls to manage the Contribution Agreement (April 2008 – March 2009).

Scope and Approach

The audit was undertaken by the Audit and Accountability Bureau as per the Health Canada Risk-Based Audit Plan for 2008-2009 which was approved by the Departmental Audit Committee on April 3, 2008 and was conducted in accordance with the Internal Auditing Standards for the Government of Canada, and has examined sufficient, relevant evidence and obtained sufficient information and explanations to provide a reasonable level of assurance in support of the audit conclusion.

On April 1, 2008, the mandate previously assumed by CCDT was transferred to CBS under a new Contribution Agreement. CCDT ceased its operations on March 31, 2008. Because CCDT no longer existed, the second objective of the audit was limited to determining whether CCDT had used funds in compliance with the terms and conditions of the Contribution Agreement.

Conversely, the new CBS Contribution Agreement only came into effect on April 1, 2008, therefore there was very little history available to examine. Consequently, the third objective was limited to assessing whether CBS had an appropriate system of internal controls in place to manage funding agreement funds going forward.

In December 2008, Health Canada's management of the Contribution Agreement with CBS was transferred from HPFB to RAPB. This transfer occurred during the course of this audit. For this reason, it solely examined the management control framework put in place by HPFB for the management of its Contribution Agreements, and did not assess RAPB's corresponding framework.

Methodology included interviews conducted with F/P/T Affairs, CCDT and CBS management and staff; review of documents in support of F/P/T Affairs and CBS'

management control frameworks; and the examination of a judgmental sample of CCDT expenditures reported in fiscal years 2005-06 to 2007-08.

Audit criteria were taken from the Office of the Comptroller General's *Core Management Controls: A Guide for Internal Auditors* (November 2007) and were accepted by Management (see **Appendix A**).

Findings, Recommendations and Management Responses

Management Control Framework to Manage Contributions Agreements

Audit Criteria

An appropriate management control framework exists to manage Contribution Agreements. Based on Treasury Board Secretariat's (TBS) Management Accountability Framework, an appropriate management control framework includes several key control elements such as:

- Strategic Direction and Risk management: Operational plans and objectives aimed at achieving its strategic objectives, including risk management;
- Policies and Programs: A formal and rigorous approach to policy and program design, including monitoring activities in a regular and timely manner;
- Stewardship: Review and approval of financial and non-financial reporting for sufficiency, completeness, timeliness and accuracy; and
- Results and performance: The identification of appropriate performance measures linked to planned results.

Strategic Direction and Risk Management

F/P/T Affairs has operational plans and objectives in place aimed at achieving its strategic objectives. It includes a work plan with activities linked to deliverables, established as part of the HPFB's Strategic Plan. These activities are aligned with the expectations and outcomes described in the logic model prepared for the OTDT Program and included in its Result-Based Management and Accountability Framework (RMAF). The work plan is reviewed regularly for relevance and modified, as required, based on the program's achievements.

F/P/T Affairs does not have a formal risk management tool in place for the purpose of Contribution Agreement delivery. However risk elements have been included in the work plan through the identification of risk areas from CCDT's most recent summative evaluation. Considering that F/P/T Affairs had only one Contribution Agreement to manage for the audit period, this practice was found to be sufficient.

Policies and Programs

Program objectives are assessed and reviewed regularly by F/P/T Affairs. In the context of the involvement of Provinces and Territories, the program objectives and activities have been reviewed in detail over the years covered by the audit. As part of the transition of the OTDT activities from CCDT to CBS, Health Canada has further documented the policy and program elements with respect to these activities in fiscal year 2007-08. This revision has led to the development of the new Contribution Agreement signed with CBS in 2008.

Stewardship

Stewardship was assessed through the review of monitoring activities performed by F/P/T Affairs and interviews. Monitoring activities performed by F/P/T Affairs included the review of quarterly and annual reports on activities; cash flow reports; regular meetings and discussions on quarterly results with CCDT/CBS. Over fiscal years 2006-07 and 2007-08, CCDT activities were closely monitored by F/P/T Affairs due to discussions on the change in program focus, as a result of the potential involvement of the P/T. These discussions resulted in multiple meetings and discussions regarding the uncertainty concerning the funding of OTDT activities and its related impact on CCDT's capacity to spend the funding provided.

F/P/T Affairs has monitored the financial and non-financial results of CCDT/CBS on a regular basis, with adequate concern over the spending of public funds. However, the risks and issues resulting from the transition of OTDT activities from CCDT (and resulting discontinuity) to CBS were not fully assessed. The financial and legal implications of the discontinuity of CCDT were not monitored sufficiently, as the attention of F/P/T Affairs during the transition period was mainly focused on ensuring that an agreement was reached with the P/T on which activities to fund with CBS.

Severance Payments

Severance payments were made to all 12 individuals employed by CCDT as of March 31, 2008 as a result of being terminated at this date and based on obligations included in employment contracts. Out of these 12 employees, some have subsequently been hired by CBS on April 1, 2008, to continue their duties with respect to OTDT activities under CBS responsibilities.

Severance paid to CCDT employees who transferred to CBS on April 1, 2008, were considered eligible expenses by the auditors as per the Contribution Agreement given the absence of clear guidance to this effect in the agreement.

It is our opinion that CCDT should have treated severance payments with greater concern for transparency, by clearly communicating to F/P/T Affairs their legal and contractual obligations for severance payments; as their eligibility was not explicitly mentioned in the Contribution Agreement. Conversely, had F/P/T Affairs identified severance payments as a risk at the time when the dissolution of CCDT was first proposed in 2006, it may have been possible to negotiate the timing of termination of employees by CCDT and minimize such payments.

Recommendation No. 1

The Assistant Deputy Minister of the Regions and Programs Branch should incorporate lessons learned from managing the CCDT Contribution Agreement into its program monitoring practices in order to improve risk management. This should include consultation with the Chief Financial Officer Branch's Centre of Expertise for Grants and Contributions.

Management Response

Management accepts the recommendation.

RAPB will share the lessons learned with other funding programs within the Department and through its participation in the Director General Committee on Grants and Contributions and the Health Portfolio Action Plan on Grants and Contributions.

RAPB is continuing to manage transitional issues between the CCDT and CBS agreements and is presently consulting with the Centre of Expertise to resolve an outstanding matter regarding CCDT assets (e.g. GST refunds, interest income) from 2007 – 2008.

Additionally, RAPB will incorporate the need for rigorous review in its monitoring practices in situations where a recipient ceases operations or is merged with another organization, including proactive consideration of severance payments.

Travel and Meal Expenses

For the period audited, both CCDT and CBS have incurred significant travel and meals expenses for meetings involving experts from across Canada meeting and participating on various committees and other activities funded by the contributions agreements.

The audit revealed that travel and meal expenses incurred for these meetings were often in excess of the Treasury Board Secretariat *Travel Directive*. These expenses were found eligible because amounts claimed were in agreement with other Treasury Board policies, such as the *Hospitality Policy* and *Special Travel Authorities* (for Executives), also mentioned as applicable in the related Contribution Agreements for expenses of this nature

In our opinion, the guidance regarding the eligibility of travel and meeting expenses in excess of the *Travel Directive* is unclear in the Contribution Agreements and can lead to misinterpretation. The Contribution Agreements provide many policies as guidelines, which involve different eligible maximums for these costs, but they do not specify in which circumstances these policies are applicable.

Recommendation No. 2

The Assistant Deputy Minister of the Regions and Programs Branch should ensure that the Contribution Agreement with CBS is clarified with regard to conditions under which the Travel Directive and other Treasury Board Secretariat policies are applicable for travel and meeting expenses.

Management Response

Management accepts the recommendation.

RAPB will communicate in writing with CBS with a view to clarify the application of the *Travel Directive* and other Treasury Board Secretariat Guidelines applicable for travel and meeting expenses.

Results and Performance

F/P/T Affairs reviews the activities of CCDT/CBS in the context of expected results, developed as part of the work plans. These results are shared with senior management in a document called the “Dashboard”. This document provides, amongst other information, an overview of program achievements with respect to planned results.

For the period audited, F/P/T Affairs has closely monitored CCDT and CBS’ achievement of results.

CCDT Compliance with Terms and Conditions of the Contribution Agreement

Audit Criteria

The recipient is in compliance with the terms and conditions of the Contribution Agreements.

Compliance

Since CBS had not yet completed a full year of operations at the time of our audit; compliance with the terms and conditions of the Contribution Agreement was audited for CCDT only. In fiscal years 2005-06, 2006-07, and 2007-08, under the terms of the Contribution Agreement, CCDT has received funding amounting to \$3.6 million, \$3.8 millions and \$3.4 million respectively, for a total of \$10.8 million for this 3-year period.

The audit included an assessment of CCDT's compliance with the terms and conditions of the Contribution Agreement and included audit procedures to determine whether funds were being used for their intended purpose. The fieldwork was conducted in Edmonton, Alberta, at the former CCDT offices, which were taken over by CBS on April 1, 2008. A number of former CCDT employees were available to answer questions and provide information during our audit.

The audit team tested a judgmental sample of 278 transactions selected from the three fiscal years under review. The types of transactions selected included travel claims; salaries; purchase of goods and service contracts; honorarium fees; overhead and indirect costs. All expenditures claimed were found to be eligible in terms of the nature of the expenses and purpose for which they were incurred.

CCDT's compliance with the main administrative requirements of the terms and conditions of the Contribution Agreement was also reviewed for the 3-year period audited. These requirements relate to insurance coverage; lobbying activities; and the management of assets. CCDT was found to be in compliance with all of these requirements.

CBS System of Internal Controls

Audit Criteria

An appropriate system of internal controls should exist to manage Contribution Agreement funding. This would include key control elements with respect to the following:

- financial management policies and authorities that are communicated, reviewed and revised as required; and
- the production and dissemination of sufficient, complete, timely and accurate information.

Although our audit was conducted before the end of the first year CBS entered into a Contribution Agreement for OTDT activities, the audit team was able to assess whether or not CBS had the appropriate control element framework in place.

Financial Management

CBS has financial policies in place to ensure that all financial transactions are approved and recorded appropriately. Although none of the policies make reference to requirements found in the Contribution Agreement, they include the elements that are expected to be part of an adequate financial management framework. These elements include the approval of purchases; procurement practices; hiring practices; an accounting framework; delegations and authorities, travel guidance; etc. The process for communicating and revising these policies and guidelines when required was also reviewed. Many of the financial management policies and authorities are based on Treasury Board Secretariat's guidelines. The policies were communicated and available to everyone on CBS' Intranet. The financial processes include a review of expenses by CBS financial officers, in light of the various financial policies.

Reporting

CBS has defined the responsibilities for the preparation of both financial and narrative reports to be submitted to F/P/T Affairs. There is a review process to ensure that reported amounts and information is accurate. Ongoing communication and reporting between the F/P/T Affairs and CBS was confirmed through file review and interviews with senior management of both entities.

Although only three quarterly activity and financial reports had been submitted to F/P/T Affairs at the time of our audit, reporting control elements were found to be adequate and effective.

Conclusion

An appropriate management control framework is in place to manage the ongoing activities with CBS. Opportunities for improvement were identified in the following areas:

- Lessons learned from managing the CCDT Contribution Agreement should be incorporated into program monitoring practices in order to improve risk management, including consultation with the Chief Financial Officer Branch's Centre of Expertise for Grants and Contributions; and,
- Additional guidance for the recipient to be added as part of the Contribution Agreement to avoid misinterpretation with respect to travel and meeting costs.

CCDT was in compliance with the administrative requirements of the terms and conditions of the Contribution Agreement.

CBS has an appropriate system of internal controls in place to manage the Contribution Agreement funding.

Appendix A – Audit Criteria

Objective: To determine whether there is an appropriate Management Control Framework in place to manage Contribution Agreements with CCDT and CBS.

Criteria:

- **Strategic Direction and Risk Management** – The International/F/P/T Portfolio Affairs Division (F/P/T Affairs) within the Health Products and Food Branch has in place operational plans and objectives aimed at achieving its strategic objectives, including a risk management strategy. Information requested and received from the Recipient is sufficient, complete, timely and accurate.
- **Policies & Programs** - The F/P/T Affairs has a formal and rigorous approach to policy and program design, including monitoring activities in a regular and timely manner.
- **Stewardship** - Financial Management policies and authorities are established, communicated, reviewed and revised as required. Financial and non-financial reporting is reviewed and approved.
- **Results & Performance** - Management has identified appropriate performance measures linked to planned results.

Objective: To determine whether the Canadian Council for Donation and Transplantation is using the funds in compliance with the terms and conditions of the Contribution Agreement.

Criterion:

- **Stewardship** – The Recipient is in compliance with the terms and conditions of the Contribution Agreement

Objective: To determine whether Canadian Blood Services has an appropriate system of internal controls to manage the Contribution Agreement funding.

Criteria:

- **Stewardship - Financial management** - Financial management policies and authorities are established, communicated, reviewed regularly and revised as required.
- **Stewardship - Reporting** - Information provided to Health Canada meets its requirement; is provided in a timely fashion; and is in accordance with the terms and conditions of the Agreement.