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# Review of the Control Framework for the Management of Social Infrastructure Funding

March 2017

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### **PDF**

Cat. No. : Em20-67/2017E-PDF

ISBN: 978-0-660-08404-6

### **ESDC**

Cat. No. SP-1146-05-17

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## I. Background

### I.1 Context

The Government announced in Budget 2016 a plan for major spending increases for social infrastructure investments. In allocating Social Infrastructure Funding (SIF), [PROTECTED] from Employment and Social Development Canada (ESDC) requesting incremental funding for three existing grant and contribution (Gs and Cs) programs. The establishment of a new framework related to Early Learning and Child Care (ELCC) was also announced to start in 2017.

- The Homelessness Partnering Strategy (HPS) is a community-based program aimed at preventing and reducing homelessness by providing direct support and funding to communities and to organizations that address homelessness across Canada.

The HPS budget in previous fiscal years was \$105.3 million per year. An increase was approved for \$107.0 million over two years; \$54.8 million in 2016–17 and \$52.2 million in 2017–18. Per the SIF [PROTECTED], this new funding is to focus on Housing First activities, better emergency response services, and supports for youth, women fleeing violence, and veterans.

- The First Nations and Inuit Child Care Initiative (FNICCI) increases the supply of culturally appropriate, affordable, quality child care services comparable to what is available to other Canadian children in First Nations (on-reserve) and Inuit communities.

For 2016–17 FNICCI received \$16 million in additional funding, adding to the \$55 million previously budgeted. Per the SIF [PROTECTED], the increase is intended to provide funding to undertake urgent repair, rehabilitation and equipment needs of existing child care facilities.

- The Enabling Accessibility Fund (EAF) supports the capital cost of construction and renovations related to improving physical accessibility and safety for persons with disabilities. These projects are selected from applicants across Canada to enable greater participation of persons with disabilities in their communities and workplaces.

EAF was provided with an additional \$4 million over two years, adding to the \$27.3 million in base funding budgeted for the same period. Per the SIF [PROTECTED], the additional funding is intended to help improve physical accessibility and safety for people with disabilities in community facilities across Canada.

In addition, Budget 2016 planned to provide \$400 million in 2017-18 to ELCC and an additional \$100 million in 2017-18 to ELCC for indigenous people as part of a new national child care framework. These programs are under development at this time.

On April 19, 2016, the Auditor General sent a letter to the President of the Treasury Board (TB) reminding him that infrastructure spending was a potential area of audit. The letter further outlined the expectations about controls that departments should take into account when designing programs and managing the extra funding. This letter was forwarded to all affected departments by the Office of the Comptroller General.

## 1.2 Review Objective

The objective of the review was to provide assurance that the control framework over the Department's management of Gs and Cs exists and will achieve the expectations outlined by [PROTECTED] and the Auditor General for SIF. The objective of this review was not to give an assurance on the adequacy or effectiveness of the management practices for the three programs under examination.

## 1.3 Scope

This review examined the management control framework and management reporting with respect to infrastructure funding provided in Budget 2016 relating to the three programs noted above. The review also examined the internal communications relating to the implementation of [PROTECTED] related to the Budget 2016 provisions for fiscal year 2016-17.

This review did not examine in detail the management of the three programs or the management of the quality assurance regime with respect to Gs and Cs. Internal Audit Services Branch is planning audits which are intended to examine the management of EAF, HPS, FNICCI and the quality assurance activities for Gs and Cs in the Department.

## 1.4 Methodology

The information was collected through the review of relevant documents, assessment of template agreements, and interviews with managers of the three programs that received infrastructure funds in the fiscal year 2016-17. At the time of this review, the ELCC was under development and was not examined.

Although this is not an audit, the approach and methodology followed the *Internal Auditing Standards for the Government of Canada*, which incorporates the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

## 2. Review Findings

### 2.1 Governance processes and structures are in place

According to the Institute of Internal Auditors, "Governance is the combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives."<sup>1</sup> In the context of the SIF, the Department uses its pre-established governance processes and structures for Gs and Cs. Some of these are discussed in other sections below.

The objectives of the SIF and the related objectives of the programs that received extra funding under the SIF are set out in the [PROTECTED] for program and operational funding. [PROTECTED].

Within the Department, governance generally refers to delegated authority structures and the various committees in place to provide oversight for the program or service being managed. Due to the distributed accountability model used to deliver Gs and Cs, departmental oversight committees exist at various levels in the organization which provide coordination and enable discussion of issues at the appropriate level from detailed operational issues at the Director level to department-wide strategic issues at the Assistant Deputy Minister (ADM) level. Important issues may also be escalated to either the Corporate Management Committee or the Portfolio Management Board when warranted.

Each SIF [PROTECTED] includes a discussion of program risks which informs the methods used to deliver each program. For example, a program like EAF which funds projects with lower values and lower residual risks may be delivered through a grant agreement rather than through a contribution agreement. Certain controls may be implemented as a result of the program risk discussion; for instance, child care centres funded under FNICCI specially aimed at providing child care supports for First Nations and Inuit parents who are participating in labour market development activities.

The review team confirmed that the expected key elements of good governance - defined business objectives, defined roles and responsibilities, clearly written policies, oversight committees, and feedback mechanisms - are all in place to govern SIF activities.

### 2.2 Internal communications need improvement

Successful delivery on business objectives requires that all relevant information is communicated to all affected parties in a timely manner. The rapid deployment of any program, including SIF,

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<sup>1</sup> The Institute of Internal Auditors, 2016, Governance, Risk and Control, <https://na.theiia.org/standards-guidance/topics/Pages/Governance-Risk-and-Control.aspx>, accessed December 15, 2016

creates a risk that some affected parties may not be informed of key decisions in a timely fashion.

After receiving the [PROTECTED] in May 2016, the Chief Financial Officer Branch (CFOB) communicated the [PROTECTED] to the responsible policy branches for the SIF [PROTECTED] and communicated the additional budget information to the affected delivery branches through its network of financial management advisors. CFOB informed the review team that it was the responsibility of the program to communicate non-financial information to affected stakeholders.

The review team was also informed that communication of SIF to recipients and potential recipients followed established practices. The HPS uses its network of Senior Development Officers to communicate with the Community Entities and with the Government of Quebec to relay pertinent information. The FNICCI is delivered through First Nations and Inuit organizations that have agreements under the Aboriginal Skills and Employment Training Strategy (ASETS). ASETS agreement holders were contacted after the announcement in Budget 2016 asking them to submit proposals for the repair and renovation of child care centres. The EAF noted the extra funding in its annual call for applications process.

[PROTECTED] Each of the SIF [PROTECTED] was approved [PROTECTED] SIF activities would be addressed separately within the Department's recipient audit strategy. The recipient audit strategy is implemented by CFOB's Quality Assurance and Monitoring Unit (QAMU) according to its annual plan.

At the kick-off meetings for the review in October 2016, the Directors General responsible for the national delivery of the three programs and the Director General responsible for QAMU were asked how they were going to implement the recipient audit requirements [PROTECTED]. They all informed the review team that this was the first time they had been made aware [PROTECTED].

The review team was informed that [PROTECTED] informs senior management and the program that [PROTECTED] have been received. It does not contact operational units to ensure that the information is disseminated directly to affected internal stakeholders. The Department is not organized on a program model; rather, it is organized on a functional and regional model. Other than CFOB, each Branch contacted expected that they would be informed of key elements of the [PROTECTED] directly from CFOB. By contrast, CFOB expects that the policy unit that wrote the non-financial sections of the [PROTECTED] will be responsible for communicating the requirements to all affected stakeholders. This is not clearly stated in an ESDC process.

Timely knowledge of changes to administrative requirements is essential to successful implementation. The successful implementation of SIF and related [PROTECTED] would have been made easier if the affected parties had been informed as soon as [PROTECTED] had been received rather than in October during our kick-off meetings. The review team concludes that there is an opportunity to improve internal communications with respect to the sharing of [PROTECTED].



#### **Recommendation**

The Chief Financial Officer should work with program policy branches to clearly define roles and responsibilities for the [PROTECTED] process, particularly for communicating [PROTECTED] and related information in a timely basis.

#### **Management Response**

*CFOB agrees with the recommendation. CFOB recognises that additional detailed information would improve the communication of [PROTECTED] and related information in a timely manner. CFOB will work with other branches to develop this information and disseminate it across the Department. The targeted completion date is March 31, 2017.*

### **2.3 Internal controls are in place**

The text of each signed agreement is the primary control in the administration of Gs and Cs. The Department uses standard templates for agreements that conform to the *TB Directive on Transfer Payments*. The review team examined sample agreements and the agreement templates for the three programs receiving SIF to confirm this.

Agreements address many areas, including eligible expenditures, eligible projects or clientele, time frame, funding available, conditions for advances, requirements for financial and activity reporting, expectations for official language services and so on.

Each applicant for a contribution agreement is assessed for risk using the Risk Assessment, Management and Mitigation (RAMM) methodology developed by the Department. The final assessment of each applicant influences the decision to fund the applicant, the payment frequency, the type of monitoring performed and the frequency of monitoring.

Delivery officers tasked with the administration of contribution agreements review claims for payment and perform various types of monitoring exercises based on the RAMM assessments. The Common System for Grants and Contributions, a custom agreement management application, helps the Department to document the risk assessments, manage the agreements, and track monitoring of each agreement. It also tracks the status of applications, claims, and monitoring efforts, helping managers to ensure that these activities are completed on time.

Business expertise advisors in each Gs and Cs delivery unit support delivery officers in carrying out their functions. QAMU performs various quality assurance studies to provide assurance that agreements are administered in conformity with departmental and TB requirements.

The Department has an escalation protocol in place to determine how issues are handled. Simple issues are addressed by the delivery officer and their managers. More complex issues are referred to specialists at regional and national headquarters for advice. Serious issues, including suspected wrongdoing, are referred to senior management, who have a variety of resources available to address serious problems.

Consistent application of TB and departmental requirements is always a challenge for the Department due to its national scope. This is mitigated by the provision of general guidance on the management of Gs and Cs agreements by the Centre of Expertise (CoE) for Gs & Cs. They maintain the Gs and Cs Operations Guide and coordinate training opportunities for new Gs and Cs officers. In addition, program-specific policy and guidance for the SIF programs is coordinated between the Skills and Employment Branch (SEB), Income Security and Social Development Branch (ISSDB), Program Operations Branch and the delivery network for the program. The CoE also provides links to the terms and conditions of active and expired Gs and Cs programs for reference.

Additionally, roles and responsibilities are defined in policy and in work descriptions and reinforced through the performance management agreements in place for each employee.

The review team concludes that internal controls for the administration of Gs and Cs are in place and contain the expected control elements contained in the letter from the Auditor General to the President of the TB.

## 2.4 Reporting certain results may be difficult

Each program that received SIF funding has a set of existing performance measures and a system to collect the necessary data to report on those measures. These measures enable departmental managers and external users to make appropriate decisions regarding the programs.

Each program has been treating the new funding as a straight up increase to the existing program. The review team was informed that there was no initial intention to segregate the reporting of results for the SIF funding from the results for the initial funding. The unclear communication of reporting requirements contained in the SIF [PROTECTED] make it more difficult and more costly to report separately on SIF funding and results.

For two of the three programs, EAF and FNICCI, funding is directed to specific projects or recipients that can be directly attributed to the funding received under SIF. Extracting this information for tracking and reporting purposes is possible but may be time consuming. For HPS, this is more problematic. Community entities in particular may find it difficult to track results for the incremental funding from SIF. The majority of HPS agreements are with local community entities and the amended HPS agreements do not currently contain a requirement to report separately on results arising from the SIF. This may cause an administrative burden for the agreement holder if the Department requests additional information to enable the attribution of results to the additional funding received through the SIF.

No reports had been submitted to Infrastructure Canada at the time of the review for any of the three programs. However, the review team found that adequate processes with respect to reporting results and performance are in place.

The Department reports SIF spending and results quarterly for the three affected programs to Infrastructure Canada, which is the lead department for the Government's infrastructure programs. The reporting template developed by Infrastructure Canada for SIF reporting requires

that the Department reports the results and spending of SIF funding in isolation from the overall program. The Department is working with Infrastructure Canada as it develops its horizontal reporting framework for investments in public transit, green and social infrastructure.

The SIF [PROTECTED] for the increased funding to HPS did not indicate that the additional funding would be tracked separately, and the Department has managed the amendments to the various HPS agreements accordingly. As currently structured, gathering the data to report on the increased outcomes of HPS due to the additional SIF funding would be difficult and may impose an additional administrative burden on HPS recipients. Alternately, the Department may wish to use estimates to allocate results between SIF and non-SIF HPS funding streams to satisfy the expectations of the Infrastructure Canada reporting templates.

The lack of congruence between the approved delivery method for HPS contained in the approved SIF [PROTECTED], Infrastructure Canada, and others to report separately on SIF results creates a risk that the reporting expectations may not be met.

**Recommendation**

The Senior ADM, ISSDB, and the Senior ADM, SEB, should review the reporting requirements and expectations of their respective programs relating to SIF [PROTECTED].

**Management Responses**

*ISSDB and SEB Management agree with the recommendation.*

*HPS: As attributing specific results to SIF funding without imposing an additional administrative burden on HPS recipients will continue to be challenging, the Department will use estimates to allocate results [PROTECTED]. Targeted completion date is June 30, 2018.*

*EAF: It is anticipated that the processes that are currently in place with respect to reporting results and performance under the EAF, including SIF Phase I funding, would remain unchanged. [PROTECTED] Targeted completion date is June 30, 2017.*

*FNICCI: In collaboration with the Program Operations Branch, SEB will review reporting requirements and expectations for FNICCI to ensure data collection and extraction processes will support results reporting [PROTECTED]. Targeted completion date is June 30, 2017.*

### 3. Conclusion

The review team concludes that the key elements of a control framework over the Department's management of Gs and Cs programs exist and will enable the Department to achieve the expectations of [PROTECTED] and the Auditor General for the management of SIF.

#### 4. Statement of Assurance

In our professional judgement, sufficient and appropriate review procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and information available at the time of our review. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

## Appendix A: Glossary

ADM	Assistant Deputy Minister
ASETS	Aboriginal Skills and Employment Training Strategy
CFOB	Chief Financial Officer Branch
CoE	Centre of Expertise
EAF	Enabling Accessibility Fund
ELCC	Early Learning and Child Care
ESDC	Employment and Social Development Canada
FNICCI	First Nations and Inuit Child Care Initiative
Gs and Cs	Grants and Contributions
HPS	Homelessness Partnering Strategy
ISSDB	Income Security and Social Development Branch
QAMU	Quality Assurance and Monitoring Unit
RAMM	Risk Assessment, Management and Mitigation
SEB	Skills and Employment Branch
SIF	Social Infrastructure Funding
TB	Treasury Board