



# **Audit of the Management of Grants and Contributions at Health Canada – Phase II**

**Final Report presented to the  
Departmental Audit Committee**

**November, 2019**



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## List of Acronyms

|       |   |
|-------|---|
| CFP   | Call for Proposals                      |
| G&Cs  | Grants and Contributions                |
| GA    | General Assessment                      |
| HC    | Health Canada                           |
| HCPCP | Health Care Policy Contribution Program |
| LOI   | Letter of Intent                        |
| MCF   | Management Control Framework            |
| SGBA+ | Sex and Gender-Based Analysis+          |
| SPB   | Strategic Policy Branch                 |
| SUAP  | Substance Use and Addiction Program     |
| PCHO  | Pan-Canadian health organizations       |

## Executive Summary

Health Canada (HC) provides grants and contributions (G&Cs) to various organizations that promote the Department's health objectives.

The Strategic Policy Branch (SPB) is the focal point for G&Cs in HC and is responsible for providing funding to a range of recipients, including provinces and territories, pan-Canadian health organizations (PCHO), health care professional associations, community-based organizations, and educational and oversight bodies.

The HC Management Control Framework (MCF) for G&Cs outlines the expectations for key management functions throughout the lifecycle of programs to ensure compliance with the Treasury Board's *Policy on Transfer Payments* and the supporting Directive. The MCF identifies two levels of management functions: the Program Management level and the Transfer Payment Management level.

The Program Management level was assessed in the [Audit of the Management of Grants and Contributions – Phase One](#) (March 2018).

This audit (Phase Two) focuses on the Transfer Payment Management level. This includes activities related to managing the selection of eligible recipients and projects, selection and implementation of funding agreements, and administration and monitoring of recipient agreements.

### ***What we examined***

The objective of the audit was to provide reasonable assurance that adequate controls were in place for the Transfer Payment Management level of G&Cs by the SPB of Health Canada, in compliance with Treasury Board's *Policy on Transfer Payments*.

We examined the agreement management activities undertaken during fiscal years 2016-17 and 2017-18. The audit focused on processes related to funding agreement management and administration functions within the G&Cs cycle, including:

- the solicitation process and assessment of proposals;
- funding decisions and Contribution Agreement preparation;
- monitoring of funding agreements; and
- sex- and gender-based analysis+ (SGBA+).

### ***Why it is important***

Transfer payments, which include G&Cs, are one of the Government of Canada's key instruments for furthering its broad policy objectives and priorities. They are governed by the Treasury Board's *Policy on Transfer Payments* and *Directive on Transfer Payments* to ensure that they are managed with integrity, transparency, and accountability. HC has implemented a variety of health programs to maintain and enhance the health of Canadians. The planned SPB G&Cs spending in 2018-19 was estimated at \$399M.

### *What we found*

Overall, we found that there were several major deficiencies in the controls in place for the transfer payment level of G&Cs exercised by SPB.

We found effective management processes and practices in the following areas:

- Formal processes and practices supporting the solicitation of applicants and selection of recipients;
- Funding agreement compliance with the Treasury Board's *Policy on Transfer Payments* and Treasury Board's *Directive on Transfer Payments*; and
- Adequate monitoring of recipients with respect to reporting requirements.

The deficiencies we found included the following:

- A lengthy solicitation process that affects SPB's ability to disburse funds in a timely manner and support departmental objectives;
- Limited use of service standards to manage the contribution agreement management process and support continuous improvement;
- An absence of documentation for HC employees confirming there is no conflict of interest in the selection of recipients;
- Limited information to support recipient risk assessments and inform the annual risk-based recipient audit plan; and
- A limited number of employees engaged in SGBA+ training and limited collection of data through recipient performance measurement plans to support diversity elements of SGBA+.

The areas for improvement noted in this audit report, along with the associated recommendations, will collectively strengthen the management of grants and contributions agreements.

## A – Introduction

1. Health Canada (HC) provides grants and contributions (G&Cs) to various organizations that promote the Department's health objectives.
2. Strategic Policy Branch (SPB) is the focal point for G&Cs in HC and is responsible for providing funding to a range of recipients, including: provinces and territories, Pan-Canadian Health Organizations (PCHO), health care professional associations, community-based organizations, and educational and oversight bodies. The planned SPB G&Cs spending in 2018-19 was estimated at \$399M.
3. The HC Management Control Framework (MCF) for G&Cs outlines the expectations for key management functions throughout the lifecycle of programs to ensure compliance with the Treasury Board's *Policy on Transfer Payments* and the supporting *Directive on Transfer Payments*. The MCF identifies two levels of management functions: the Program Management level and the Transfer Payment Management level.
4. The Program Management level was assessed in the Audit of the Management of Grants Contributions – Phase One (March 2018).
5. This audit (Phase Two) focuses on the Transfer Payment Management level, including activities related to managing the selection of eligible recipients and projects, selection and implementation of funding agreements, and administration and monitoring of the recipient agreements.
6. Additional information on the results of the audit and how it was conducted can be found in Appendix A (Scorecard), Appendix B (About the Audit), and Appendix C (Lines of Enquiry and Criteria).

## B - Findings, Recommendations and Management Responses

### Solicitation Process and Assessment of Proposals

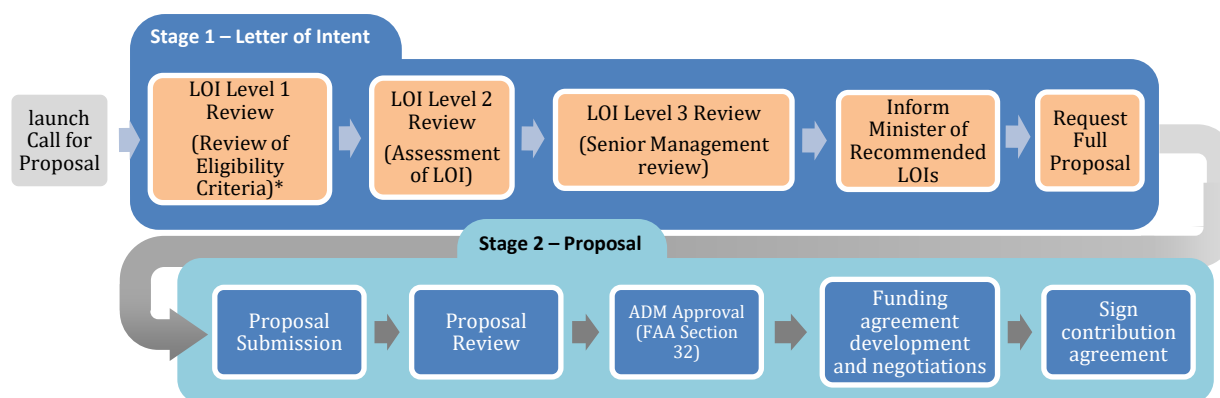
7. As required in the Treasury Board's (TB) *Policy on Transfer Payments*, departments are responsible for:
  - Engaging applicants and recipients, when appropriate, to achieve the objective and expected results of the Policy through innovative, cost-effective, citizen- and recipient-focused transfer payment programs that are accessible, understandable, and usable; and
  - Establishing reasonable and practical departmental service standards for transfer payment programs.
8. SPB programs employ different methods in establishing funding agreements, including dealing directly with targeted recipients and PCHOs, as well as, using an open competitive process to solicit proposals. In fiscal year 2017-18, SPB managed two calls for proposals (CFP) using an open intake approach in an effort to reach a wider audience. This represented the first time such an approach was used by SPB.
9. The Substance Use and Addiction Program (SUAP) launched an open-CFP in June 2017, with an initial deadline for submissions of August 2017 in order for the application to be considered for funding in fiscal year 2018-19. It remains open to accept applications for future funding consideration. Since its launch in June 2017, over 200 applications have been received and it continues to receive more applications every month.
10. The CFP issued under Health Care Policy Contribution Program (HCPCP) was launched in January 2018 and closed in February 2018 after receipt of over 100 applications.

#### **Solicitation Process**

11. We expected to find that SPB implemented solicitation processes in support of their transfer payment programs that reflect the terms and conditions of their programs, were completed in a timely manner, as well as being fair, transparent, and free of bias.
12. We examined these open solicitation processes in order to determine the following:
  - if the attributes and size of the target audiences was determined in advance;
  - if an appropriate method of public communication was used to inform the target audience;
  - if public communications clearly explained eligibility for funding, priorities, solicitation steps and timelines;
  - if applicants were provided with all the required information; and
  - if solicitation processes were completed within a timely manner.
13. We found that both programs had identified the attributes of the target audience in advance, used effective communication tools to reach potential applicants, provided access to an applicant package, and developed review criteria and tools to support the evaluation of the applications received.

14. We also found that both programs used a two-stage solicitation process that required applicants to first submit a Letter of Intent (LOI) describing the project and how funds would be used. Then, if the LOI was accepted by the program, the applicant was asked to submit a full proposal. This two-stage process required program staff to first assess the LOIs received and develop a list of recommended projects, which then had to be reviewed and approved by management, prior to inviting the applicant to submit a full proposal. The full proposal was then subject to a full review by program staff (via evaluation committee) and approval by senior management. The diagram below illustrates the process used to solicit proposals from potential recipients.

Diagram 1: Two-stage Call for Proposals Process



\* SUAP eliminated LOI Level 1-review due to the volume of applications received.

15. In both CFPs, the open approach resulted in application volumes that exceeded the expectations of the programs. As a result, this affected the time it took to assess all the applications, leading to a lengthy solicitation process. Management indicated there were a number of factors affecting the number of applications received. These included the opioid crisis and cannabis legalization which would have raised parties' interest in the SUAP call for proposals. Management also noted that staffing shortages contributed to the length of time it took to complete the solicitation processes.
16. We found additional factors that may have contributed to the high volume of applications and the length of the process. First, we found that information provided to potential applicants did not clearly define certain parameters of the programs, such as the estimated funding available or distribution by priority and geographical area. This additional information could have allowed potential applicants to better understand the program requirements and decide whether to submit an application. This could have helped limit the number of applications received to only the most relevant ones.
17. Second, the use of a multi-level application review process may also have contributed to the length of the solicitation process. As indicated above, both programs used a two-stage application process that started with the submission of a LOI, followed by a full proposal if the LOI was accepted.
18. We analyzed the time it took to complete the first stage of the solicitation process (LOI review, from receipt of LOI to notification of applicants), and found that on average, the SUAP LOI review process took over 136 working days, and the HCPCP solicitation process took 119 working days to complete. Despite having launched the call for proposals in June



2017, SUAP had yet to distribute all of the G&Cs funding for fiscal year 2018-19; and at the time of the audit the HCPCP solicitation process, which was launched in January 2018, had not yet resulted in the signing of a contribution agreement.

19. The lengthy solicitation process may negatively affect the Branch's ability to disburse funds in a timely fashion and, ultimately, achieve departmental results and contribute to government priorities. It could also lead to the Branch lapsing funds at the end of the fiscal year. Furthermore, recipients who are allocated funding late in the fiscal year may not be able to spend it by the end of the fiscal year, unless the programs have identified the timing issue prior to signing the funding agreement and have extended the period covered by the agreement to future years.
20. We also found that, with the exception of a service standard for the acknowledgement of receipt of an application for funding, SPB had not defined any other service standards for the two CFP solicitation processes or the management of the contribution agreements. Clearly defined service standards are important to support the management of the solicitation process and to identify opportunities for improvements.
21. In conclusion, we found that the open solicitation processes implemented by SPB were lengthy and could negatively affect the Branch's ability to disburse funds in a timely manner. Greater efforts are required to ensure timely review of applications and to develop service standards that support the management of the solicitation process and continuous improvement.

### **Recommendation 1**

**The Assistant Deputy Minister, Strategic Policy Branch should implement changes to enhance the solicitation process, and develop measures to track and monitor the timeliness of the review of proposals.**

### **Management response**

Management agrees with the recommendation.

Management will conduct a review to produce lessons learned from the 2017-18 program cycle to improve operations, as well as establish a mechanism to track and monitor the timeliness of proposal review processes for 2019-20.

In addition, management will continue to assess when open calls are best suited for program needs and will consider doing more targeted and directed solicitation in the future, which will reduce the overall level of effort for solicitation processes.

### *Proposal Assessment*

22. As noted previously, the HC Management Control Framework for Grants and Contributions outlines the expectations for key management functions throughout the lifecycle of programs to ensure compliance with the Treasury Board (TB) *Policy on Transfer Payments* and the supporting *Directive*. In addition, the TB *Policy on Conflict of Interest and Post-employment* requires departments to ensure that organizational risks of conflicts of interest related to the organization's specific mandate are identified and managed. It also requires public servants to address conflicts of interest to ensure that, "in situations of real, apparent or potential conflict of interest and situations where there is a conflict of duties, decisions are made in a manner which upholds the public interest". Therefore, we expected to find that the assessment of proposals and recommendation process was in accordance with program terms and conditions, as well as fair, transparent, and free of bias.
23. We examined the documentation from the solicitation processes in place to determine whether:
- applications for HCPCP and SUAP programs were consistently assessed against approved eligibility criteria;
  - conflicts of interest were identified and managed;
  - Funding Approval Forms included a rationale to support the recommendation for funding; and
  - rejected applications were supported with a proper rationale.
24. We found that the review process was well documented, and that decisions to accept or reject a proposal or application were supported with an appropriate rationale.
25. However, we found limited evidence that measures were in place to identify and manage real, potential, or apparent conflicts of interest for employees involved in the review of applications and proposals. We found that, while the HC Grants and Contributions Standard Operating Procedures Manual described the requirement for reviewers to "...declare an actual or perceived conflict of interest in relation to the CFP to be reviewed before and during the review", this requirement only applied to members of the review committee who were not employees of the public service. Management indicated that, since HC employees are public servants, they are covered under the *Conflict of Interest Act*, and therefore are not required to sign a Conflict of Interest Disclosure Form. However, we find that the assessment and recommendation of proposals is of a particular higher risk of perceived or real conflicts of interest and that a higher level of forthrightness should be demonstrated. Therefore, a declaration of conflict of interest signed by employees acting in a capacity of reviewer during a solicitation process would support the integrity of the process.
26. Impartiality of the reviewers assessing the proposals is an important aspect of a fair and transparent process. The *Values and Ethics Code for the Public Sector* expects employees to uphold the public trust and highest ethical standards. It also expects organizations to take steps to integrate public service values into their decisions, actions, policies, processes, and systems. Furthermore, the TB *Policy on Conflict of Interest and Post-Employment* requires departments to have appropriate mechanisms in place to assist public servants in reporting and effectively managing real, apparent or potential conflict of interest situations when performing their duties. Therefore, public servants are expected to take action to address situations that could impair the integrity of the public service or the public's perception of it, and as noted above, management is responsible for ensuring operational risks of conflict of interest are identified and managed.

27. Overall, we found that the assessment of proposals was in accordance with programs terms and conditions. However, improvements are recommended to mitigate risk of conflicts of interest.

### **Recommendation 2**

**The Assistant Deputy Minister, Chief Financial Officer Branch, should establish guidance and procedures to identify and manage employee conflict of interest risks.**

### **Management response**

Management agrees with the recommendation.

CFOB will ensure that the grants and contributions framework establishes a consistent approach across the department to ensure real, potential, or apparent situations of conflict of interest are identified and managed.

## **Funding Decision and Contribution Agreement Preparation**

### ***Funding Decision***

28. The *TB Policy on Transfer Payments* requires transfer payment programs to be designed, delivered, and managed in a manner that is fair, accessible, and effective for all. Therefore, regarding the funding decision, we expected to find that SPB implemented an appropriate process to ensure that a recipient's accepted proposal is in line with the terms and conditions of the relevant program, and that the funding decision was approved at the appropriate level.
29. We examined a sample of 14 files from different programs and found that recipient proposals or work plans were subject to a review process that led to a funding recommendation. Recipients' projects were consistent with the terms and conditions of the programs and all funding recommendations were approved by the appropriate level of authority.
30. As noted in the previous section, SPB did not develop service standards to manage client expectations and assist staff in the performance of their duties. The absence of such standards may lead to delays in the funding decision process and ultimately delaying the distribution of funds.
31. Overall, we found that SPB had implemented an appropriate process to ensure that a recipient's accepted proposal was in line with the terms and conditions of the relevant program, and that the funding decision was approved at the appropriate level. The establishment of service standards for the funding decision process would allow the Branch to better manage its processes.

### ***Agreement Preparation Process***

32. The TB *Directive on Transfer Payments* and HC policies provide guidance on the preparation of funding agreements. Therefore, we expected to find that SPB had selected the appropriate funding vehicle and used department approved templates, that the funding agreements had been subject to quality assurance prior to signing, and that changes to the original agreements were supported by formal amendments.
33. We examined a sample of 14 files from different programs to confirm that the agreement preparation process was in line with the TB *Directive on Transfer Payments* and departmental policies.
34. We found that SPB had used the appropriate vehicles to fund transfer payments to recipients and the agreements, which were subject to a quality assurance process, were based on approved departmental templates. Recipients were assessed for risk prior to the signing of the funding agreement by using a general risk assessment (GA) form to support the reporting requirements incorporated into the terms and conditions of the agreement. Amendments to the original agreements were prepared in accordance with HC policy.
35. Overall, we found that SPB had complied with the TB *Directive on Transfer Payments* and HC policies with respect to the preparation of funding agreements.

### **Funding Agreement Monitoring**

36. The *Directive on Transfer Payments* requires that departmental management exercise a level of monitoring that is commensurate with the risks of the programs, the value of the funding in relation to administrative costs, and the risk profile of the recipients. Therefore, we expected the monitoring of recipients to include the submission of reports based on risk assessment, the timely review of the reports by the programs, and the conduct of recipient audits based on an annual audit plan.

#### ***Funding Agreement Monitoring***

37. We examined a sample of 14 funding agreements to determine if a risk-based approach to the monitoring of contribution agreements existed, if recipients' compliance with agreement terms and conditions was monitored, including the requirement for audit where applicable, and if SPB measured performance in pursuit of continuous program improvement.
38. We found that the reporting schedule for each recipient was consistent with the GA prepared prior to the signing of the funding agreement. The GA was reviewed annually to confirm that the reporting requirements were in line with the updated risk assessment.
39. Program staff monitored the submission of reports and ensured that they were in compliance with the requirements of the funding agreements. Review and challenge of the report contents were documented in the agreement files.

40. However, we found that there were no service standards to guide program staff in the execution of their monitoring function. The absence of these service standards may lead to different levels of service between programs and a lack of uniformity in dealing with recipients. The development of service standards to support the monitoring function would strengthen oversight and accountability.

### **Recipient Audits**

41. The TB *Directive on Transfer Payments* requires departments to determine when recipient audits are necessary to complement other departmental monitoring activities. A recipient audit is an independent assessment to provide assurance on a recipient's compliance with a funding agreement, and may include an assessment of both financial and non-financial terms and conditions.
42. We found that SPB had prepared an annual risk-based audit plan where risk was linked to the GA rating of each recipient.
43. From fiscal year (FY) 2012-13 to fiscal year (FY) 2018-19, SPB completed 11 recipient audits, with only two audits being conducted within the last three fiscal years. Table 1 provides a breakdown of the recipient audits conducted by year.

**Table 1: Recipient Audits Planned and Completed over the last 7 years (FY 2012-13 to FY 2018-19)**

|           | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total |
|-----------|---------|---------|---------|---------|---------|---------|---------|-------|
| Planned   | 1       | 2       | 3       | 4       | 0       | 2       | 0       | 12    |
| Completed | 1       | 2       | 3       | 3       | 0       | 2       | 0       | 11    |

44. SPB provides significant annual funding to Pan-Canadian health organizations (PCHO) and named recipients. Despite the level of funding provided, we found that only one audit of a named recipient was conducted in the years noted above. Management indicated that there is a higher degree of engagement with PCHO such as participation by senior Departmental officials on the Board of Directors. As well, PCHO were assessed as low risk under the GA (annual risk assessment process) and in accordance with the branch's risk tolerance strategy they were subject to minimum reporting requirements such as to provide audited financial statements, and would not be required to undergo a recipient audit. As noted in the TB *Guideline on Recipient Audits* under the *Policy on Transfer Payments* and the *Directive on Transfer Payments*, "A financial statement audit is not considered a good substitute for a recipient audit, because it does not generally indicate if costs reported or claimed by the recipient are in compliance with a particular funding agreement."
45. Similarly, while participation of senior Departmental officials on the Board of Directors would enhance oversight of program delivery; it would not provide the assurance that reported costs are in compliance with the terms and conditions of the funding agreement.
46. Furthermore, as part of the assessment of the overall risk of the project and the recipient in the GA, program staff members were required to take into consideration the results of audits that had already been conducted. However, since only one recipient audit of a named recipient was conducted in the past seven years, there was limited information to validate or justify SPB's risk assessment of these organizations. For example, a recipient

audit would determine the extent to which funds are being used for the intended purposes or not, or identify previously unknown risks which could allow management to adjust monitoring efforts (such as travel expenses, administration fees, or allocation of salaries). Ultimately, this helps to ensure that risk assessments are robust and contribute to strengthening stewardship over resources.

47. We also found four recipient organizations in our sample that were responsible for further distributing received funds to third parties. In these cases, the TB *Directive on Transfer Payments* requires departmental managers ensure that the funding agreement address “requirements for a clear, transparent and open decision-making process regarding the selection of persons or entities to receive distributed payments and the selection and approval of initiatives to be funded, and a description of the recipient’s responsibilities in this process; provisions for the department to receive reports of reviews or audits carried out by, or on behalf of, the recipient related to the use of the funding; and provisions for departmental access to all signed agreements with persons or entities that received distributed payments.”
48. We examined the monitoring exercised by SPB on one of these recipient organizations. This organization was responsible for further distributing \$157.5M between FY 2014 and FY 2018. We found that the funding agreement signed with the recipient organization clearly identified the responsibilities of the organization with respect to the solicitation process and monitoring of third parties. The agreement required the recipient to have operational procedures in place for to the management of funding distribution to any third party, and to provide a copy of those procedures to Health Canada upon request. The agreement also required the recipient to provide Health Canada with a description of its responsibilities in ensuring that a clear, transparent, open, and fair decision-making process is used in the selection of third-party entities and projects to be funded. Health Canada received details of the recipient’s review process at the submission stage, and the recipient’s annual reports also included information on the research selection process. However, SPB had not conducted targeted monitoring or a compliance audit to confirm that the recipient organization had fulfilled its responsibility to ensure a fair and transparent decision-making process, in compliance with the terms and conditions of their funding agreement. As a result, SPB did not have assurance that the process of awarding public funds to third-party recipients was fair and transparent. Therefore, targeted compliance monitoring, or audits of the recipient’s processes for the selection of persons or entities to receive distributed payments, and the selection and approval of initiatives to be funded would provide greater assurance that public funds were distributed in accordance with the TB *Policy on Transfer Payments*.
49. Overall, we found that recipient monitoring was conducted in accordance to the recipient risk assessment and there was timely review of the reports by the programs. However, improvements are required to enhance information to support recipient risk assessments and annual recipient audit planning.

### **Recommendation 3**

**The Assistant Deputy Minister, Strategic Policy Branch should:**

- **enhance the annual risk-based recipient audit plan to include compliance audits of processes implemented by recipients who further distribute funds to third parties; and**
- **ensure recipient risk assessments are supported by appropriate evidence of results of past formal audits.**

#### **Management response**

Management agrees with the recommendation.

SPB will ensure programs with recipients who further distribute funds to third parties will conduct compliance audits of their third party disbursement processes. These audits may not occur annually.

SPB will take steps to ensure that its risk tolerance strategy considers the results of relevant formal audits, including PCHO-led audits.

#### ***File closure***

50. The *Directive on Transfer Payments* requires that due diligence be exercised over the management of transfer payments, including the closure of files. At the expiry of an agreement, management must ascertain if deliverables have been received, funds owed to recipients have been disbursed, and funds owed to the Crown have been collected. Therefore, at the end of an agreement, we expected to find documentation in the recipients' files corroborating the closure of the files.
51. We examined a sample of 18 files, either in the process of being closed or that had been closed, to ascertain if files are properly closed upon the expiry of a funding agreement. We found that the file closure process was adequate.

### **Sex- and Gender-Based Analysis**

52. Sex- and Gender-Based Analysis+ (SGBA+) is an analytical process used to assess how federal initiatives may be affecting different groups (such as women, men, girls, boys, and gender-diverse people). Through its application, departments should be able to enhance program offerings to ensure that sex, gender and diversity-considerations are systematically integrated in all of its research, legislation, policies, regulations, programs, and services, and to better meet the needs of different groups.
53. HC's SGBA policy (2009) requires all staff to be responsible for using sex and gender-based analysis, as appropriate, in their work and normally assigned duties. HC uses the term SGBA to highlight the biological and social factors that need to be considered, particularly in the health context. In 2012, SGBA was expanded across the Government of Canada to include other factors, such as age, culture, location, and ethnicity. These additional factors are encapsulated in the '+' of SGBA+.

54. We expected SPB to have incorporated SGBA+ into the management of grants and contributions (G&Cs). Specifically, we expected that training had been provided to employees and that, for the period under the scope of the audit (FY2016-17 and 2017-18), SGBA+ had been applied to all stages of the contribution agreement management cycle, that SGBA+ was based on appropriate analysis, and that organizational decisions had considered SGBA+.
55. We found that training opportunities were available to employees. However, greater effort is required to ensure more SPB employees are trained in SGBA+, since only 14% of employees engaged in the management of G&Cs agreements have taken the training.
56. We examined a sample of 14 files to determine whether SPB had incorporated SGBA+ in the solicitation process. We found that eight files had requirements for the inclusion of SGBA+ analysis in the proposal documents. We found that there was a positive trend with respect to the use of SGBA+ in the solicitation and call for proposals stages because all proposals for the agreements that were more current contained a requirement for SGBA+, compared with 38% of the proposals from 2014-15.
57. Recently, SPB developed tools to ensure that SGBA+ would be better incorporated into its businesses processes. These include a template to be used for PCHOs that includes SGBA+ considerations. SPB is also working on finalizing a SGBA+ Quick Assessment Tool for Recipients.
58. We reviewed proposals and work plans submitted by applicants to assess the appropriateness and sufficiency of the information provided, and whether SGBA+ information was used to inform decisions on the signing of contribution agreements. In addition, we reviewed recipient performance measurement plans to determine the extent to which data that supports SGBA+ was being collected in the contribution agreement management process to inform policy and program design. We found that eight of the 14 files sampled had included some form of SGBA+ analysis. Of these eight files, three were considered to have included appropriate and sufficient analysis, such as consideration of gender, race, and class. In most instances, it was observed that SGBA+ analysis was centered on sex (male vs. female). There was little to indicate that the other diversity elements noted above, such as culture, location, and ethnicity were factored into the analysis or performance measurement plans.
59. The limited inclusion of SGBA+ in recipient work plans and performance management plans may mean that SPB is not fully leveraging the work of recipients to collect the data necessary to inform policy and program decisions.
60. In conclusion, SPB has made progress in integrating SGBA+ into grants and contributions agreement management processes but greater effort is required to ensure that employees are trained and data to support SGBA+ is collected and used in research, policy, and program design.



**Recommendation 4**

The Assistant Deputy Minister, Strategic Policy Branch should enhance use of SGBA+ in the grants and contributions management process by:

- enhancing guidance and training; and
- expanding the collection of data through funding agreements and recipient performance measurement plans to include more diversity elements.

**Management response**

Management agrees with the recommendation.

Management will continue to take steps to enhance guidance and training to grants and contributions program staff to enhance their understanding of SGBA+. Work is already underway to develop and deliver tools, training and guidance on SGBA+ to grants and contributions program staff.

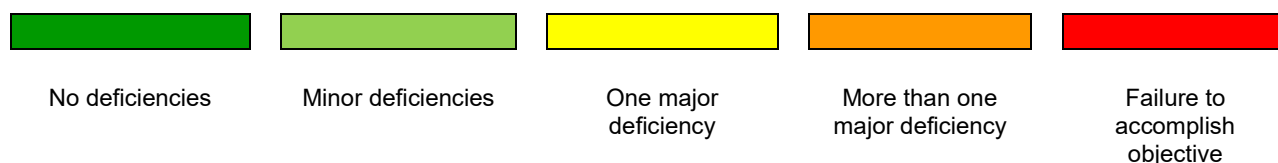
Since the period examined by the audit, SPB has developed Performance Information Profiles that include SGBA indicators for all transfer payment programs. Management will work toward expanding collection of diversity data beyond sex and gender through future iterations of the Performance Information Profiles.

## Conclusion

61. Overall, we found that there were several major deficiencies in the controls in place for the transfer payment level of G&Cs exercised by SPB.
62. We found effective management processes and practices in the following areas:
- Formal processes and practices supporting the solicitation of applicants and selection of recipients;
  - Funding agreement compliance with TB *Policy on Transfer Payments* and TB *Directive on Transfer Payments*; and
  - Adequate monitoring of recipients in respect to reporting requirements.
63. We found that there were several deficiencies in the controls in place for the transfer payment level of G&Cs exercised by SPB. These deficiencies included the following:
- A lengthy solicitation process that affects SPB's ability to disburse funds in a timely manner and support departmental objectives;
  - Limited use of service standards to manage the contribution agreement management process and support continuous improvement;
  - An absence of documentation for HC employees confirming there is no conflict of interest in the selection of recipients;
  - Limited information to support recipient risk assessments and inform the annual risk-based recipient audit plan; and
  - A limited number of employees engaged in SGBA+ training and limited collection of data through recipient performance measurement plans to support diversity elements of SGBA+.
64. The areas for improvement noted in this audit report, along with the associated recommendations, will collectively strengthen the management of grants and contributions agreements.

## Appendix A – Scorecard

| Audit of the Management of Grants and Contributions - Phase II   |        |   |       |
|--|--------|---|-------|
| Criterion  | Rating | Conclusion  | Rec # |
| Solicitation process and assessment of proposals are in accordance with programs terms and conditions and with the <i>TB Policy on Transfer Payments</i> .                       |        | <p>Solicitation processes in support of Strategic Policy Branch transfer payment programs reflect their terms and conditions.</p> <p>Greater efforts are required to ensure timely review of applications, and establish service standards.</p> <p>Improvements are required to mitigate risk of conflicts of interest.</p> | 1, 2  |
| Funding decisions and contribution agreement preparation are in accordance with program terms and conditions, and in compliance with the <i>TB Policy on Transfer Payments</i> . |        | Funding decisions and contribution agreement preparation are in accordance with program terms and conditions, and in compliance with the <i>TB Policy on Transfer Payments</i> .  |       |
| Funding agreements are monitored in compliance with the <i>TB Policy on Transfer Payments</i> .  |        | <p>Monitoring of funding agreements was performed.</p> <p>Improvements are required to enhance information to support recipient risk assessments and annual recipient audit planning.</p>   | 3     |
| The Strategic Policy Branch incorporates Sex and Gender Based Analysis+ in the management of grants and contributions.   |        | Progress made in integrating SGBA+ into the grants and contributions agreement management processes, but greater effort is required to ensure employees are trained and that data to support the '+' component of SGBA+ is collected and used in research, policy, and program design.                                      | 4     |



## Appendix B – About the Audit

### Audit Objective

The objective of this audit (Phase Two) was to provide assurance that there are adequate controls in place for the transfer payment management level of Grants and Contributions by the Strategic Policy Branch within Health Canada, in compliance with Treasury Board's *Policy on Transfer Payments*.

### Audit Scope

The scope of this audit included agreement management activities undertaken during fiscal year 2016-17 and fiscal year 2017-18. It included SPB's responsibility for managing grant and contribution (G&Cs) funding.

The areas of focus were as follows:

- funding agreement development, including applicant eligibility and assessment, funding decision and contribution agreement preparation; and
- funding agreement administration, including agreement management and monitoring activities to ensure compliance with the terms and conditions of agreements and to support payment.

The audit may have included interviews with recipient organizations.

The Audit Criteria are presented in Appendix C.

This was a continuation of the Audit of Management of Grants and Contributions - Phase One that was tabled at the Departmental Audit Committee (DAC) in March 2018. Phase Two did not include an examination of the governance and oversight, tools and guidance, and monitoring and reporting activities at the program level.

The scope did not include an examination of G&Cs claims and compliance with the *Financial Administration Act* (Sections 32, 33 and 34).

### Audit Approach

The audit was conducted in conformance with the Treasury Board of Canada's *Policy on Internal Audit*. Sufficient and relevant evidence was obtained to provide reasonable assurance support the audit conclusions.

Audit procedures that were employed during the examination phase to address the audit criteria included, but were not limited to:

- Examination and testing of controls contained in the approved audit program, which span the funding agreement management lifecycle;
- Follow-up interviews with key program personnel at Health Canada when required; and
- Analysis and documentation of findings.

## Statement of Conformance

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and is supported by the results of the Office of Audit and Evaluation's Quality Assurance and Improvement Program.

## Appendix C - Lines of Enquiry and Criteria

| <b>Audit of the Management of Grants and Contributions – Phase Two</b> |   |
|--|---|
| <b>Criteria Title</b>  | <b>Audit Criteria</b>   |
| Solicitation Process and Assessment of Proposals                       | 1. Solicitation process and assessment of proposals are in accordance with programs terms and conditions and with the TB <i>Policy on Transfer Payments</i> .                       |
| Funding Decisions and Contribution Agreement Preparation               | 2. Funding decisions and contribution agreement preparation are in accordance with programs terms and conditions and in compliance with the TB <i>Policy on Transfer Payments</i> . |
| Funding Agreement Monitoring   | 3. Funding agreements are monitored in compliance with the TB <i>Policy on Transfer Payments</i> .  |
| Sex- and Gender-Based Analysis   | 4. The Strategic Policy Branch incorporates Sex and Gender-Based Analysis+ in the management of grants and contributions.   |