Final Audit Report

Audit of Regional Internal Services

December 2013

Canada

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Executive summary

The focus of the audit was on regional internal services. Internal services are administrative services that support and advise a department and its programs. At Health Canada, regional offices are organized to provide internal services to support the needs of programs and other corporate obligations of the Department. In 2012-13, the Department had regional internal service expenditures of approximately $44.5M to support approximately $2.2B in total regional expenditures across Canada.

The objective of the audit was to assess the effectiveness of the regional management control frameworks for selected internal services related to financial management, materiel management, real property management, fleet management and human resources management. It involved the conduct of sufficient and appropriate procedures and the gathering of evidence to support the audit conclusion. The audit was conducted during a period of significant change in the regions as a result of the Department's transformation agenda. These changes have included a shared service partnership between Health Canada and the Public Health Agency of Canada, new reporting structures for internal service functions and significant workforce reductions.

In a large department with regionally delivered programs and services, coordination between headquarters and regions is paramount. When services are coordinated through headquarters but delivered regionally, it is necessary to have strong oversight (including monitoring) and clear roles and responsibilities that are well communicated.

In some regions, controls over internal services are highly developed while in other instances, the regional variances combined with insufficient monitoring from headquarters has had an impact on the effectiveness of the Department's internal controls. For example, the internal controls for financial and materiel management will be strengthened with more monitoring over the payables at year-end and procurement practices. The human resources function will also benefit from more routine monitoring of regional human resources activities by headquarters. Lastly, while the *Fleet Management Policy* identifies the roles and responsibilities associated to fleet management, renewed governance around the fleet activity would be important so that the Department would be better positioned to know if the fleet is assisting the department in meeting its objectives and operational requirements.

Well established internal services provide the necessary support for the Department to deliver quality programs to Canadians. Health Canada's regional transformation, including more standardized internal services, will serve to strengthen the efficiency and effectiveness of the collective regional internal services delivery model.

A - Introduction

1. Background

Internal services are administrative services that support and advise a department and its programs. Well established internal services provide the necessary support for the department to deliver quality programs to Canadians. Health Canada delivers programs across all provinces and territories. Regional activity is organized to provide internal services to support the needs of programs and other corporate obligations of the Department. Internal services support federal government operations and programs to comply with applicable laws, regulations, policies and/or plans. These services include real property, security, fleet, information management/information technology (IM/IT), human resources, financial management, materiel management and communications. In 2012-13, the Department had regional internal service expenditures of approximately $44.5M to support approximately $2.2B in total regional expenditures across Canada.

Based on previous regional audit coverage, materiality and audit risk, the focus of this audit was on regional financial management, materiel management, human resources management and real property management in the Alberta, Manitoba and Ontario regions (see scope and approach sections for more detail).

Financial management

Financial management services involve activities undertaken to ensure the prudent use of public resources. It is also an important tool to support decision-making in the effective delivery of programs to Canadians by providing management with reliable and timely financial information on resources and assets. Financial management services include: financial planning and budgeting, accounting management, expenditure control, payment services, collections and receivables service and asset and liability management services. Financial management is a shared responsibility between regional officials of the Chief Financial Officer Branch and regional program managers.

The majority of regional expenditures are for grants and contributions which represent approximately $1.1B of regional spending. Regional senior finance officers are supported by regional finance employees across Canada including financial managers, officers, analysts and clerks.

Materiel management

Materiel management entails all activities necessary to acquire, manage and dispose of assets and services to support the programs, including the notion of achieving the greatest possible efficiency throughout the life cycle of materiel assets. It is also a shared responsibility between regional materiel management staff and program managers.

Acquisitions involve activities undertaken to acquire a good or service to support business requirements in delivering programs. These include the definition of business requirements, commitment of funds, contracting and procurements, including amendments to contracts. In

2011-12, Health Canada awarded approximately 9,600 regional contracts with an approximate total value of $87.3M to support its regional operations. Regional contracts represent approximately 58 percent of the total number of contracts awarded.

Human resources management

Regional human resources management entails staffing (excluding executive services), compensation, systems, employee relations, classification, functional community services, diversity, learning services, planning, reporting and performance management. The management of human resources is a shared responsibility between Regional Human Resources and regional program managers.

Outside of the National Capital Region, Health Canada employed 4,224 employees in 2011-12 which represents 41 percent of all departmental employees. In the same year, 3,021 staffing actions and 3,772 classification actions were processed by regional officials to support regional operations. Salary expenditures were of $268M which included $13M of overtime.

Real property

Real property management involves activities undertaken to ensure that real property is managed in a sustainable and financially responsible manner throughout its life cycle to support the cost-effective and efficient delivery of government programs. Real property is defined as any right, interest or benefit in land. The management of real property is a systematic, structured process covering real property activities on a whole-of-life basis including planning, acquisition, use and disposal for which both custodian and tenant departments are responsible.

Health Canada's real property includes leased and custodial office accommodations, warehouse space and laboratories, as well off-reserve hospitals, nursing stations and nursing residences that support delivery of health services to First Nations and Inuit communities. In 2011-12, the Department had 17 custodial holdings (11 outside of the national capital region) with an estimated replacement value of $747M ($293.5M outside of the national capital region). In addition, the Department plans to invest $95M in real property from 2011-12 to 2015-16.

Health Canada also supports First Nations and Inuit communities in the construction, acquisition, leasing, expansion and/or renovation of nursing stations, health centres, health stations, health offices, treatment centres, staff residences and operational buildings. This activity is funded by Health Canada's First Nations and Inuit Health Branch through its Health Facilities and Capital Program, with operational support from the Real Property and Security Directorate. Over 550 health facilities containing more than 1,000 buildings are funded by the program. These facilities are located on-reserve and are owned by the First Nations and Inuit communities, but may be used by Health Canada employees in delivering health services to the communities.

Fleet management

Fleet management is the management of a department's transportation fleet through its life cycle. The fleet's life cycle consists of planning, acquisition, operation, use and maintenance, and disposal. In 2011-12, Health Canada's fleet included 566 vehicles across Canada with a value of $15M. The fleet is used largely for two purposes: to support the delivery of health services to First Nations communities; and vehicles are used for compliance and enforcement activities.

The management of fleet is a shared responsibility between the Chief Financial Officer Branch, the Corporate Services Branch, (who manage the pooled vehicles) and program cost centre managers who are responsible for the program vehicles. Fleet policy and guidance is provided by the Materiel and Assets Management Division of the Chief Financial Officer Branch.

2.   Audit objective

The objective of the audit is to assess the effectiveness of the regional management control frameworks for selected internal services related to financial management, materiel management, real property management, fleet management and human resources management.

3.   Audit scope

The audit focused on selected regional internal services in the areas of financial management, materiel management, human resources real property and fleet management. The audit covered January 2012 to March 2013 (15 months). It focused on:

Internal services included in audit scope

Financial and materiel management	- Expenditure management - Contract management - Asset management - Acquisition card management
Human resources management	- Staffing - Classification - Compensation
Real property management	- Real property management process - Excludes security and occupational health and safety
Fleet management	Fleet operations, use and maintenance

IM/IT was excluded from the scope seeing as an audit was recently tabled and approved which examined the regional IT activity (see *Audit of IT Client Services: Application Development and Maintenance*). IM and communication services were also excluded since audits were tabled and approved in 2011 which covered regional roles and responsibilities.

The audit was carried out in Prairie region offices (Alberta, Manitoba and Saskatchewan) and in the Ontario region. These regions were selected because they have the largest budgets, expenditures, transactions and number of employees (see Appendix B). British Columbia was excluded due to the Tripartite Initiative.

4.   Audit approach

The audit examined the regional internal services related to governance, risk and control systems that affect financial management, materiel management, human resource management, real property management and fleet management. It was designed to carry out the analysis, review and testing of the key components of the regional internal services governance, risk and control systems. Only high risk components of each regional internal service were analyzed in-depth. The controls examined were chosen based on their significance to the achievement of key results.

Methodologies included (but were not limited to): analysis of key legislation, frameworks, policies, standards and guidelines for compliance; interviews; data analytics; sampling strategy for the testing of transactions; as well as a regional comparative analysis to assess consistency of standardized practices.

The audit criteria outlined in Appendix A were derived from the Office of the Comptroller General Internal Audit Sector's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors* (March 2011) and Government of Canada and departmental policies.

5.   Statement of conformance

In the professional judgment of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, 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*. The audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

B - Findings, recommendations and management responses

Part I – Financial and materiel management

1. Governance

1.1 Oversight

Audit criterion: *Effective oversight is in place to support regional financial and material management.*

The fundamental objective of public sector management is to deliver results through programs for all Canadians. Program delivery is supported by proper stewardship of financial resources and assets through an appropriate governance structure. It is also important that the governance bodies receive accurate and timely information to support planning, monitoring, risk management and decision-making. In 2011-12, Health Canada's regional expenditures were approximately $2.2B which is about 62 percent of the Department's expenditures. The majority of regional expenditures are for grants and contributions which represent approximately $1.1B of spending.

The Chief Financial Officer Branch (CFOB) is the departmental point of accountability for providing financial and materiel management oversight and for facilitating rigorous stewardship of resources in the regions. This Branch provides the frameworks, policies, systems, practices and tools to support program management and operations in the regions.

In fiscal year 2012-13, the oversight of financial and materiel management changed significantly. The programs and services delivered in the regions, including financial and materiel management, were previously managed by the Regions and Programs Bureau (RAPB) with functional guidance provided by the Regional Senior Financial Officer (RSFO). While financial and materiel management services in the regions continue to be provided by the Regional Senior Financial Officers these staff now report directly to the Chief Financial Officer Branch (CFOB at headquarters. Two directorates in CFOB are responsible for providing oversight and guidance: the Financial Operations Directorate and the Resource Management Directorate.

The Financial Operations Directorate is responsible for financial systems, payment processing and quality assurance over the *Financial Administration Act* (FAA) Section 34 account verification, managing payables at year-end (PAYEs), acquisition cards, procurement and asset management. As a part of the Department's reorganization, the Chief Financial Officer Branch is in the process of consolidating 14 accounting offices into two accounting hubs for accounting and procurement activities. The Winnipeg hub will be responsible for processing accounting transactions for the western regions, while the hub in Ottawa will handle activities for the National Capital Region, Ontario, Québec and Atlantic region. The consolidation is to be complete by December 2013 and will be fully operating in fiscal year 2013-14. Expenditure management and procurement have also benefited from the deployment of a procure-to-pay (P2P) system which enables the integration of the

procurement process with the accounts payable. This change supports the objectives of the Treasury Board *Policy on the Stewardship of Financial Management Systems.* The creation of the hubs and the new P2P system are intended to provide greater consistency in business processes, to enhance internal controls and to provide more governance over the financial activities in headquarters and in the regions.

The management of equipment owned by the Department is a shared responsibility. Cost center managers are responsible for safeguarding the equipment and for its operational use and maintenance. The Materiel and Assets Management Division (MAMD) is responsible for the overall inventory management of the equipment owned by the Department and for coordinating with cost center managers for the procurement and disposal of assets. The new centralized approach, which includes P2P and the reassignment of procurement staff under MAMD, should provide greater consistency in business processes, and lead to improved information on assets for decision-making (see recommendation 2).

The Departmental Resource Management Directorate is responsible for financial budgeting and forecasting for the Department. The Directorate also supports budgeting and forecasting in all regions, through the Regional Senior Financial Officers (RSFOs). While the oversight for budget and financial forecasting has not changed significantly with the new delivery model, there has been a change in the reporting relationship. The Regional Senior Financial Officers now report directly to the Directorate at headquarters. The roles and responsibilities for them have since changed as they are no longer responsible for procurement and financial operations. The remainders of their duties are unchanged and they continue to perform an advisory and monitoring function in support of senior managements' budgets, financial reports and forecasts. Financial information is provided to the Branch Senior Financial Officer of each branch at headquarters, who then aggregates the information in the branch Management Variance Report. These reports and information are provided to each branch assistant deputy minister, to the Deputy Minister and to the Executive Committee table.

Financial and materiel management matters continue to be discussed regularly in the regional governance bodies that include the Regional Senior Financial Officers, such as the Weekly Issues and Activities Report or the First Nations and Inuit Health Branch Regional Management table in Alberta. There is also a monthly meeting with the Manitoba and Alberta Regional Senior Financial Officers with the Prairie regional program regional directors and regional director general. The Branch Senior Financial Officers at headquarters support the analysis and roll-up of regional activities in branch reports.

It was noted that various governance bodies exist and provide effective oversight on financial and materiel management matters. Also, in the new line reporting model, the regional financial and materiel management activities are directly benefiting from the governance established by the Chief Financial Officer Branch.

1.2   Roles and responsibilities

Audit criterion: Regional roles and responsibilities related to financial and materiel management are clear and understood.

In 2007, the Chief Financial Officer issued a document entitled *Financial Management Roles and Responsibilities at Health Canada* that outlined key business activities related to financial management and delineated the roles and responsibilities across the Department.

Since that time, much has changed as a result to the Department's transformation agenda. At the time of the audit, the regional finance offices visited were in various stages of transition with respect to key business activities. Interviews with key personnel and a process mapping exercise indicated a conceptual understanding of their roles and responsibilities in relation to the transformation on key business activities. Over the last fiscal year, the regions have collaborated on five important change initiatives:

- the creation of Shared Service Canada, with new roles and responsibilities;
- the partnership between Health Canada and the Public Health Agency of Canada for internal services;
- workforce adjustment resulting from Budget 2012;
- the creation of the two hubs for accounting and procurement; and
- the implementation of the P2P module for SAP providing enhanced financial system functionality automating the procurement and payment via end to end business processes.

Each of these initiatives would be significant alone, however taken in combination, it created an environment with multiples changes. While it was noted that various governance bodies exist and provide oversight on financial and materiel management matters, processes and reporting relationships have changed for budget and expenditure management, contracting, and asset management. Following the implementation of these initiatives, the 2007 *Financial Management Roles and Responsibilities at Health Canada* document is outdated. It would be important to review the new model, assess how these changes interact with each other and update the key roles and responsibilities.

Recommendation 1

> *It is recommended that Chief Financial Officer update the roles and responsibilities for regional financial and materiel management, to align with the new business processes and reporting relationships and communicate department-wide.*

Management response

Management agrees with the recommendation.

The Chief Financial Officer Branch will update and share departmentally the 2007 roles and responsibilities document to reflect the results of its transformation activities.

2.   Risk management

2.1   Risk management

Audit criterion: *Regional risks related to financial and materiel management are identified, assessed and mitigated.*

Risk management relating to financial and materiel management should support the organization in achieving its objectives. Managers should identify the key risks that could impact their ability to meet those objectives and establish a risk response plan.

In the three regions examined, the financial and materiel risk management is mainly performed through the budget management and forecast process, utilizing the Management Variance Reports (MVR). Budget management is done separately for each branch that has activities in the regions: FNIHB Health Programs, Regions and Programs Bureau programs, Chief Financial Officer Branch (CFOB), Corporate Services Branch and Communications and Public Affairs Branch. It is coordinated by the Regional Senior Financial Officer, who reports to the Director General, Resource Management, CFOB. The financial information for each region is collected and submitted to the Branch Senior Financial Officer in Ottawa for review and compilation in the results of each branch.

The regions follow the Management Variance Report cycle, which starts at period 3 (June) of the fiscal year. This is facilitated primarily by regional finance staff working with cost centre managers (CCMs) and senior staff throughout the budget cycle from developing work plans and budgets to providing strategic advice in the reporting and controlling of expenditures on behalf of the various programs within the Department. This budget cycle enables discussion between CCMs and their managers on specific items such as the procurement of goods and/or services resulting in the identification and assessment of potential risks related to financial and materiel management.

Through the analysis of variance reports, monthly adjustments and interviews, it was found that regional risks related to financial and materiel management are sufficiently identified, assessed and mitigated through the budget cycle. Discussion also enables management to benefit from opportunities in asset management when funds are available.

3.   Internal control

3.1   Budget and expenditure management

Audit criterion: *Regional budgets and expenditures are managed, controlled and reported in accordance with applicable laws, regulations, policies and procedures.*

Key controls over budget and expenditure management are designed to ensure that expenditures remain within the limits of the budget. Treasury Board has a suite of expenditure management policy instruments that include policies, frameworks, standards, directive and guides. In addition, the Department developed a Budget Management

Framework which aligns with Government of Canada expectations and provides further guidance to employees on expenditure management.

As noted, budget and expenditures are controlled through the Management Variance Reporting process which is performed monthly, from period 3 (June) to period 11 (February), and the final annual results. Cost centre managers are responsible for reviewing actual expenditures and commitments against the established budget and for providing an explanation for any variances.

The variance report process is initiated by the Financial Management Directorate in the Chief Financial Officer Branch. In each of the regions, Regional Senior Financial Officers maintain detailed spreadsheets to analyze the financial data and to identify trends for each branch. These spreadsheets allow them to assess the reasonableness of the variance explanations provided by the cost centre managers and/or identify budget pressures. The spreadsheets are aligned with Management Reporting Solutions and support the data input in the system. Each month, they produce separate variance reports for five branches: First Nations Inuit Health Branch; Regions and Programs Bureau programs; Chief Financial Officer Branch, Corporate Services Branch and Communications Public Affairs Branch. Each Branch Senior Financial Officer at headquarters integrates regional information into the full branch MVR.

Expenditures management also includes Payables at Year-End (PAYEs). The Treasury Board *Policy on Payables at Year-End* requires departments to identify and quantify liabilities to outside organizations and individuals resulting from operations up to March 31st in each fiscal year. The purpose of the PAYE is to ensure that expenses are correctly matched to the period where they have been incurred so that the financial statements accurately reflect the entities' activities. The managing of the PAYE process is an important aspect of the year-end accounting procedures and is well documented in the information prepared by Finance to assist staff with all year-end processes.

In order to manage the PAYE process, the Chief Financial Officer Branch has documented procedures and implemented controls. Prior to recording a payable, the Regional Senior Financial Officers review requests from cost centre managers to ensure they meet the definition of a "PAYE" and that the payable is accompanied with appropriate supporting documentation that adequately supports the validity of the liability. Accounting operations in the hubs will be responsible for recording the PAYEs in the financial system (SAP). Throughout the year, the Regional Senior Financial Officer monitors PAYE balances and follow-up with cost center managers to ensure that payables are cleared on a timely basis. At time of settlement, payment requests are reviewed by finance officers to ensure invoices relate to the work performed on or before March 31.

In the three regions sampled, a process to review outstanding year-end payables was in place. Beginning in the second quarter of each fiscal year, Regional Senior Financial Officers monitor outstanding payables and follow-up with cost centre managers on open payables to determine whether open ones are still required. Payables at year-end set-up by the three regions for fiscal year 2011-12 amounted to over $31M. A sample of 30 payables created for fiscal year-end 2011-12 was analyzed and tested to verify that: PAYEs were reviewed;

appropriate supporting documentation was provided to justify the liability and reasonableness of the amount; and whether payments against these payables were appropriately applied. It was found that there was sufficient evidence of review by the Regional Senior Financial Officer. However, in eight instances, (five in Manitoba and three in Ontario totaling a value of $1.6M), there was insufficient documentation supplied by the cost centre manager to justify the reasonableness of the amount.

With respect to the settlement of the PAYEs, it was noted that in two instances in Alberta, payment against a PAYE was not appropriately applied for approximately $94K. In one instance, a PAYE was created as the recipient had not fulfilled its reporting requirements under the contribution agreement. At the time of the payment, the reports were still outstanding, which means the condition that lead to the creation of the PAYE was not resolved; therefore, the payment should not have been released. In the other instance, payment was processed against a PAYE even though the supporting documentation indicated that the services were not provided prior to year-end. All instances identified in the audit have been reviewed by the Chief Financial Officer Branch and corrective action will be taken.

During the time of the audit, monitoring of the PAYEs was the responsibility of each Regional Senior Financial Officer combined with some monitoring from headquarters. However, with the ongoing consolidation of accounting operations into two hubs (from 14 district accounting offices), it is anticipated that a more standardized accounting approach will be achieved. In that regard, the two accounting hubs will soon be responsible for the recording and settlement of the PAYEs offering a more consistent process and providing enhanced control over the establishment and settlement of the PAYEs. However, it is expected that Regional Senior Financial Officers will continue to have a role in the review and sign-off of regional PAYE requests and in the subsequent monitoring of PAYE balances throughout the year to ensure that payables are cleared on a timely basis. Given the new approach has only recently been implemented, the operating effectiveness should be further tested (see recommendation 2).

3.2   *Procurement and contract management*

Audit criterion: *Regional contracting processes and procedures are in compliance with applicable laws, regulations, policies and procedures.*

The objective of government procurement and contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.

At Health Canada, the management of contracts for the purchase of goods and services involves many stakeholders. Responsibilities for contract management are shared between the following parties:

- **Materiel and Assets Management Division**: providing functional direction over contract management purchasing activities.

- **Cost centre managers**: defining business requirements and managing contracts.

- **Procurement officers:** review and approval of complex transactions.

In fiscal year 2012-13, the contract management and approval process was significantly changed as 14 accounting offices are being consolidated into two accounting hubs. In addition to the consolidation noted above, other changes include: materiel management staff who used to report to the Regional Senior Financial Officer, now report to headquarters Director, Materiel and Asset Management Division; implementation of the P2P process leading to changes in contract review and approval process, and responsibilities of the cost centre managers within the procurement process in the regions. Also cost centre managers are now responsible for the processing of procurement transactions of less than $10K– something formerly performed by the procurement staff in the regions.

Contract management was assessed by interviewing regional staff, documentation analysis, walkthroughs, and an analysis of a sample of 60 contracts (20 per region) to verify that: appropriate supporting documentation was maintained; proper expenditure initiation and funds commitment (including contract approval by the appropriate authority prior to the contract start date) were made; contracts were approved on a timely basis; and proper account verification of FAA Section 34 quality assurance, and FAA Section 33 were completed for invoice payments.

The Treasury Board *Contracting Policy* and the Health Canada *Contracting Guide* require that contracts be in place prior to the commencement of work, however, following the testing, there were some observations related to the regional contracting practices. In one region, given pressures to alleviate a staffing shortage, eight call ups for services amounting to approximately $79K were signed after the end date of the contract and after the invoices were received. As a result, Health Canada has since put in place new contracts based on task authorizations for nursing services thereby expediting the contracting process to risk manage the regions not having adequate staff to deliver key health services. As well, 15 contracts amounting to approximately $700K in the three regions were signed and approved after the start date of the work. Four of these contracts were signed more than 7 days after the contract start date. The implementation of the new P2P process is expected to improve this issue and the Chief Financial Officer Branch is committed to test and monitor the new process. Lastly, it was also observed that the three confirming order samples were missing an email or other documentation from Legal Services to complete the file. When informed of the details related to the observations, the Chief Financial Officer Branch took immediate action to review and correct transactions and files.

Like the PAYEs process, the contracting process has changed during the period of the audit, and solutions being implemented by management are expected to address the findings. The introduction of the P2P system means that all new contract documents and transactions must be processed entirely in the financial system. The process has been standardized and regional clients will be serviced via the two accounting/procurement hubs. In addition, both quality assurance over Section 34 and Section 33 of the Financial Administration Act are to be

performed in one of the two hubs with the new automated procurement system (P2P). Considering these changes, the newly designed internal controls relating to procurement are adequate however; the operating effectiveness should be monitored.

Recommendation 2

It is recommended that Chief Financial Officer monitor the new internal controls related to the payables at year-end process and the procurement process for operating effectiveness.

Management response

Management agrees with this recommendation.

The Chief Financial Officer Branch will monitor the new internal controls related to payables at year-end process and the procurement process for the operating effectiveness.

3.3   Asset management

Audit criterion: *Regional assets are properly secured, accounted for and safeguarded in accordance with applicable laws, regulations, policies and procedures.*

The Government of Canada's *Policy Framework for the Management of Assets and Acquired Services* and its associated policy instruments set the direction for the management of assets and acquired services to ensure the conduct of these activities provides value for money and demonstrates sound stewardship in program delivery. Effective management of these activities results in program and administrative stewardship allowing program outcomes to be achieved.

Health Canada has developed a framework for the management of assets. This framework includes: *Policy on the Management of Assets*; the *Assets Management Standard*; the *Accounting for Capital Assets Policy*; and the *Fleet Management Guide*. It is through this framework that oversight, and roles and responsibilities relating to the control of assets have been defined. These include the annual conduct of the Department's capital asset inventory ($10K or greater), as well as a count of all low dollar value assets (less than $10K) every 3 years.

Health Canada's *Policy on the Management of Assets* defines an asset as "an article or object of value of $1K or greater or an attractive item or object of value under $1K that is purchased, constructed, developed or otherwise acquired and is owned and/or in the possession of Health Canada, including assets on reserve," excluding fleet and real property. The policy requires that:

▪ all assets are recorded in the financial system, and the financial system shall be used to manage departmental assets and to update their status throughout their life cycle; and

▪ all assets must be affixed with a Health Canada bar coded assets sticker.

Health Canada uses SAP as its principal system to manage departmental assets. There are two modules related to assets in SAP. The first module (Plant Maintenance) is used for the purpose of tracking assets and maintaining operational data on assets. The second module (Asset Accounting) is a financial tool used for the amortization/depreciation of capital assets and for the preparation of departmental financial statements.

All assets, regardless of its value, are to be recorded in the Plant Maintenance module and assigned an Equipment Master Record. The equipment record is the primary mechanism through which assets are tracked in the Department.

Capital assets, (those valued at more than $10K) are assigned both an Equipment Master Record and an Asset Management Record. The Asset Management Record is used primarily for amortization and financial statement preparation purposes. Cost centre managers are responsible for the creation of an Equipment Master Record, while regional materiel management staff is responsible for the creation of an Asset Management Record.

Through interviews with cost centre managers, the analysis of the management records, and the testing of a sample of assets, it was noted that in most cases, capital assets were properly recorded and assigned an asset management record. In one instance, the asset management record was not created. However, this was not the case for non-capital assets, where an Equipment Master Record is required. It was noted that 43 percent of the assets verified were not properly recorded in the Department's financial system nor was a Health Canada asset bar code sticker affixed to the asset. In addition, the audit also noted that tools other than SAP are currently being used to track or manage assets. The information contained in these systems is not consistent with the information in the financial system (SAP) – i.e. assets are recorded in these other systems but not recorded in SAP, or assets are identified as disposed but the asset record in SAP was not updated.

The Chief Financial Officer Branch recognizes the ongoing systemic challenges with managing the capital and non-capital assets. As such, the Branch is actively engaged in the investment planning process and has developed and presented a proposal to enhance the departmental financial system through the implementation of the SAP Enterprise Assets Management Module. This solution should create a valuable asset management life cycle cost and decision support platform.

Recommendation 3

It is recommended that the Chief Financial Officer continue to develop and implement a departmental asset management solution.

Management response

Management agrees with the recommendation.

The Corporate Services Branch, with support from the Chief Financial Officer Branch, will implement the barcode technology acquired in January 2013 and work towards applying barcode labels to moveable assets located within Health Canada's work locations.

The Chief Financial Officer Branch will present an asset management initiative for investment consideration by senior management to implement new SAP asset management technology that will capture the barcode information and inform the SAP asset records. As well, CFOB will review current asset management policies to align them with newly designed organizational structure.

3.4   *Acquisition card management*

Audit criterion: Regions have internal controls over the use and management of acquisition cards including compliance with applicable legislation, policies, procedures and guidelines.

Acquisition cards are an instrument of purchase in the federal government. The use of cards has grown rapidly since 1997 and continues to grow. When first introduced, it was noted by the Office of the Auditor General that the use of cards made it difficult to apply traditional financial controls, such as segregation of duties. It was noted that essential control would be difficult to achieve if departments did not monitor and analyze cards, record and match charges and carry out periodic audits and verifications of card transactions.

Acquisition cards are provided to specific departmental employees, mainly as a means to purchase low-dollar value goods and services (below $5K), with the objective of reducing the processing costs related to these types of purchases and improving the speed at which goods and services can be obtained.

During the period under the scope of the audit (January 2012 – March 2013), acquisition card charges for the three regions amounted to over $12M. As part of the audit, key controls applicable to the management of acquisition cards were reviewed and tested in order to verify that the use and administration of the cards complied with legislative and policy requirements. The Department's acquisition card policy requires the cardholder to complete an acquisition card reconciliation report each month and attach supporting documentation for all purchases. The cost centre manager is responsible for reviewing the reconciliation package and certifying under FAA Section 34 that the transactions are valid and coded to the appropriate general ledger accounts within 15 days of receipt of the statement. Finance is responsible for performing a quality assurance review of the reconciliation package.

During the testing of the acquisition card reconciliation process, some minor issues were identified in the three regions related to timeliness in completing the reconciliation and general ledger coding errors. Although these errors were not materiel in nature, they did identify a potential area for improvement with the reconciliation process.

In addition to the preparation and approval of the monthly reconciliation report, another key control in the acquisition card process is the quality assurance review. This review includes verifying the accuracy of amounts, that the Section 34 approver is authorized (dollar and cost centre) as per the specimen signature card database and that the financial coding appears correct by tracing the General Ledger description to the nature of the purchase (minimum quality assurance), and communicating any errors to the cardholder and Cost Centre Manager.

In July 2012, the quality assurance review process was changed and incorporated into the Department's Statistical Sampling Framework. Prior to July, a sample of acquisition cards were selected each month to undergo a quality assurance of all the transactions processed against that card. Under the new process, acquisition card transactions undergo the same gating process as other accounts payable transactions. Each month CFOB conducts a quality assurance review of high risk acquisition card transactions while lower risk transactions are subject to the statistical sampling process on a quarterly basis.

To identify transactions requiring a quality assurance review, a risk matrix is used. While this practice is an excellent key financial control, in the coming year, the Branch should consider expanding the risk matrix to reflect other potential high risk transactions involving acquisition cards such as travel related expenses, cash advances, training expenses (including language training and tuition costs).

Scorecard – Financial and materiel management

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Oversight	**NMI**	Regional financial and materiel management is governed directly by the Chief Financial Officer Branch	
1.2 Roles and responsibilities	**NMI**	Roles and responsibilities to be updated to align with new business processes.	1
Risk Management			
2.1 Risk management	**S**	Financial and materiel risk management completed through the monthly variance report (MVR).	
Internal Control			
3.1 Budget and expenditure management	**NMI**	MVR process is operating effectively and supports decision-making. Issues observed with establishment and settlement of payables at year-end. Process is being moved to the two departmental accounting hubs to standardize process and increase oversight.	2
3.2 Procurement and contract management	**NMI**	Contract management issues identified that should rectify with the new procure-to-pay system.	2
3.3 Asset management	**NMO**	Develop and implement a system to track assets and related information in the financial system.	3
3.4 Acquisition card management	**NMI**	Over time, expand the quality assurance review to capture other high risk transactions	

S	**NMI**	**NMO**	**NI**	**U**	**UKN**
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Part II – Human resources

1.   Governance

1.1   Oversight

Audit criterion: *Effective oversight is in place for regional human resources management.*

The effective oversight and management of human resources is essential to the efficiency of Health Canada and to the quality of services offered by the Department.

The Human Resources Services Directorate is the centre of expertise for human resource management at Health Canada. This Directorate provides the policy, strategic direction and standards that enable the Deputy Head to fulfill their responsibility for effective people management. The Director General is accountable for providing guidance and support on all human resource activities to management. The directors of the human resources units are accountable to the client organizations for providing expert support and strategies for effective compensation, staffing, classification, labour relations, official languages, diversity, learning services, human resource planning, reporting and performance management. In addition, the Staffing Policy Centre is responsible for policy development and dissemination, monitoring, making recommendations, conducting follow-ups and reporting to senior management and central agencies on the performance of the staffing system.

In June 2012, the Department re-aligned its internal services. Regional human resources groups now report directly to the Corporate Services Branch. In addition, regional human resources groups now serve both Health Canada and the Public Health Agency of Canada. Regional directors report to the Executive Director, Regional Operations, Corporate Services Branch, supported by policy guidance from the Staffing Policy Centre and the corporate classification and compensation units.

Corporate human resources are governed by the Human Resources Services Management Committee chaired by the Director General. It is a forum to discuss strategic human resource planning, priorities and to consider information and decision items that may have an impact across the Department in the area of human resources. The bi-weekly meetings are intended to discuss recommendations that will be brought forward in front of other committees such as the Branch Executive Committee and Executive Committee for approval. They also serve the Director General in debriefing his executive table on departmental or branch committee activities/decisions as well as engaging his executives in planning activities and deliverables that will be required. Other items, not necessarily impacting the clients, and more procedural or operational in nature, are also discussed in order for Human Resources Services Division to better function as a directorate (from an internal efficiency and effectiveness perspective). In addition to this committee, the Executive Director, Regional Operations holds bi-weekly teleconference meetings and bilateral meetings with the regional directors. These weekly/monthly meetings are intended to address operational issues.

The design of the new reporting relationship combined with the new committee structures are expected to provide effective oversight for strategic decision-making related to human resources management. However, management follow-up will be required to ensure that these controls are working as expected (see recommendation 3).

1.2   Roles and responsibilities

Audit criterion: *Regional roles and responsibilities related to human resources management are consistent and clear.*

Human resource services are delivered in the regions by approximately 156 officials of the Corporate Services Branch. All human resource management service lines such as staffing or labour relations are delivered in the regions and are led by regional directors. The regional directors of human resources report to the Executive Director of Regional Operations at headquarters. The departmental human resources management leadership team includes other executive directors who are responsible for strategic human resource management, learning, development, talent management, workplace relations, organizational well-being and client services. These executive directors are supported by the regional directors for delivering the aforementioned services and programs in the regions.

Recent client partner projects that impact the regions include the *Northern Nursing Recruitment and Retention Strategy* as well as the *BC Tripartite Initiative*. Such projects are usually jointly managed by the National Capital Region strategic directors and regional directors in terms of planning, consultations and implementation.

Portfolio Human Resources Services

- Assistant Deputy Minister Corporate Servcies Branch
  - Director General Human Resources Services Directorate
    - Executive Director Regional Operations
      - Regional Director Alberta and Saskatchewan
      - Regional Director Manitoba
      - Regional Director Québec
      - Regional Director Ontario
      - Regional Director Atlantic
      - Regional Director British Columbia
    - Executive Director Client Services
      - Director Staffing Policy Centre
      - Director Corporate Classification
      - Director Corporate Compensation

However, human resources advisors working in the regions provide strategic and operational staffing, classification, compensation, learning and labour relations support, advice and guidance to clients in order to achieve goals and implement business strategies. In 2011-12, Health Canada's regional human resources advisors supported management in processing approximately: 1,371 staffing actions; 3,772 classification actions; salary expenditures of $268M which included $13M of overtime; and administered other human resource requests on behalf of approximately 4,224 employees.
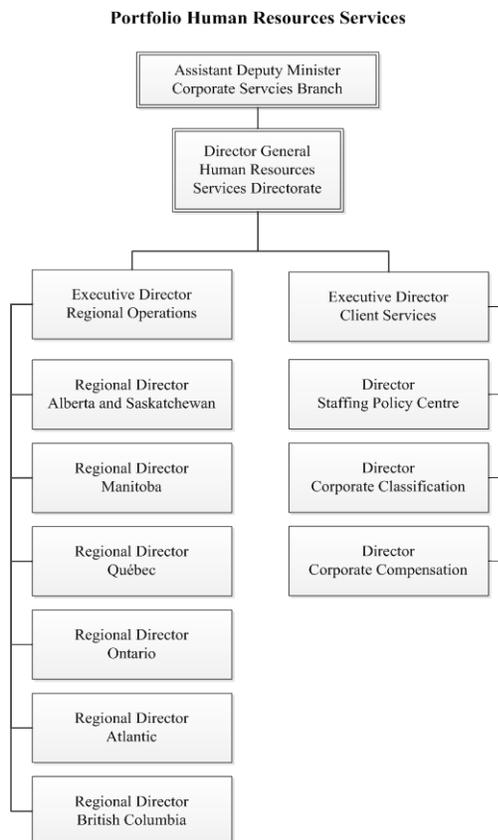
For the most part, regional human resources staff are aware of roles and responsibilities related to staffing, classification and compensation. While regional staff raised points of ambiguity related to the verification of delegated authorities and document retention, these responsibilities are clearly outlined in departmental guidelines and checklists. As a result, roles and responsibilities related to human resources management are clear and consistent.

2.   Risk management

2.1   Risk management

Audit criterion: Regional human resources management risks are identified, assessed and mitigated.

Human resources risk management supports strategic human resources planning, effective use of resources and promotes continuous improvement. Annually, the Human Resources Services Directorate defines its operating environment to highlight strategic priorities, issues and resourcing requirements which arise from Health Canada and the Public Health Agency of Canada's businesses. The Directorate works with the Chief Financial Officer Branch to produce the Departmental Operational Plan as well as the Corporate Risk Profile. The human resources risks are detailed in each of these documents. Currently, the key human resource risk relates to business delivery of primary health care services in remote and isolated First Nations communities given the challenge of nursing shortages and limited access to specialized scientific talent to meet the Department's science and regulatory responsibilities.

Current horizontal human resource risks that have been identified with corresponding actions include: labour market shortages; resource alignment; workforce adjustment management (tripartite negotiations and other initiatives); diversity, training, learning and development; employee morale; classification and organizational design; succession management; and performance management. Each of these risks is to be managed jointly by headquarters and by the regions. Over the last year, the regions have been particularly involved in managing the risks associated with the workforce adjustment activities.

Each of the regions visited produces a regional business plan. Within this plan, the regions highlight the strategic direction, operating environment and human resources planning. The human resources section details factors, risks and opportunities that may influence the regions' ability to meet the people management objectives. For example, the *2011-12 Business Plan for Alberta* highlights key risks related to: succession planning; knowledge transfer; employment equity related to Aboriginal people; workplace wellness; staffing; and learning and development. The risks also have corresponding mitigation actions.

Lastly, Health Canada developed a risk-based staffing monitoring framework. It includes a risk assessment scale and factors to consider when determining which staffing transactions to monitor (for example, volume of staffing activity, previous monitoring results). The framework also includes roles and responsibilities, annual reporting activities and a model to determine risk tolerance levels. However, given the findings related to the staffing files, the framework is not being used to effectively support the staffing activity (see recommendation 3). As expected, many of the regional human resources risks mirror the corporate human resources risks. As such, regional human resources risks have been identified, assessed and

managed as a part of the annual planning process and are integrated with the corporate human resources risks.

3. Internal control

3.1 Compliance

Audit criterion: *Staffing, classification and compensation transactions are made in compliance with Treasury Board and departmental requirements.*

Staffing compliance

Staffing actions within the public service must adhere to the core staffing values of merit and non-partisanship, and to the guiding values of fairness, transparency, access and representativeness. Staffing actions follow one of two appointment processes; advertised or non-advertised. Advertised appointment processes must meet two conditions: first, persons in the area of selection must be informed of the appointment process; second, they must have an opportunity to submit their applications and to show how they meet the merit criteria. A non-advertised appointment process is a process that does not meet one or both of these conditions. Last fiscal year, there were 142 non-advertised staffing transactions within the three regions sampled. This represented approximately 5 percent of the population.

A total of 45 **staffing** actions were tested to assess compliance with Treasury Board expectations and departmental requirements. The files tested included both advertised (35) and non-advertised (10) appointments, and various types of staffing actions such as term, indeterminate, part-time, acting and promotion appointment. Thirty-three percent of regional staffing actions were not fully meeting departmental requirements. For example, 15 staffing files are missing at least one document from the staffing checklist such as signed statement of persons present at board, right fit assessments. A total of 49 issues were documented.

Areas of Non-compliance by Staffing Action

Staffing	Area of Non-Compliance		
45 total transactions reviewed	Legislative/Policy Requirements	Departmental Procedures	File Documentation
Offer of appointment extended by manager without proper authority	1		
Staffing appointments made before conditions of appointment satisfied	4		
Signatures missing on staffing action requests, including improper Human Resources, CFOB and Cost Centre Manager approvals		27	
Appointment made for an unapproved development program		2	
Various documents required by staffing checklists missing from files			15

Staffing checklists are the primary control and were put in place following the 2009 Public Service Commission staffing audit. The checklists contain a signature block for a peer review of all files. However, only one of the regions examined in the audit understood the purpose of the signature block. Consequently, 66 percent of staffing files were not peer reviewed. Moreover, peer review is only being performed on non-advertised processes. As such, Human Resources should consistently conduct peer reviews to strengthen compliance (see Recommendation 1).

Classification compliance

Job **classification** is a structure that establishes the relative value of work in an organization. Its purpose is to provide a basis for determining the compensation of employees in a manner that is consistent, equitable, efficient and effective. The job classification structure has two key components: job analysis and job evaluation. Job analysis is the process of understanding and documenting work performed by employees. The product of a job analysis is a job description. Job evaluation is the process of measuring work to determine the value of one's job relative to another. The product of job evaluation is the occupational group and level such as AS-03, PM-05 or EX-01, with each occupational group and level corresponding to a unique pay. Most rates are determined through collective bargaining.

A sample of 45 classification transactions were tested and included various types of classification transactions such as change of duties, cyclical review, new position, re-organization, review decision/change reporting relation and a position update. From the files sampled, 79 different issues were documented. Some issues were significant and others were relatively minor, but all files had at least one issue identified.

Areas of Non-compliance by Classification Transaction

Classification	Area of Non-Compliance		
45 total transactions reviewed	Legislative/Policy Requirements	Departmental Procedures	File Documentation
Position evaluations did not include assessments of both intra- and inter-departmental relativity	3 out of 4 files		
Classification action request not on file or improperly completed		21	Same 21 files
Expanded position and action report not signed and dated by an accredited classification advisor		2	Same 2 files
Work descriptions missing, incomplete or not signed by appropriate parties		23	Same 23 files
Organizational charts missing, incomplete or not signed by authorizing manager		30	Same 30 files

The classification process is not using a national peer review procedure. One region established a peer review process with a full-time classification advisor and an accredited advisor working on a temporary basis. Since the full-time classification advisor is working towards the accreditation, the accredited advisor reviews the work of the trainee. None of the other regions had a similar peer review process in place despite having at least one full-time accredited classification advisor. Classification should implement a peer review process (see recommendation 1).

Compensation compliance

Compensation decisions are made on the provision of pay and allowances related to the duties of positions. An allowance is a compensation payable in accordance with the provisions of the relevant collective agreement or terms and conditions of employment in respect of a position, or in respect of some of the positions in a group, by reason of duties of a special nature. It may also be compensation for duties that a person is required to perform in addition to the duties of the person's position. Examples of allowances include bilingual bonus or overtime. Overtime is a type of allowance that is deemed to be of higher risk due to manual interventions. As a result, audit efforts related to compensation were solely directed at overtime allowances. Thirty seven overtime transactions were reviewed including those where the employee elected the cash option ($18,7M total: Alberta $1,7M, Manitoba $9,9M, Ontario $7,1M) and those taken as compensatory leave.

Areas of Non-Compliance by Compensation Transactions

Compensation	Area of Non-Compliance		
37 total transactions reviewed	Legislative/Policy Requirements	Departmental Procedures	File Documentation
Employee paid overtime while on leave	1		
Improper Section 34 authorization of overtime compensation	1		
Minor calculation errors resulting in over and under-payment for overtime	4		
Illegible/missing compensation verification authorization signature		7	
Original compensation forms missing			11

Human Resources has a peer review process for compensation which has compensation advisors verifying each other's work. All transactions are to be reviewed prior to payment however the audit noted that the Regional Pay System allows for data entry and verification by the same compensation advisor. To compensate for this control deficiency Human Resources requires verifiers to stamp and sign the paper copy for each overtime transaction. However, there were 7 overtime transactions that did not have the required signature. The Department is moving off the Regional Pay System to PeopleSoft which offers better access controls to provide for the segregation of duties and the audit trail (see section 3.2).

Both regional and headquarters staffing, classification and compensation activities will benefit from conducting peer reviews and monitoring. When informed of the above-noted issues, the Human Resources Directorate took immediate corrective action to rectify the files and used the analysis to develop the management action plan.

Recommendation 1

It is recommended that the Assistant Deputy Minister, Corporate Services Branch:

- *conduct an analysis of the non-compliance issue;*
- *continue to conduct peer reviews for staffing and compensation; and*
- *implement peer review for classification as it relates to relativity assessments.*

Management response

Management agrees with the recommendation.

The Human Resources Directorate has reviewed all staffing files where deficiencies were identified by the audit and undertaken to make the needed corrections. While these processes and documentation errors are important and constitute a failure to meet conditions of

employment, in the files reviewed by the Directorate there was nothing that indicated that individuals appointed were not qualified.

The **staffing function** has a peer review process that will be re-communicated to all regions. The approach for peer review will continue to be based on risk and will continue to be applied to all non-advertised processes as expected on the staffing file checklists. The role of peer reviewer will be further communicated to staffing advisors during staffing compliance workshops.

The **classification function** will implement peer review through mandatory consultation between regions, including National Capital Region so that relativity assessments are performed (mechanisms to be determined). Additionally, mandatory consultation with corporate classification will take place when a consensus is not reached between regions or for any classification actions that are precedent setting.

The **compensation function** has been audited and will be transferred to Miramichi over the next two years. The Virtual Pay Unit has recently begun operating and has incorporated best practices for peer review in the application of overtime. These exemplary peer review practices will continue to support the function until its transfer to Miramichi.

3.2 Transaction processing

Audit criterion: System controls exist for processing staffing classification and compensation transactions.

Staffing, classification and compensation transactions are processed by several systems and include both manual and electronic interventions. The process is documented in departmental policy and procedures.

The audit team completed a process mapping of the staffing activity for advertised and non-advertised processes. It documents the roles and responsibilities from the start of the process to the end for the cost centre managers (with staffing delegation), the Chief Financial Officer Branch, Regional Human Resources and the Staffing Policy Centre in headquarters. The process map also highlights numerous manual interventions such as the staffing action request form, the statement of merit and criteria, the assessment guide, the required signatures, the checklists and the key decision points. The process map also documents the key systems such as the specimen signature database, the employment continuity database and PeopleSoft. Currently, PeopleSoft is used at the end of a transaction for data entry.

Likewise, the audit documented the process to classify non-executive positions. The process map documents the roles of the Cost Centre Manager, Chief Financial Officer Branch, Regional Human Resources classification and corporate classification (and classification committee if applicable). Some of the manual interventions include identification of generic work descriptions, classification action request form, organization charts and required signatures. The systems include the national intranet repository of classified generic work descriptions, the positional classification information system (Office of the Chief Human

Resources Officer) and PeopleSoft. As with staffing, PeopleSoft is used at the end of a transaction for data entry. When PeopleSoft is used, there is an opportunity to provide national guidance on data entry for classification as there is variation in how regions have been using the transaction type codes. For example, out of 15 changes in reporting relationship transactions reviewed, 6 were coded as a re-organisation, one as an update in position and 8 as a review decision/change in reporting relationship. Additionally, from the 10 applications of generic work descriptions that were reviewed, 7 were entered as a cyclical review and 3 as an update in position.

The process for overtime transactions was also documented. The process map documents the roles of the employee, the Cost Centre Manager, Regional Compensation, Corporate Compensation and the Chief Financial Officer Branch. The manual interventions include approval of overtime, tracking form, required signatures and peer review. Some of the key systems are the specimen signature database, the financial system, the Regional Pay System and PeopleSoft. Compensation advisors enter the overtime data in either the Regional Pay System or PeopleSoft and compensation verifiers verify the transaction that has been entered. Following the implementation of PeopleSoft in November 2011, some regions reported that the PeopleSoft interface is less user friendly and preferred using the Regional Pay System. The regions reported that the Regional Pay System was better able to accommodate numerous types of overtime which have to be entered as separate lines with different entitlement codes (for example, extra duty, call-back, standby). Only one of the visited regions entered all their overtime transactions data in PeopleSoft. A walkthrough of the overtime component of PeopleSoft was performed with the Alberta compensation advisor and it was noted that the process was straightforward.

As noted, PeopleSoft offers better computer controls over segregation of duties for transactions processing, provides an audit trail and has better access controls as users have a unique user name and password. While the Regional Pay System has a unique user name and password for the compensation advisor, there is a shared password for the compensation verifier enabling users to verify their own transactions. There is a transactional pay stamp used on overtime forms to identify the transaction initiator and verifier to compensate for the lack of computer control. The pay stamp was used and clearly completed in 76 percent (28/37) of transactions reviewed.

Standardized procedures and practices to support the transaction processing for staffing classification and overtime will lead to better consistency and data integrity across headquarters and the regions.

Recommendation 2
It is recommended that the Assistant Deputy Minister, Corporate Services Branch develop and implement standardized procedures and practices to process staffing, classification compensation transactions.

Management response

Management agrees with the recommendation.

The Human Resources Directorate has developed and is in the process of implementing the Common Human Resources Business Platform which includes standardized procedures and practices for staffing, classification and compensation. Most importantly the initiative provides procedures for the standardized data entry in PeopleSoft.

Mandatory learning activities are presently being conducted across the country on the newest version of PeopleSoft v9.1. The training is expected to result in consistent application of the tool leading to increased data integrity. In addition, PeopleSoft generates monthly error reports which will also be used for purposes of data integrity and training.

Communiques will continue to be used to inform the human resource community on standard procedures for data entry into PeopleSoft. These communiques remain on the common drive and are readily accessible to the human resource community of practitioners.

3.3   Tools and training

Audit criterion: Regional personnel are provided with adequate tools and training to support their delegated compensation, staffing and classification authorities.

Tools and training are key to ensure that human resource specialists are equipped to meet the professional challenges and legislative and policy expectations of their respective human resources functions.

Health Canada's tools and training that were provided to regional human resources operations were analyzed. There were deficiencies with the policy instruments and operational procedures for classification, overtime and staffing. Moreover, for classification, national tools to guide regional classification advisors in the processing of transactions and documentation of decisions do not exist. The following table summarizes the other areas where updates would be beneficial.

Areas where updates would be beneficial

Tool	Description	Human resource function	Deficiencies
Human resources authorities	• Identifies the human resources authorities sub-delegated to managers, supervisors and human resources advisors by the Deputy Minister.	• All	▪ Out of date – new version was not distributed. ▪ Conflicts with departmental policies.
Overtime form	• Used for reporting overtime and processing payment.	• Compensation	▪ Out of date – does not support new processes.
Sub-delegated manager list	• List of managers with sub-delegated authority for human resources transactions.	• Staffing and classification	▪ Out of date – does not reflect employee departures.
Staffing checklist	• National-level checklist for staffing transactions to improve compliance with staffing policies and procedures.	• Staffing	▪ Missing key policy requirements.
Staffing training for managers	• Mandatory training for managers with staffing sub-delegation.	• Staffing	▪ Does not address some key sub-delegated manager responsibilities.
Staffing certification	• Non-mandatory certification program for staffing advisors.	• Staffing	▪ One advisor in the 3 regions is certified, others were accredited prior to 2010 and grandfathered.

In particular, the listing of sub-delegated managers is a key tool to support human resources monitoring. As a result, the Department would benefit from producing up-to-date policies and lists of delegated authorities in the human resources framework.

Recommendation 3

It is recommended that the Assistant Deputy Minister, Corporate Services Branch update policies and the lists of delegated authorities in the human resources framework.

Management response

Management agrees with the recommendation.

The ongoing Human Resource Business Transformation Initiative is a review of strategic human resources instruments that will facilitate the harmonization of practices within human resources. These activities will bring clarity to the processes, streamline and foster alignment between the National Capital Region and the regions, supporting consistency at the national level.

The People Management Policy Suite and service standards are being reviewed as a part of the Human Resource Business Transformation Initiative to support the human resource community and most importantly to support line managers in understanding their sub-delegated accountability.

More specifically, Human Resources will be updating the policy and directive on generic job descriptions; the *Policy on Organizational Change*; and classification community procedures on position file management.

Included in the Human Resource Business Transformation Initiative is the review of the *Human Resources Delegation and Accountability Instrument*. The revised delegation instrument will be available by December 2013. As well, the Human Resources Services Directorate will be implementing additional controls for maintaining current lists of Health Canada sub-delegated managers.

Training – Staffing, classification and compensation

There is mandatory staffing training provided regularly in the regions for managers to exercise staffing sub-delegation. There is also a non-mandatory national certification program in place for staffing advisors. While there is only one certified regional staffing advisor, enrolment numbers in the national staffing certification program are high. Managers reported being satisfied with the quality of the training. However, in light of the compliance issues previously highlighted in the report, the training for managers could be improved by providing a complete list of departmental policies, addressing verification of conditions of employment and documentation requirements.

There are classification training courses for sub-delegated managers and a mandatory national certification program for classification advisors that aligns with the Deputy Head's responsibility to ensure that advisors have demonstrated effectiveness in applying classification authority. All regions had at least one accredited classification advisor.

While there is no specific training for managers regarding overtime transactions, there is the mandatory public service-wide training for the delegation of financial authorities. There are courses for compensation advisors offered by Public Works and Government Services Canada.

Overall, the Department has training to support their delegated staffing, classification and compensation authorities.

3.4   *Performance monitoring*

Audit criterion: There is monitoring and regular reporting of regional staffing, classification and compensation.

Monitoring is essential to assess the effectiveness of internal controls and to allow for timely corrective action. As part of the 2005 *Public Service Employment Act*, the Public Service

Commission holds deputy heads accountable for putting in place management frameworks to monitor and adjust organizational staffing performance.

In 2011-12, a detailed internal staffing monitoring exercise was carried out with regional samples. Results were presented to departmental senior management and the Public Service Commission through the Departmental Staffing Accountability Report. The exercises determined that only 5 percent of non-advertised appointments and only 24 percent of advertised appointments were fully compliant. Long-term acting appointments, casual and term appointments as well as data entry were also recommended for continued monitoring.

In 2012-13, the Commission did not request that any monitoring occur on appointment-related indicators through the central accountability reporting exercise except priority administration and staffing investigations, which resulted in no review of regional staffing files. There was no additional routine monitoring carried out above the Commission request, despite the high level of non-compliance found in the 2011-12 and the strong recommendation to departmental senior management to continue monitoring actively.

Deputy heads are responsible for establishing measures for ensuring the effective management of the departmental classification system. This includes establishing effective control through monitoring/review, audit and corrective measures. Currently, there is no monitoring/audit framework for classification.

There is an obligation to monitor compensation actively, as it is part of the system of internal financial controls that impacts departmental financial reporting. As a result, the Department has developed a draft compensation monitoring framework, which includes monitoring compensation for overtime and extra duty pay. The framework is detailed including roles and responsibilities, methodology, performance indicators, risk assessment and a list of quarterly deliverables. However, no monitoring of regional overtime transactions occurred between January 1, 2012 and June 30, 2013.

Recommendation 4

It is recommended that the Assistant Deputy Minister, Corporate Services Branch develop a monitoring framework for classification and carry out regional monitoring and reporting for staffing classification and compensation.

Management response

Management agrees with this recommendation.

A national **classification** monitoring framework will be piloted in the regions. The pilot will address issues raised in the audit such as: assessment of intra and inter-departmental relativity; classification action request; expanded position and action request (EPAR PeopleSoft); work descriptions and organization charts. Classification controls and objectives have been included in the draft Corporate Services Branch Management Framework.

Staffing monitoring will continue on an annual basis and will be updated to include regional human resources activities. Staffing controls and objectives have been included in the draft Corporate Services Branch Management Framework.

Given that the **compensation** function has been audited and will progressively transfer to Miramichi over the next two years, file verification is being done on accounts as they transfer. Monitoring will be implemented in the highest risk area, which is related to the nursing accounts through the newly created Virtual Pay Unit. Monitoring will continue to be required until the full transfer of the function which is scheduled for 2013-14.

Scorecard – Human resources management

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Oversight	**NMI**	Human Resources Services Management Committee in place and regional human resources directors report administratively to Executive Director, Regional Human Resources.	4
1.2 Roles and responsibilities	**NMI**	Some clarity required in the differences between the roles of delegated managers and human resources advisors in the area of staffing. Services delivered in each region should also be reviewed for consistency.	
Risk Management			
2.1 Risk management	**NMI**	Regional Human Resources risks are identified and assessed with mitigating strategies. Risk-based staffing framework should be used more effectively to assist with monitoring of staffing files.	4
Internal Control			
3.1 Compliance	**NI**	Some non-compliance found in staffing; classification and compensation. There is an opportunity to standardize regional practices to have consistent use of peer review as well as additional monitoring from headquarters (see recommendation 4).	1
3.2 Transaction processing	**NMO**	Processing of human resources transactions should be more standardized.	2
3.3 Tools and training	**NMO**	Update policies and the lists of delegated authorities.	3
3.4 Performance monitoring	**NMO**	Use monitoring framework for staffing and compensation and develop a monitoring framework for classification. Monitoring reports should be shared with oversight committees.	4

S	**NMI**	**NMO**	**NI**	**U**	**UKN**
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Part III – Real property management

1. Governance

1.1 Oversight

Audit criterion: *Effective oversight is in place for regional real property management.*

Real property management is a corporate service delivered by the Real Property and Facilities Management Division of the Facilities and Security Directorate. The Directorate is responsible for acquiring and managing the Department's facilities using a cost-effective lifecycle management approach. It provides clients with strategic advice on maintaining properties, managing leases, complying with environmental requirements and legislations and achieving efficient use of space.

The real property organization has undergone significant transformations in recent years that have added responsibilities while reducing staffing levels. Most recently, the June 2012 *Order in Council* confirmed the shared corporate services model between the Public Health Agency of Canada and Health Canada for real property. Regional real property directors, who previously reported to Regional Directors General, Regions and Programs Bureau, now report to the newly created position of Executive Director, Regional Real Property Division within the Corporate Services Branch. In addition, regional real property employees now serve both Health Canada and the Public Health Agency of Canada.

Regional real property activities can be broken into two streams:

1. providing accommodation services and real property asset operations for offices and laboratories; and
2. supporting the First Nations and Inuit Health Branch (FNIHB) in delivering its Health Facilities and Capital Program and in managing several off-reserve, Crown-owned health facilities.

In the three regions visited, the majority of Regional Real Property Division staff time is spent supporting FNIHB activities.

Regional real property services are overseen by the Director General, Real Property and Security Directorate. The Director General's real property team is composed of an Executive Director, National Real Property Management Division, an Executive Director, National Capital Real Property Division, and an Executive Director, Regional Real Property Division.

Real property Organization

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                          ┌──────────────────┐
                          │       ADM        │
                          │ Corporate Services│
                          │      Branch       │
                          └──────────────────┘
                                   │
                          ┌──────────────────┐              ┌ ─ ─ ─ ─ ─ ─ ─ ─ ─ ┐
                          │ Director General │                Regional Executive
                          │ Real Property and│              │ First Nations and Inuit│
                          │Security Directorate│               Health Branch
                          └──────────────────┘              │    (8 regions)    │
                                   │                         └ ─ ─ ─ ─ ─ ─ ─ ─ ─ ┘
       ┌───────────────────┬───────┴──────────┬───────────────────┐        │
┌─────────────┐   ┌─────────────┐   ┌─────────────┐                        │
│Executive     │   │Executive     │   │Executive     │                       │
│Director      │   │Director      │   │Director      │                       │
│National Real │   │National Capital│ │Regional Real │                       │
│Property      │   │Real Property │   │Property      │                       │
│Management    │   │Division (HQ) │   │Division (HQ) │                       │
│Division (HQ) │   └─────────────┘   └─────────────┘                        │
└─────────────┘                             │                               │
                                   ┌─────────────┐                          │
                                   │Regional      │                          │
                                   │Director      │                          │
                                   │Capital Assets,│                         │
                                   │Administration │─ ─ ─ ─ ─ ─ ─ ─ ─ ─ ─ ─ ─┘
                                   │and Security   │
                                   │(7 regions)    │
                                   └─────────────┘
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*Dotted line indicates a functional reporting relationship

Office accommodation and laboratory real property services oversight

The Executive Director, National Real Property Management Division, is responsible for developing the National Accommodation Strategy for office accommodations. This strategy is developed in consultation with the Executive Director, Regional Real Property Division and the Executive Director, National Capital Real Property Division.

The Executive Director, Regional Real Property Division, and Regional Directors, Capital Assets, Administration and Security Directorate (CAASD) are responsible for implementing the office accommodation strategies in the regions and for providing laboratory real property services.

The Executive Director, National Real Property Management Division meets regularly with the Executive Director, Regional Real Property Division to monitor progress against the National Accommodations Strategy and to keep informed of real property activities in the region.

The Executive Director, Regional Real Property Division hosts a bi-weekly national conference call with all Regional Directors, and holds bi-weekly bilateral meetings with each of the Regional Directors to oversee regional real property operations and to monitor project performance.

Each laboratory facility also has a Facilities Management Committee, comprised of the regional director, the property manager and laboratory tenants. This committee serves to identify building issues and to monitor facility projects.

FNIHB Regional Real Property Oversight

The Regional Directors, CAASD work very closely with the Regional Executives, FNIHB in supporting FNIHB's health facility related operations. The Executive Director, National Real Property Management Division is generally not involved in these activities.

FNIHB's Regional Executive reports directly to the Assistant Deputy Minister, Regional Operations. The Regional Executive, FNIHB works with Capital Program Review Committee members to develop the Regional *Long Term Capital Plan*. The Capital Program Review Committee informs the Regional Executive on regional capital requirements which drive the Long Term Capital Plan. The Long Term Capital Plan is also reviewed by the Director, Health Infrastructure Division at headquarters and subsequently proposed to the Assistant Deputy Minister, FNIHB Regional Operations for final approval.

There is a committee in every region in place to oversee FNIHB-related regional real property operations. In the Ontario and Manitoba regions, the Capital Allocation and Review Committee (CARC) operates to:

- advance the regional Long Term Capital Plan;
- oversee the overall capital planning process; and
- promote transparency in capital asset management with First Nations leadership in support of the Health Canada programs and client groups.

In the Alberta region, the Governance and Capital Sub-Committee provides strategic direction for the efficient and effective delivery of health programs and services within the mandate of this sub-committee. The mandate of this sub-committee includes considering issues and making decisions and/or recommendations on matters relating to facilities management. The Capital Allocation and Review Committee and the Governance and Capital Sub-committee include representation from FNIHB, Real Property and First Nations and convene meetings on a quarterly basis.

Overall, regular meetings are held with key real property stakeholders leading to effective decision making. However, some accountabilities and expectations communicated in key documents of the real property management framework are out of date (see recommendation 1).

1.2   *Roles and responsibilities*

Audit criterion: *Regional roles and responsibilities related to real property management are clear and understood.*

The Treasury Board *Policy on Management of Real Property* requires departments to develop a real property management framework that supports timely, informed real property management decisions and the strategic outcome of programs. The policy requires that the framework include clear accountabilities and responsibilities that are consistent with organizational processes, capacity and needs.

Real property services at Health Canada are governed by the 2010 Real Property Management Framework, the Real Property Integrated Risk and Performance Management Framework and other related policy and strategy documents.

The *Real Property Management Framework* and related real property policies define accountability and roles and responsibilities for the administration of real property. These documents clearly define roles and responsibilities but require updating to reflect recent organizational changes. For example, the framework does not include the new regional real property accountabilities of the Assistant Deputy Minister, Corporate Services Branch, does not define a role for the new Executive Director, Regional Real Property Division, and includes significant responsibilities for Regional Directors General, whose role in real property has been redefined as a client. The newly created Partnership Executive Committee is also excluded from the framework. Finally, the framework also mistakenly suggests that Crown-owned properties used for the delivery of health services to First Nations and Inuit communities are managed under the terms and conditions of a contribution program. The Directorate noted that they are modifying the framework and policies to address these issues.

Through interviews it was determined that regional real property officials have a good understanding of real property roles and responsibilities. Roles and responsibilities at the regional level have not changed significantly, other than the change in reporting structure for Regional Directors.

By completing the update to the framework and aligning other key real property documents the real property function will be well positioned within the new shared services model to effectively deliver services to both departments.

Recommendation 1

> *It is recommended that the Assistant Deputy Minister, Corporate Services Branch update the Real Property Accountability Framework, real property policies and related documents to align responsibilities and expectations with new organizational processes.*

Management response

Management agrees with this recommendation.

The Corporate Services Branch is in the process of updating the Real Property Accountability Framework, real property policies and related documentation. The Branch is also completing a flowchart exercise to map responsibilities within the new organizational structure.

2.   Risk management

2.1   Risk management

Audit criterion: *Regional real property risks are identified, assessed and mitigated.*

Risk management practices support the Department's achievement of real property objectives by identifying any potential adverse events and minimizing their impacts. In 2010, Health Canada developed and implemented a real property integrated risk and performance management framework. The framework provides a foundation for tracking and reporting on key performance indicators and for formal risk management within the National Real Property Management Division. The framework includes a corporate real property risk profile which was developed with input from the regions and includes consideration of regional-specific risks. The framework identifies and assesses the most significant risks related to the departmental real property management function, identifies the potential impacts of these risks and details the Department's risk response.

Since the risk content reflects the operating environment from 2010, the Real Property and Security Directorate would benefit from updating its risk profile as expected by the Integrated Risk and Performance Management Framework to maintain its continued relevance (see recommendation 2).

Regional projects risks are supported and managed by a strong risk management framework. Likewise, the Department has strong risk management practices for real property projects related to the delivery of health services to Aboriginal communities as part of FNIHB's Health Facilities and Capital Program. The Program has developed a toolset for identifying community and project related risks as well as determining the appropriate allocation of funds. The toolset was developed jointly with Aboriginal Affairs and Northern Development Canada to support consistency between the two organizations in the risk assessment and risk management process.

3.   Internal control

3.1   Planning

Audit criterion: Adequate strategies and plans are developed for the management of regional real property.

Health Canada's real property portfolio consists of office accommodations, laboratories and Crown-owned assets used for the delivery of health services to First Nations and Inuit communities. A separate planning process is employed for each of these areas.

Laboratory planning follows a bottom-up approach. Regional directors develop adequate Building Condition Reports, Building Management Plans, and Asset Management Plans for each laboratory.

Building Condition Reports are developed for Crown-owned buildings every five years. This report contains descriptions and assessments of the physical condition of each building component, as well as any recommended repairs or work projects. These reports are used by departments to develop their annual work plans.

Building Management Plans are based on information from the building condition reports, maintenance records and various other sources. The plan lists all scheduled projects including building health and safety projects for the year.

Asset Management Plans provide a real property strategy for building assets. The plan reviews the asset in terms of its physical, functional, operational and financial performance within the context of policy and program requirements. Actions needed to correct any problems, as well as alternative options to providing the accommodations are studied and lead to recommendations for the asset.

The Executive Director, Regional Real Property Division collaborates with the Executive Director, National Real Property Management Division and the Executive Director, National Capital Real Property Division to agree on which projects within the plans will go forward for funding requests. Funding for these projects can come from the departmental Investment Plan for larger projects, from the Real Property and Security Directorate operating and maintenance funds for smaller projects, or directly from programs with specific real property needs. Requests for funding from the departmental Investment Plan are managed centrally by the Executive Director, National Real Property Management Division.

Office accommodations planning

The Treasury Board *Policy on Management of Real Property* and the *Common Services Policy* identify Public Works and Government Services Canada (PWGSC) as the department responsible for the administration of federal office facilities.

The Corporate Services Branch supports Health Canada's role as a client department of PWGSC by forecasting space demand and managing existing accommodations in a cost-

effective and safe fashion. Planning for office accommodation takes a more top-down approach, led by the Executive Director, National Real Property Management. A National Accommodation Strategy is developed to ensure that the Department makes balanced real property investments that serve program needs within existing reference levels while meeting requirements of the Treasury Board *Policy on Management of Real Property*. The Executive Director, National Real Property Management Division develops the strategy with input from regions.

Public Works and Government Services Canada's role is to develop Building Condition Reports, Building Management Plans and Building Asset Management Plans to provide up-to-date information on office building compliance with health and safety requirements.

Office accommodation projects can be funded from the same three sources as laboratory projects.

First Nations Inuit Health Branch - Health Facilities Planning

Regional planning for facilities is overseen by the regional executives from the First Nations Inuit Health Branch (FNIHB) and supported by the Corporate Services Branch as the service provider. The planning exercise follows the FNIHB Health Facilities and Capital Program draft Planning and Management Manual. The manual sets out a risk-based planning process. Major projects include new construction, replacement and expansion and minor projects are ones that maintain/extend the life of the facility (with no ceiling dollar value). The prioritization of projects is a regionally driven process with executive approval from FNIHB headquarters. It follows a holistic approach that balances the physical condition of a facility with an assessment of the community and program criteria and relies on consultation with FNIHB programming staff and First Nations recipients.

FNIHB's plans are informed by risk assessment tools such as the Recipient Risk Assessment tool. The tool is designed to assess risks associated with grants and contributions. It assesses the level of risk based on the capacity of applicant/recipient, previous history, submissions and other potential risks.

Crown-owned facilities being used for the provision of health care services to First Nations and Inuit communities are included in the Health Facilities and Capital Program planning process. However, unlike the Health Canada owned laboratories, these buildings did not have formal building condition reports. Regional real property officials report that these buildings are regularly inspected and maintained. The 2010 Real Property Accountability Framework excluded a requirement for building condition reports for Crown-owned facilities used by FNIHB. The draft 2013 Real Property Accountability Framework document includes a building condition reporting requirement for all Health Canada owned facilities. The Department would gain from updated and approved real property framework documentation to align expectations with organizational processes (see recommendation 1).

On-reserve projects for health facilities owned by First Nations and Inuit communities and 8 off-reserve facilities are funded from the Health Facilities and Capital Program. Projects for

Health Canada owned health facilities are funded from FNIHB operating and maintenance budgets and the departmental investment plan. Requests for funding from the departmental Investment Plan for these properties are managed by FNIHB.

3.2   Real Property Procurement

Audit criterion: *Regional real property contracting processes are in compliance with applicable laws, policies and regulations.*

Regional Real Property Division staff must occasionally acquire goods and services from external suppliers in managing real property. Contracts, when acquiring goods and services, protect the Department by formally setting expectations and fostering cost-effectiveness. Health Canada's delegation of financial signing authority requires formal contracts based on competitive bidding processes for services over $25K. Formal contracts are also required for service requirements over $10K. Although all contracts should be considered for bidding, the Department has the authority to set aside the bidding process if the estimated value of the requirement is less than $25K. Managers approving contracts must have delegated authority and contracts must not be split in order to circumvent dollar limit thresholds imposed under contract approval authorities.

Real property contracts related to expenditures by Regional Real Property Division staff were examined. The majority of regional spending on real property is in support of FNIHB health facilities and is funded from FNIHB cost centers. Spending on corporate real property in the regions during the audit period was minimal, as the majority of corporate projects were managed by the National Real Property Management Division as the organization was undergoing transformation. Regional Real Property Division staff supervised work progression for these projects and reported back to National Real Property Management Division on progress against the plan. The National Real Property Management Division maintained contracting authority and sign off on the disbursement of funds. Regional Real Property Division only occasionally funded minor projects of low dollar value for corporate properties. The Corporate Services Branch reports that funding procedures have since been modified. Once regional projects are approved, funding will be transferred to the Regional Real Property Division. Spending will be overseen by the Executive Director, Regional Real Property Division.

A total of 33 contracts over $10K that were managed by the Regional Real Property Division were reviewed. The review revealed that contracts were generally in compliance with key contracting principles, and only minor exceptions were noted. The contracts were in place before work commenced or goods were delivered, and contracts were awarded under competitive processes where required. Managers approving contracts had the requisite authorities to do so, and all other policy requirements were met.

3.3   *Performance measurement*

Audit criterion: *Regional real property performance is accurately reported and regularly monitored.*

The Treasury Board *Policy on Management of Real Property* requires a regular and systematic overall performance assessment of real property for functionality, utilization, physical and financial performance using key performance indicators and targets.

As mentioned, Health Canada developed the Real Property Integrated Risk and Performance Management Framework in 2010. The framework included a set of key performance indicators but it was never fully implemented. Current monitoring is focused on achievement against Budget 2012 cost reduction targets and customer satisfaction. These measures are important indicators, but would benefit from other indicators related to productivity, operational readiness, quality and safety. The real property function has developed draft performance measures which have these other indictors. This is to be implemented shortly.

Regional project monitoring

At the regional level, where several real property projects are delivered, the Executive Director, Regional Real Property Division monitors these projects using spreadsheets to track progress and budgetary information to track costs. Detailed discussions related to the regional real property performance information take place as required during bi-weekly bilateral meetings between the Executive Director and each Regional Director, CAASD. In addition, a new module in the financial system (SAP) was recently implemented to monitor real property projects in the regions.

Recommendation 2

It is recommended that the Assistant Deputy Minister, Corporate Services update the Real Property Integrated Risk and Performance Management Framework: update the real property risk profile and finalize and implement the draft performance measures

Management response

Management agrees with this recommendation.

The Corporate Services Branch will undertake its annual review of the Real Property Integrated Risk and Performance Management Framework in collaboration with the branches and will update the real property risk profile as required.

The Corporate Services Branch will continue to develop and use performance measures for real property in the regions. Key performance indicators are already developed and used in the National Capital Region. The existing suite of key performance indicators will be rolled out nationally which will measure the key business lines.

The Branch will aggregate information from the review exercise to produce the annual Real Property Security Directorate Report that includes Building Risk Profile and key performance indicators. This will be reviewed annually and updated as required.

Scorecard – Real property management

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Oversight	**NMI**	Regional committees are in place and there is effective oversight from headquarters. Up to date expectations and accountability should be completed.	1
1.2 Roles and responsibilities	**NMI**	Health Canada has real property framework and policy documents. Roles and responsibilities in these documents are not up-to-date.	1
Risk Management			
2.1 Risk management	**NMI**	Update the risk profile as per the integrated risk framework.	2
Internal Control			
3.1 Planning	**S**	Adequate building condition reports, building management plans and asset management plans are developed for regional laboratories. First Nations and Inuit Health Branch planning processes for Crown-owned health facilities is risk-based with strong stakeholder involvement.	
3.2 Real property procurement	**S**	Real property procurement practices are in compliance with applicable laws and regulations.	
3.3 Performance measurement	**NMO**	Regional performance information exists but is not aggregated and presented in a dashboard for monitoring and decision-making. Some performance metrics are monitored at the headquarters level.	2

S	**NMI**	**NMO**	**NI**	**U**	**UKN**
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Part IV – Fleet management

1.   Governance

1.1   Oversight

Audit criterion: *Effective oversight is in place for fleet management.*

A control framework, setting out baseline expectations for the use, management and monitoring of fleet is key towards effective fleet oversight to ensure that Health Canada fleet meets departmental objectives and operational requirements.

In 2011-12, Health Canada's fleet included approximately 566 (unaudited) vehicles across Canada with a value of approximately $15M. The fleet is largely used to support the delivery of health services to First Nations communities and for compliance and enforcement activities. The Chief Financial Officer Branch developed Health Canada's *Fleet Management Policy* in 2010 and the *Fleet Management Standard* in January 2011. This policy and accompanying standard were to "set a firm directive on motor vehicle planning, acquisition, operation, use and maintenance and disposal." In particular, the standard provides direction on the mandatory procedures to be followed during all phases of the fleet management life cycle to ensure motor vehicles are owned, operated, maintained and disposed of in a consistent manner.

One of the key objectives of the policy is to ensure that a fleet management framework is in place that provides value for money and supports program delivery and outcomes. However the audit did not find a fleet management framework. Without a standardized approach to fleet acquisition and management it is difficult to know how the fleet is being used, where it is located and whether it is effective in helping the Department meet its objectives and/or operational requirements.

The Treasury Board's *Guide to Fleet Management* provides guidelines and best practices. The guide defines cost-effective ownership of a vehicle if it travels more than 20,000 km per year. Using the fleet management system, a mileage analysis was performed which shows that in fiscal year 2012-13 approximately 75 percent of Health Canada's fleet was under-utilized.

Use of Health Canada fleet in 2012-13

Avg. Annual Mileage	Count of Vehicle	Percentage
20,000 and over	146	25%
15,000 to 19,999	61	11%
10,000 to 14,999	100	17%
5,000 to 9,999	138	24%
1,000 to 4,999	100	17%
0 to 1,000	29	6%
Grand Total	**574**	**100%**

*Excludes 2013-14 model years. Source: ARI Insights

A standard approach to fleet management has several benefits. First, it will allow for a complete inventory. Second, it would help clarify the accountability for fleet responsibilities. Moreover, a holistic life cycle management regime will leverage potential cost savings and promote national integrated fleet planning discussions. For example, the Department would benefit from a full analysis of the fleet's cost-effectiveness to justify the existence, size and location of the vehicle fleet. This costing exercise would provide complete information for effective fleet management. Consequently, governing baseline expectations for the procurement, use, management and monitoring of the fleet would be important to renew and implement.

Recommendation 1

> It is recommended that the Chief Financial Officer and Assistant Deputy Minister, Corporate Services Branch work with the Assistant Deputy Minister, First Nations and Inuit Health Branch and Senior Director General, Regions and Programs Bureau to review the governance framework and the management control framework to realign responsibilities with the new regional roles and reporting relationships.

Management response

Management agrees with the recommendation.

Jointly, the Chief Financial Officer and the Assistant Deputy Minister, Corporate Services Branch will establish a fleet working group, including members from the First Nations and Inuit Health Branch and the Regions and Programs Bureau to review and update, where necessary, the governance and management control frameworks to align fleet responsibilities with the new regional roles and reporting relationships.

1.2   Roles and responsibilities

Audit criterion: Regional roles and responsibilities related to fleet management are clear and well understood.

Clear roles and responsibilities allow for effective delivery of activities and reduce fleet management vulnerabilities. Health Canada's *Fleet Management Policy* identifies the following fleet management roles and responsibilities.

Branch heads (Assistant Deputy Minister/Senior Director General) are responsible for ensuring that motor vehicles are planned for, acquired, used, maintained and disposed of in accordance with established standards contained in the *Fleet Management Standard*. While this reflects the current structure, the policy refers to the Regional Directors General as sharing in this responsibility.

The Materiel and Assets Management Division (MAMD) within the Chief Financial Officer Branch is responsible for: providing functional direction and guidelines to managers and their staff on the interpretation and application of the fleet management policy suite; updating the

Health Canada Annual Ratings on Fuel Efficiency on an annual basis to identify the most fuel-efficient options available for each vehicle specification standard identified; complying with the procedures related to vehicle selection, acquisition, operation, use and maintenance and disposal (contained in the *Fleet Management Standard*); reporting on departmental compliance with the *Fleet Management Standard*, as required.

Regional fleet managers or cost centre managers are responsible for: evaluating all modes of transportation to meet operational requirements; selecting the most fuel-efficient vehicle available in each vehicle specification standard and based on Health Canada's *Annual Ratings on Fuel Efficiency*; complying with the procedures related to vehicle selection, acquisition, operation, use and maintenance and disposal as contained in the *Fleet Management Standard*; requesting the creation of an Asset Management Record (AMR) from the Branch Senior Financial Officer/Regional Senior Financial Officer in the asset accounting module of SAP upon acquisition and notifying them of the disposal of a motor vehicle in order to deactivate the AMR; maintaining the Automotive Resources International (ARI) Fleet Management System information for each vehicle.

In addition, regional fleet managers/administrators are responsible for: providing support and guidance to managers and their staff on the interpretation and application of the *Fleet Management Policy* and standard; keeping motor vehicles in a reasonable state of repair, maintenance and upkeep; ensuring regional compliance with the standards established in the procedure for vehicle selection, acquisition, operation, use and maintenance and disposal as contained in the *Fleet Management Standard*; ensuring the ARI Fleet Management System information for each vehicle is maintained.

Since cost centre managers are responsible for program vehicles and fleet managers/administrators are responsible for pooled vehicles, cost centre managers and fleet managers independently manage their respective fleet requirements and operations. This model creates missed opportunities to maximize cost-effectiveness by centralizing fleet monitoring, reporting and analysis of fleet needs. In addition, fleet management roles and responsibilities related to reporting, monitoring and maintenance are unclear. For example, the policy and the standard make cost centre managers and fleet administrators both responsible for most fleet reporting, monitoring and maintenance activities. Cost centre managers and fleet administrators misunderstood their monitoring roles and commonly believed monitoring to be the other party's responsibility. As a result, cost centre managers and fleet administrators omitted performing key fleet monitoring and reporting activities. The Department would gain from clear accountability to one party for fleet monitoring (see recommendation 1).

2.   Risk management

2.1   Risk management

Audit criterion: *Regional fleet management risks are identified, assessed and mitigated.*

There is an expectation that the Department perform a department-wide risk assessment on the use of fleet vehicles. As such, Health Canada should have taken appropriate action to

identify, assess and minimize risks associated with the acquisition, operation, use and disposal of vehicles. Risk factors may include, but are not limited to financial, legal, corporate, occupational, health, safety, security and environmental.

Currently, there is no centralized direction to assess risks related to fleet. However, cost centre managers informally assess risks and develop informal mitigation strategies related to fleet as part of their daily operational activities. For example, the Alberta region placed envelopes in each vehicle containing detailed instructions in the event of an accident.

While cost centre managers informally managed risks in their daily operational activities, it cannot replace the rigorous benefits of a formal horizontal risk assessment. Key fleet related risks were missed due to the absence of a central risk management exercise. Some examples of key risks that were unaddressed are the following:

- A fleet administrator in one region did not understand the procedure to follow in the event of an accident.
- Drivers were generally unaware of the need to complete occupational health and safety occurrence reports in the event of an accident where no injury occurred.
- There was an inconsistent understanding of what constitutes acceptable personal use of the vehicles.

While Health Canada's fleet does not pose a materiel financial risk to the Department, it does introduce a number of potentially significant risks related to reputation due to the public visibility of the fleet and the Department's liability in the event of unauthorized drivers or passengers. Consequently, the Department would benefit from a horizontal formal risk assessment with regional input. A horizontal risk assessment exercise would establish mitigating controls and assist the Chief Financial Officer Branch to keep the departmental fleet standard up to date (see recommendation 1).

3.   Internal control

3.1   Operation, use and maintenance

Audit criterion: Fleet is operated, used and maintained in accordance with departmental and Treasury Board policies, standards and directives.

The federal fleet of motor vehicles represents a significant capital and ongoing operation and maintenance expense to the Government of Canada. Adherence to a common set of specific mandatory requirements is critical to its effective management and operation.

Section 6.2 of the departmental *Fleet Management Standard* outlines a process to purchase a vehicle. One of the steps requires regional fleet managers to review the vehicle requisition documents to approve or deny the request. In some regions, this process is not being followed because fleet managers only ensure the vehicle proposed by the cost centre manager is appropriate for the its operating environment and is listed on the standing offer.

The process relied on a review and approval of all requisition forms and documents related to the purchase by the former Contract and Requisition Control Committee. The objective of the review is to verify adherence to the process described in the departmental fleet standard and to the conditions of the government of Canada's standing offer for fleet purchases. Some committees relied on the verification of the fleet administrators or managers because the committee simply checks the requisition forms for a signature of the fleet manager or fleet administrator and were not performing a challenge function. Since these committees no long exist it will be important for the Department to identify another internal control related to acquisition.

Appropriate and authorized use

Departments are required to ensure that every driver possesses a valid licence to operate a motor vehicle to which he or she is assigned and determine the most appropriate manner of underwriting the risk to the Crown for damage to the vehicle, driver and passenger injury, or third party claims. Two of three regions visited had effective controls to ensure all drivers were authorized to use a motor vehicle and had their license validated by the regional fleet manager annually. In the third region, authorizations were generally out of date and licenses were not validated annually. This could expose the Crown to liability should the status of the driver's licence change and it is not validated annually.

Additionally, inconsistencies in controls over pooled vehicle keys were noted. In some locations, keys were kept secure and only were accessible by a limited number of administrators. In other locations, vehicle keys were located in areas openly accessible to anyone in the building. Without a mechanism to control access to pooled vehicles, there is an increased chance of inappropriate and unauthorized use of departmental vehicles.

There is little monitoring of logbooks to identify instances of inappropriate use. Standard operating procedures for the completion of log books provide incorrect direction. For example, the guidance requires that drivers record vague destinations such as the name of the city under the destination column. As a result, the information recorded manually in the logbooks is often insufficient to allow for monitoring as required by the fleet standard.

Monitoring fleet use and maintenance

Treasury Board has directed all federal departments to use a private sector fleet management information system to monitor their fleet inventory data and the costs associated with operating and maintaining their vehicles. As such, Automotive Resources International (ARI) was awarded the standing offer to provide the service for the Government of Canada. These services include data reporting tools on fleet use (for example, mileage, maintenance and fuel expenditures etc.), the provision of fleet cards for the purchase of fuel and maintenance based on pre-determined limits and a consolidation of the billing and data on vehicle usage.

There are indications that ARI is not being used as the single national system for data capture for all fleet information. For example, the locations of the vehicles identified in ARI did not match their actual location. In addition, regions maintain redundant data on vehicle locations and use in separate spreadsheets instead of leveraging ARI's reporting capability on the same

vehicle locations and maintenance data. Health Canada could better leverage the services and tools provided by ARI to manage the vehicle fleet more cost-effectively.

Federal government markings

According to the Treasury Board's Federal *Identity Program Policy* and Health Canada's *Fleet Management Standard*, all vehicles must have Government of Canada markings. The majority of the vehicles observed in the visited regions were missing these markings. Regional officials explained that vehicles are unmarked for compliance and enforcement activities and for safety reasons. While these activities may warrant unmarking a few vehicles for compliance and enforcement operations, it does not warrant having the entire fleet unmarked (see recommendation 1).

Without a standard, and more central, approach to managing the vehicle fleet, there is an increased risk of sustained inconsistencies, inefficiencies and non-compliance to fleet policy. The Department would benefit from renewing the governance and management controls to support a more integrated and horizontal management approach to improve fleet compliance, planning, monitoring and consistent practices.

Scorecard – Fleet management

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Oversight	**NI**	Fleet is largely managed at the cost centre manager level and oversight is limited.	1
1.2 Roles and responsibilities	**NI**	The fleet management policy and standard assign responsibility but they are currently in need of renewal.	1
Risk Management			
2.1 Risk management	**NI**	Key fleet related risks should be identified, assessed and mitigated.	1
Internal Control			
3.1 Operation, use and maintenance	**NI**	There is inconsistent operation, use and maintenance and some non-compliance with fleet standards.	1

S	**NMI**	**NMO**	**NI**	**U**	**UKN**
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

C - Conclusion

Efficient and effective regional internal services are critical to support Health Canada's programs. Recently, the Department has undertaken a realignment of its regional internal services to align with the federal government's vision for shared services and to implement the Health Canada/Public Health Agency of Canada partnership initiative. The audit found that the regional realignment process is well underway and makes recommendations to further strengthen the governance, risk and internal controls in support of the regional transformation exercise.

Given the new departmental operating environment for internal services, there were similar findings for each of the services delivered. More specifically, there are recommendations related to updating departmental documentation to reflect new governance arrangements including documenting the realigned roles and responsibilities; updating (where needed) risk information; and lastly, for headquarters to assess new processes for operating effectiveness and to continue to monitor regional internal service activities.

The new model of internal service delivery has been successful for other government departments and it is anticipated that this model will serve Health Canada well over the longer term.

Appendix A – Lines of enquiry and criteria

Financial and Materiel Management	
Criteria Title	**Audit Criteria**
Line of Enquiry 1: *Governance*	
1.1 Oversight[1]	Effective oversight is in place to support regional financial and materiel management.
1.2 Roles and Responsibilities[1]	Regional roles and responsibilities related to financial and materiel management are clear and understood.
Line of Enquiry 2: *Risk Management*	
2.1 Risk management	Regional risks related to financial and materiel management are identified, assessed and mitigated.
Line of Enquiry 3: *Internal Control*	
3.1 Budget and expenditure management	Regional budgets and expenditures are managed, controlled and reported in accordance with applicable laws, regulations, policies and procedures.
3.2 Procurement and contract management	Regional contracting processes and procedures are in compliance with applicable laws, regulations, policies and procedures.
3.3 Asset management	Regional assets are properly secured, accounted for and safeguarded in accordance with applicable laws, regulations, policies and procedures.
3.4 Acquisition card management	Regions have internal controls over the use and management of acquisition cards including compliance with applicable legislation, policies, procedures and guidelines.

- Treasury Board *Management of Materiel Policy Suite* (2006);
- Treasury Board *Policy Framework for Financial Management;*
- Treasury Board *Contracting Policy* (2003); and
- Health Canada's *Delegation of Financial Signing Authorities* (2010).

<table>
<tr><td colspan="2" align="center">Human Resources</td></tr>
<tr><td>Criteria Title</td><td align="center">Audit Criteria</td></tr>
<tr><td colspan="2" align="center">Line of Enquiry 1: Governance</td></tr>
<tr><td>1.1 Oversight</td><td>Effective oversight is in place for regional human resources management.</td></tr>
<tr><td>1.2 Roles and responsibilities</td><td>Regional roles and responsibilities related to human resources management are consistent and clear.</td></tr>
<tr><td colspan="2" align="center">Line of Enquiry 2: Risk Management</td></tr>
<tr><td>2.1 Risk management</td><td>Regional human resources management risks are identified, assessed and mitigated.</td></tr>
<tr><td colspan="2" align="center">Line of Enquiry 3: Internal Control</td></tr>
<tr><td>3.1 Compliance</td><td>Staffing, classification and compensation transactions are made in compliance with Treasury Board and departmental requirements.</td></tr>
<tr><td>3.2 Transaction processing</td><td>System controls exist for processing staffing classification and compensation transactions.</td></tr>
<tr><td>3.3 Tools and training</td><td>Regional personnel are provided with adequate tools and training to support their delegated compensation, staffing and classification authorities.</td></tr>
<tr><td>3.4 Performance monitoring</td><td>There is monitoring and regular reporting of regional staffing, classification and compensation.</td></tr>
</table>

- Staffing Management Accountability Framework and related appointment policies;
- Classification policies and standards for non-EX; and
- Treasury Board *Directive on Terms and Conditions of Employment*.

Real Property Management	
Criteria Title	**Audit Criteria**
Line of Enquiry 1: *Governance*	
1.1 Oversight	Effective oversight is in place for regional real property management.
1.2 Roles and responsibilities	Regional roles and responsibilities related to real property management are clear and understood.
Line of Enquiry 2: *Risk Management*	
2.1 Risk management	Regional real property risks are identified, assessed and mitigated.
Line of Enquiry 3: *Internal Control*	
3.1 Planning	Adequate strategies and plans are developed for the management of regional real property.
3.2 Real property procurement	Regional real property contracting processes are in compliance with applicable laws, policies and regulations.
3.3 Performance measurement	Regional real property performance is accurately reported and regularly monitored.

Fleet Management	
Criteria Title	**Audit Criteria**
Line of Enquiry 1: *Governance*	
1.1 Oversight	Effective oversight is in place for fleet management.
1.2 Roles and responsibilities	Regional roles and responsibilities related to fleet management are clear and well understood.
Line of Enquiry 2: *Risk Management*	
2.1 Risk management	Regional fleet management risks are identified, assessed and mitigated.
Line of Enquiry 3: *Internal Control*	
3.3 Operation, use and maintenance	Fleet is operated, used and maintained in accordance with departmental and Treasury Board policies, standards and directives.

Appendix B – Region selection

Region selection

			Ontario	Manitoba	British Columbia	Saskatchewan	Alberta	Québec	Northern	Atlantic	Total
2012-13	**Draft allocation**	$	415 M	388 M	331 M	279 M	271 M	222 M	152 M	116 M	2,174 M
2011-12	**Revenue**	$	2.080 M	4.1 M	0.658 M	-	1.9 M	-	-	-	8.8 M
	Total expenditures	$	430 M	425 M	315 M	288 M	284 M	219 M	152 M	121 M	2,234 M
	Grants and contributions (Gs & Cs)	$	209 M	156 M	179 M	152 M	144 M	128 M	112 M	64 M	1,144 M
	Major capital	$	0.350M	-	-	-	-	0.676 M	-	-	1 M
	Operating	$	160 M	211 M	104 M	120 M	103 M	53 M	35 M	35 M	821 M
	Salaries and wages	$	61 M	58 M	32 M	16 M	37 M	37 M	5 M	22 M	268 M
	Total without Gs&Cs	$	221 M	269 M	136 M	136 M	140 M	91 M	40 M	57 M	1,090 M
	Fleet	#	114	78	92	71	132	42	2	35	566
		$	2.8 M	2 M	2.7 M	1.8 M	3.8 M	1 M	59 K	0.9 M	15M
	Real property holdings*	#	3	3	1	1	1	2	0	0	11
		$	147.6 M	76.9M	1.8M	-	2.7M	64.5M	-	-	293.5M
	Travel	$	5 M	6 M	1.9 M	0.8 M	2 M	1 M	3.5 M	1.6 M	21.8 M
	Contracting	#	3,480	2,143	574	236	2,197	854	20	155	9,659
		$	23.3 M	34.9 M	5.8 M	3.7 M	12.5 M	4.8 M	0.571 M	1.7 M	87.3 M
	Employees	#	870	868	535	349	635	551	92	324	4,224
	Staffing actions	#	308	321	-	111	155	139	27	106	1,167
	Classification actions	#	1072	849	-	359	539	623	88	110	3,640
	Overtime expenditures**	$	4.6 M	6.5 M	641 K	168 K	868 K	255 K	25 K	85 K	13.1 M
	Audit Selection Rationale		Ontario and Manitoba are the two largest regions all indicators combined.	Ontario and Manitoba are the two largest regions all indicators combined.	Tripartite Framework Agreement on First Nations Health Governance.		Expenditures and budget allocations are higher for Sask, but all other indicators are significantly higher for Alta.				

*2011-12 Fair market value of custodial holdings listed in investment plan. Figures include only custodial buildings.

** Excludes $3M which could not be allocated to regions.