



# Indigenous and Northern Affairs Canada

## Internal Audit Report

### Follow-up Audit of Infrastructure on Reserves

Prepared by:

**Audit and Assurance Services Branch**

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AANC-INAC



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**ACRONYMS**

CFMP	Capital Facilities and Maintenance Program
CFO	Chief Financial Officer
CIB	Community Infrastructure Branch
DG	Director General
FTE	Full-Time Equivalent
GCIMS	Grants and Contributions Information Management System
HQ	Headquarters
ICMS	Integrated Capital Management System
INAC	Indigenous and Northern Affairs Canada
MCF	Management Control Framework
NPRF	National Priority Ranking Framework
O&M	Operations and Maintenance
PCF	Program Control Framework
PM	Performance Measurement
RDG	Regional Director General
RIDB	Regional Infrastructure Delivery Branch
RIMB	Regional Investment Management Board
RO	Regional Operations
RO SMC	Regional Operations Senior Management Committee

## EXECUTIVE SUMMARY

### ***Background***

A *Follow-up Audit of Infrastructure on Reserves* was included in Indigenous and Northern Affairs Canada's (INAC or the Department) 2016-2017 to 2018-2019 Risk-Based Audit Plan, approved by the Deputy Minister on March 4, 2016. The audit was identified as a priority because funding for infrastructure projects constitutes a significant portion of the Department's expenditures, with \$1.2 billion in planned spending for 2016-2017, not including additional funding announced in Budget 2016, as described below.

The Capital Facilities and Maintenance Program (CFMP) which is part of the Infrastructure and Capacity Program provides funding and advisory support to First Nation communities for the construction, acquisition, operation and maintenance of community infrastructure assets on reserves. The Infrastructure and Capacity Program is one of the biggest programs in the Department, constituting approximately one seventh of the Department's 2016-2017 planned spending (\$1.2B of \$7.5B in planned budgetary spending, per 2016-2017 INAC Report on Plans and Priorities). It includes funding and advisory support for water and wastewater systems, education facilities, housing and other community infrastructure.

The CFMP's funding is delivered through three categories of expenditures: major capital, minor capital and operations and maintenance (O&M). The Senior Assistant Deputy Minister of Regional Operations (RO) is accountable for the delivery of the CFMP, which is managed and delivered from Headquarters (HQ) and the regional offices.

CFMP is a high priority for the Department and the Federal Government, and includes FY2016-2017 funding for the following areas (per 2016-2017 INAC Report on Plans and Priorities):

- Water and wastewater (\$203 million in planned spending);
- Education facilities (\$306 million in planned spending);
- Housing (\$162 million in planned spending); and,
- Other community infrastructure and activities (\$475 million in planned spending).

In addition to the CFMP's regular annual budgetary spending described above, an additional investment of \$3.93 billion was made to the CFMP to improve First Nations community infrastructure including, water and wastewater systems, housing, education and other essential infrastructure *on reserve* had been proposed in Budget 2016.

Specifically for CFMP, Budget 2016 proposed to invest, beginning in 2016-2017:

- \$1.8 billion over five years to improve on-reserve water and wastewater infrastructure;
- \$409 million over five years to improve solid waste management on reserve;
- \$969.4 million over five years to First Nations education infrastructure on reserve;
- \$416.6 million over two years to address housing needs on reserve; and,
- \$76.9 million over two years to support cultural and recreational infrastructure on reserve.

These investments are dedicated to targeted investment infrastructure projects and are driven

by proposal-based projects for the construction, acquisition, renovation or significant repair of assets.

Community Infrastructure development supports Indigenous communities' well-being as well as their quality of life. It also promotes the spirit of reconciliation as program staff (HQ and the regions) work closely with Indigenous communities.

To facilitate program delivery, the RO Sector's Community Infrastructure Branch (CIB) went through a reorganization that resulted in the creation of two branches: CIB, which is responsible for leading overall program and policy design and development; and, Regional Infrastructure Delivery Branch (RIDB), which is responsible for supporting regional offices in the delivery of targeted investment infrastructure projects, including the proposal-based projects delivered through Budget 2016. As well, during the audit period over 90 program and support staff across HQ and the regions were hired, with the aim of hiring over 275 over a three-year period.

### ***Audit Objective and Scope***

The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and internal controls practices supporting the implementation of the CFMP, with particular focus on the increased funding from Budget 2016. The audit also assessed whether the processes for addressing previous audit findings related to infrastructure on reserves are effective and timely and have resulted in improved adequacy and effectiveness of the program control framework for infrastructure projects.

The audit included an assessment of the adequacy of the design of the CFMP's Program Control Framework (PCF) and the Program Manual to ensure that funding for infrastructure projects is allocated in an effective, efficient and timely manner. The audit focused on the policy and process changes related to the additional funding from Budget 2016.

The scope of the audit covered the period April 1, 2015 to October 31, 2016, with more emphasis on the period from April 1, 2016 to October 31, 2016, to focus on the implementation of Budget 2016 related to infrastructure. Audit fieldwork was conducted at INAC Headquarters (HQ) in the National Capital Region and site visits were performed at the Ontario and Québec regional offices. In addition, the areas of program delivery and performance measurement were reviewed for the Atlantic, Saskatchewan, and Manitoba and Alberta regions.

### ***Statement of Conformance***

This audit conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

### ***Positive Observations***

With the significant increase in CFMP funding, the Program recognized the need to quickly adapt and align its delivery model to enable the effective and efficient administration of funds. Within a short period of time the Program was able to hire a significant number of new program and support staff and update its structures, tools and processes to deliver the program through improved streamlined and risk-based approaches.

Specifically, the audit noted several positive steps that the Program took to enable these changes, including the development and tracking of a Human Resources Plan, which identified the need to hire approximately 275 Full-Time Equivalents (FTEs) over a three-year period. The Plan considered the hiring of both program and support staff, and in year one the Program reported that they were on track against the plan. In addition, the Program implemented governance and project gating changes related to the project approval process to enable a streamlined approach.

Finally, in order to improve capacity within the First Nation communities, some regions expanded their Circuit Rider Programs beyond their original scope of water and wastewater to include other asset categories. INAC's Circuit Rider Program provides First Nation infrastructure operators with hands-on training on how to operate, service and maintain assets in their community, such as water and wastewater systems. In addition, some regions also provide financial support to Tribal Councils to enable them to hire professional resources (e.g., Architects, Engineers, etc.). This increases their technical support to First Nations in the delivery of infrastructure projects.

## ***Conclusion***

The audit team found that the Program was able to adapt its delivery model to align with the new program structure, and that during this time, sufficient practices related to governance, risk management and internal controls were in place; however, opportunities were identified to further improve the Program's practices to better enable the effective and efficient achievement of Program objectives. The areas for improvement include program risk management and compliance; change management processes, communication and training; tools, frameworks and guidelines; and performance measurement, data collection and reporting.

## ***Recommendations***

The audit identified areas where management control practices and processes could be improved, resulting in the following four recommendations:

1. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should reinforce governance and risk management practices by:
  - Ensuring that key decisions made by governance committees are formally documented;
  - Ensuring governance structures are operating at the regional level in accordance with the Program Control Framework; and,
  - Implementing program risk management practices, including a program compliance framework.
2. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should consider the impact of the recent program and organizational changes (e.g. Budget 2016 funding, creation of RIDB and additional Full-Time Equivalents) and develop appropriate communication, change

management and training initiatives to support the adequate and effective delivery of the program, such as:

- Improving communication with regions by clarifying roles and responsibilities through, for example, an up-to-date Program Control Framework, as well as consider using existing forums (e.g. National Infrastructure Directors Committee and National Capital Managers Committee);
  - Reviewing current organizational structures as well as management processes, including reporting, within Headquarters (i.e. between RIDB and CIB) and between HQ and regions, in order to improve efficiency, minimize duplication of effort and optimize resources; and,
  - Developing a formal training program for program staff in consultation with regions to identify the areas of greatest need. The training program should include areas such as maintaining appropriate file documentation and maintaining data (i.e. in ICMS).
3. The Senior Assistant Deputy Minister of Regional Operations should update the relevant tools and frameworks and provide further guidance to key program delivery areas, including:
- Updating tools and frameworks; specifically:
    - Update asset-specific frameworks to include missing asset categories;
    - Consider developing standard cost thresholds for other asset categories, as appropriate, and consult with regions on geographic variability as thresholds are periodically updated; and,
    - Make the Program Control Framework available in French;
  - Clarifying the procedure that should be followed for the internal reallocation of unspent project funds; and,
  - Providing guidelines and tools to manage over-programming.
4. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization should update the program's performance measures and improve the mechanisms to collect and report the data, such as:
- Updating the Performance Measurement Strategy, including revisiting the appropriateness of performance indicators for program outcomes and confirming data sources. This could be undertaken with consideration and integration with the Department's efforts to update their PM Strategy in light of their implementation of the Treasury Board *Policy on Results*; and,
  - Defining a program reporting strategy that includes reporting requirements and data collection needs as well as tools to meet reporting requirements.

## ***Management Response***

Management is in agreement with the findings, has accepted the recommendations included in the report, and has developed a management action plan to address them. The management action plan has been integrated in this report.

# 1. BACKGROUND

The *Follow-up Audit of Infrastructure on Reserves* was included in Indigenous and Northern Affairs Canada's (INAC or the Department) 2016-2017 to 2018-2019 Risk-Based Audit Plan, approved by the Deputy Minister on March 4, 2016. The audit was identified as a priority because funding for infrastructure projects constitutes a significant portion of the Department's expenditures, with \$1.2 billion in planned spending for 2016-2017, not including additional funding announced in Budget 2016, as described below.

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The CFMP's funding is delivered through three categories of expenditures: major capital, minor capital and operations and maintenance (O&M). The Senior Assistant Deputy Minister of Regional Operations (RO) is accountable for the delivery of the CFMP, which is managed and delivered from Headquarters (HQ) and the regional offices.

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In addition to the CFMP's regular annual budgetary spending described above, Budget 2016 proposed an additional investment of \$3.93 billion for the CFMP to improve First Nations community infrastructure.

Specifically for CFMP, Budget 2016 proposed to invest, beginning in 2016-2017:

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- \$76.9 million over two years to support cultural and recreational infrastructure on reserve.

These investments are dedicated to targeted investment infrastructure projects and are driven by proposal-based projects for the construction, acquisition, renovation or significant repair of assets.

Community Infrastructure development supports Indigenous communities' well-being as well as their quality of life. It also promotes the spirit of reconciliation as program staff (HQ and the regions) work closely with Indigenous communities.

The system of record for tracking INAC-funded infrastructure assets is the Integrated Capital Management System (ICMS), which tracks the life cycle of assets in First Nations communities. The system provides a tracking tool for projects, capital plans and budgets and it is used as the system of record for HQ and the regions.

To facilitate program delivery, the RO Sector's Community Infrastructure Branch (CIB) went through a reorganization that resulted in the creation of two branches: CIB and the Regional Infrastructure Delivery Branch (RIDB). CIB is responsible for leading overall program and policy design and development. RIDB is responsible for supporting regional offices in the delivery of targeted investment infrastructure projects, including the proposal-based projects delivered through Budget 2016.

Along with the creation of these separate branches, the Department hired a significant number of new program and support staff at HQ and across the regions to support program delivery. The hiring was based on a Human Resources Plan that estimated the need to hire approximately 275 Full Time Equivalents (FTEs) over a three-year period. At the end of Q2 in year one, the Program had hired over 90 FTEs in HQ and across the regions. For many regions this meant doubling the size of their CFMP team within a relatively short period of time.

Governance at the national level consists of the Department's Operations Committee, which is responsible for the strategic oversight of the program, and, the Regional Operations Senior Management Committee (RO SMC), which is responsible for providing advice to the Senior Assistant Deputy Minister of RO for specific project-related approvals and other infrastructure-related areas. At the regional level, there are Regional Investment Management Boards (RIMB), or equivalent committees, which are responsible for providing advice to the Regional Directors General (RDGs) on project approvals and investments.

A key governance change was the transfer of responsibility from the Operations Committee to RO SMC to recommend project approval requests for all high risk projects and capital projects greater than \$15M. This change aimed to streamline the project approval process since the RO SMC has the technical expertise to perform reviews of complex projects. This technical expertise is supported and informed by the RIMBs who advise RDGs on regional infrastructure projects. The RDG authority for low and medium risk projects increased from \$10M to \$15M.

In addition, RO SMC created the Infrastructure Sub-Committee, which is a forum that shares information and provides collective advice on matters related to infrastructure, including coherence in operations, policy development and program implementation, as well as sharing HQ and regional best practices.

In July 2016 the CFMP moved from a Management Control Framework (MCF) to a Program Control Framework (PCF) while the Program Manual was updated in March 2016. The PCF focuses on the roles and responsibilities of the program officials and governance structures as well as the controls applied in the exercise of these roles and responsibilities. The Program Manual focuses on how the program and the projects are managed.

Another change, introduced through the PCF, was the move from a total cost threshold approach to a standard cost threshold approach, which is based on an expected unit cost using typical off-reserve standards as reference costs (e.g., cost per connection for water facilities). The purpose of this approach is to ensure greater focus on projects exceeding the thresholds, as they require increased scrutiny from HQ.

These changes were implemented to enable the effective and efficient delivery of projects by improving capacity within HQ and the regions, and enabling a more streamlined and risk-based approach to the project approval process.

## **2. AUDIT OBJECTIVE AND SCOPE**

### **2.1 *Audit Objective***

The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and internal controls practices supporting the implementation of the CFMP, with particular focus on the increased funding from Budget 2016. The audit also assessed whether the processes for addressing previous audit findings related to infrastructure on reserves are effective and timely and have resulted in improved adequacy and effectiveness of the program control framework for infrastructure projects.

### **2.2 *Audit Scope***

The audit included an assessment of the adequacy of the design of the CFMP's Program Control Framework and the Program Manual to ensure that funding for infrastructure projects is allocated in an effective, efficient and timely manner. The audit focused on the policy and process changes related to the additional funding from Budget 2016.

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## **3. APPROACH AND METHODOLOGY**

The audit was conducted in accordance with the requirements of the Treasury Board *Policy on Internal Audit* and followed the *Internal Auditing Standards for the Government of Canada*. The audit examined sufficient and relevant evidence to provide a reasonable level of assurance in support of the audit conclusion.

The principal audit techniques used included:

- Interviews with CIB and RIDB management and program staff at HQ and in the six regional offices selected;
- Review of relevant program documentation.

- Walkthroughs of the Integrated Capital Management System (ICMS) and its module, the Asset Condition Reporting System; and,
- Detailed examination of a sample of project files from the six regions to assess compliance against key controls outlined in the PCF.

The approach used to address the audit objectives included the development of audit criteria against which observations and conclusions were drawn. The audit criteria developed for this audit are included in Appendix A.

In addition, relevant policies and directives referenced throughout the audit process are listed in Appendix B.

## **4. CONCLUSION**

The audit team found that the Program was able to adapt its delivery model to align with the new program structure, and that during this time, sufficient practices related to governance, risk management and internal controls were in place; however, opportunities were identified to further improve the Program's practices to better enable the effective and efficient achievement of Program objectives. The areas for improvement include program risk management and compliance; change management processes, communication and training; tools, frameworks and guidelines; and performance measurement, data collection and reporting.

## **5. FINDINGS AND RECOMMENDATIONS**

Based on a combination of the evidence gathered through interviews, the examination of documentation, and analysis, each audit criterion (listed in Appendix A) was assessed by the audit team and a conclusion for each audit criterion was determined. For instances where there was a significant difference between the audit criteria and the observed practice was found, the risk of the gap was evaluated and used to develop conclusions and document recommendations for improvement.

The recommendations are focused on areas of improvement in the Program's current management practices. The recommendations provided to address these findings are intended to improve the program's effectiveness and efficiency and to better enable the achievement of program objectives.

### **5.1 Governance and Risk Management**

The audit expected to find that the CFMP's governance committees at the national and regional levels were in place and operating effectively. Expected practices included appropriate stakeholder engagement, regular meetings, the presentation and discussion of relevant information, documented records of decision, and communication of decisions and priorities to management and staff, as appropriate.

The audit found that while the Department's Operations Committee met regularly and consisted of the appropriate stakeholders, key decisions related to the CFMP were not formally documented. For example, while the PCF states that the Operations Committee is responsible

for approving the PCF, there was no evidence of the approval. The Program indicated that the responsibility for approving the PCF was transferred to the Assistant Deputy Minister Grants and Contributions Committee; however, this transfer of responsibility was not formally documented in the PCF. Furthermore, there was no evidence demonstrating this approval of the PCF. Without the formal documentation of key decisions, the Department is unable to demonstrate that responsibilities are carried out by the appropriate stakeholders.

At the regional level, the audit found that for one region visited during the audit, the RIMB-equivalent committee was not operating effectively; the committee had not met since May 2016 and there were no formal terms of reference outlining its roles and responsibilities. The RIMB plays a key role in advising the RDG on project investments and as well as providing oversight on the implementation of the projects at the regional level. Without an effective RIMB in place, there maybe an increased risk that the RDG does not have all the information necessary to effectively carry out his/her responsibilities on the RO SMC.

The audit also expected to find, in alignment with the PCF, that a program risk assessment was periodically performed and that processes were in place to identify, escalate, mitigate, monitor and report against identified risks, and that these processes were embedded within the program's governance framework. It was also expected that a compliance framework and supporting processes were in place to monitor compliance against the PCF, and that these processes were also embedded within the program's governance framework.

The audit found that a formal program risk assessment had not been performed and that a compliance framework had not been developed and implemented. Without a formal program risk assessment and processes in place, key program risks may not be appropriately managed. In addition, without a compliance framework, incidents of non-compliance or inappropriate transactions may go undetected. The audit noted that during the audit period, management had made a commitment to move forward with the development of a program risk assessment and compliance framework.

***Recommendation:***

1. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should reinforce governance and risk management practices by:
  - Ensuring that key decisions made by governance committees are formally documented;
  - Ensuring governance structures are operating at the regional level in accordance with the Program Control Framework; and,
  - Implementing program risk management practices, including a program compliance framework.

## ***5.2 Change Management, Communication and Training***

The audit expected to find that change management practices were in place to enable the effective adoption of program changes. This would include timely communication to the regions on RIDB's new roles and responsibilities, RIDB's role in working with the regions to deliver projects, as well as key points of contact for regional program staff. In addition, it was expected

that key program documentation (e.g., the PCF and Program Manual) was up-to-date and reflected recent program changes, including the creation of RIDB.

The audit found that while a high-level communication was sent to the regions when RIDB was created, it was not followed up with more detailed information regarding RIDB's roles and responsibilities, organizational structure, processes detailing RIDB's role in working with and supporting the regions, and key points of contact. The audit also found that the PCF and Program Manual had not been updated to reflect the creation of the RIDB. Without appropriate change management practices, there is an increased risk that the regions may not understand and adopt the new program changes, potentially resulting in inconsistent application, inefficiencies and duplication of effort.

The audit also expected to find appropriate communication channels and mechanisms in place that align with organizational structures and processes to enable effective communication amongst stakeholders. The audit found that effective communication channels and mechanisms were not in place between RIDB and the regions, and between RIDB and CIB.

Some regions noted communication challenges with RIDB as a result of the organizational structure and the number of new hires within RIDB and the regions. Specifically, since RIDB is structured by asset class (i.e., schools, housing, water and wastewater, etc.) and many regions are structured by First Nation community (i.e., each Project Officer is responsible for multiple First Nation communities), there were challenges with this structure and communication mechanisms that were not adjusted to account for these structural differences. For example, one regional Project Officer working with a First Nation community to provide funding for a housing project, and a water and wastewater project, would have to communicate and send information requests to both the housing and the water and wastewater directorates within RIDB, resulting in inefficiencies. Furthermore, the increase and shifts of new hires within RIDB resulted in regions not always being clear on who they needed to communicate with at any given time. Some regions also noted that they were receiving multiple, and at times overlapping, information requests from RIDB and CIB. As a result, regions were required to respond to similar requests multiple times, resulting in inefficiencies, and duplication of effort.

Finally, the audit expected to find that a formal training plan and resources for new and existing hires was available to support program delivery. The audit found some regions had to develop their own approaches to training within a short period of time for existing employees for program changes and for new hires relating to the CFMP more broadly.

For new program staff, training in the regions was often delivered through job shadowing (i.e. on-the-job training). One region noted that they found difficult to train new employees at the same time as needing to deliver against an increased number of projects. Many of the new program staff were new to the Department and the Federal government and required even more training. Without a formal training plan and resources in place to support program delivery, there is a risk of duplication of effort with each region developing their own training approach, as well as a risk of inconsistent approaches to program delivery and interpretations of the PCF.

The audit expected to find that project files are complete, accurate and compliant with the PCF. The audit performed file testing on a sample of files across six regions and of the 41 files selected for testing, 15 files met expectations, 12 files were not received, and 14 files had

incomplete documentation. Some regions noted that they were challenged in maintaining adequate file documentation given the increase in projects to be delivered. The increase in activity resulted in file documentation receiving a lower priority.

Overall, the audit found that the regions that were less mature in their change management practices were challenged in absorbing the high degree of change. For example, regions who had not fully adopted ICMS encountered more challenges in the planning and oversight of projects.

**Recommendation:**

2. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should consider the impact of the recent program and organizational changes and develop appropriate communication, change management and training initiatives to support an adequate and effective delivery of the program, such as:

- Improving communication with regions by clarifying roles and responsibilities through, for example, an up-to-date Program Control Framework as well as consider using existing forums (e.g. National Infrastructure Directors Committee and National Capital Managers Committee);
- Reviewing current organizational structures as well as management processes, including reporting, within Headquarters (i.e. between RIDB and CIB) and between Headquarters and regions, in order to improve efficiency, minimize duplication of effort and optimize the use of resources; and,
- Developing a formal training program for program staff in consultation with regions, to identify the areas of greatest need. The training program should include areas such as maintaining appropriate file documentation and maintaining data (i.e. in ICMS).

### **5.3 Project Planning and Delivery**

The audit expected to find that the CFMP's key frameworks and tools were up-to-date and complete, including the National Priority Ranking Framework (NPRF), which is a key tool in the prioritization and selection of potential infrastructure projects, as well as the standard cost thresholds, the PCF, and the *Delegation of Financial Signing Authorities for Transfer Payments*.

The audit found that the NPRF had not been recently updated. While specific asset category priority frameworks had been recently developed, these documents did not cover all asset categories. Regions noted that it was not clear what types of projects could be funded under the asset categories or how projects were prioritized. As a result, some regions reported difficulty in working with some First Nations to help them identify potential infrastructure projects for funding. Without complete and integrated frameworks, there is a risk that projects are not selected in a consistent manner and adequately prioritized.

The audit found that national standard cost thresholds were only provided for the schools and water and wastewater asset categories, and it was not clear whether thresholds for additional asset categories would be forthcoming. Some regions noted a challenge with the existing two asset category thresholds in that they do not account for regional variances, such as market

conditions that create higher material and labour costs. To date, this has resulted in a high percentage of projects being flagged as high risk, requiring additional approvals at HQ. It was also noted that it was not clear whether additional asset category thresholds would be developed. Consideration should be given to assess whether other asset categories could benefit from standard cost thresholds to further enable consistency and an enhanced and streamlined risk-based approach to project approvals.

The audit found that in addition to the PCF not reflecting the creation of the RIDB, as noted in Section 5.2 of this audit report, the PCF was also not made available in French. Without the PCF available in both official languages, there is a risk that the Department is not compliant with the *Official Languages Act*.

The audit expected to find clear guidance documentation with respect to key program processes, including the internal reallocation of unspent project funds and over-programming. The audit also expected to find effective tools in place to support these processes.

The audit found inconsistencies in the understanding of the processes in the regions where testing was performed with respect to the reallocation of unspent projects funds. As a result, some regions reallocated project funds within the same asset class, while other regions sent the unspent funds to HQ to be reallocated at a national level. Accordingly, without clear guidance/communication from HQ on the internal reallocation of unspent project funds, there is a risk that reallocation at the regional level is not consistent with the Program's priorities.

Previously, the MCF had provided guidance on over-programming, while the new PCF is silent on this topic. The Program reported that the goal for this year was to over-program by approximately 20%; however, the current departmental financial management information system in place (i.e. SAP) and the Grants and Contribution Management Information System (GCIMS) do not allow for over-programming. Regions noted the need to create parallel manual systems in order to track and manage the over-programming. Without clear guidance in place regarding over-programming and the implementation of effective tools to support over-programming, there is a risk that over-programming is not appropriately managed, resulting in the overspending of program funds.

**Recommendation:**

3. The Senior Assistant Deputy Minister of Regional Operations should update the relevant tools and frameworks and provide further guidance to key program delivery areas, including:
  - Updating tools and frameworks; specifically:
    - Update asset-specific frameworks to include missing asset categories;
    - Consider developing standard cost thresholds for other asset categories, as appropriate, and consult with regions on geographic variability as thresholds are periodically updated; and,
    - Make the Program Control Framework available in French;
  - Clarifying the procedure that should be followed for the internal reallocation of unspent project funds; and,
  - Providing guidelines and tools to manage over-programming.

## **5.4 Performance Measurement, Data Collection and Reporting**

The audit expected to find that up-to-date performance measures were in place to effectively report on program outcomes, and that these performance measures were supported by defined data sources. The audit also expected to find that the Program's reporting requirements were defined and that the tools in place were effective and efficient in meeting these requirements.

The audit found that the Program's Performance Measurement Strategy (PM Strategy), which defines the Program's performance measures and outcomes, is not up to date. The performance targets have not been updated to reflect the impact of the increased funding from Budget 2016. With the significant increase in program funding, it would be expected that performance targets would increase to align with the influx of infrastructure funding. In addition, the Program's current PM Strategy does not include the Culture and Recreation asset category. Without complete and meaningful performance indicators that align to program outcomes, it will be challenging for the program to demonstrate its impact and progression against its objectives over time.

With the influx in program funding provided through Budget 2016, there has been an increased interest from stakeholders on the selection and implementation of infrastructure projects. There have been multiple requests, both internal and external to the Department, to provide transparency on how the funding is being spent. At the regional level, this has resulted in multiple requests to collect additional data and present the information in different ways. Reporting the data using the current tool set has been challenging for the regions. As a result, some regions have indicated they have allocated full time staff to respond to reporting requests, resulting in a significant amount of time and resources dedicated to meeting program reporting requirements. Without reporting requirements formally defined and supported by robust tools that allow for the effective and efficient reporting, there is an increased risk of inefficiency in the reporting process.

### **Recommendation:**

4. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization should update the Program's performance measures and improve the mechanisms to collect and report the data, such as:
  - Updating the Performance Measurement Strategy, including revisiting the appropriateness of performance indicators for program outcomes and confirming data sources. This could be undertaken with consideration and integration with the Department's efforts to update their PM Strategy in light of their implementation of the Treasury Board *Policy on Results*; and,
  - Defining a program reporting strategy that includes reporting requirements and data collection needs as well as tools to meet reporting requirements.

## **5.5 Areas for Program Consideration**

As the CFMP continues to manage the significant increase in program funds through Budget 2016, the audit noted some additional areas for consideration:

- **Program administration:** The Program should continue to assess and update its administrative processes and structures to align with upcoming program changes. The Program should do this in consultation with program delivery staff (i.e. regional and RIDB delivery staff) to better understand the needs and how these needs vary across regions. Cross-functional working sessions, such as lessons learned, can be used to begin to identify opportunities for program design improvements.
- **O&M funding:** With the significant increase in funding from Budget 2016 dedicated to targeted infrastructure projects, the program will need to consider how it will support the O&M for these assets. Furthermore, the Program should continue to identify opportunities to improve capacity within First Nation communities to complement and optimize O&M funding. An example of this includes continuing to expand and invest in the Circuit Rider Program and programs with Tribal Councils.
- **System integration:** With the increase in reporting requirements, the program should consider integrating its various tools, SAP, GCIMS and ICMS, to enable more effective and efficient reporting.

## 6. MANAGEMENT ACTION PLAN

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should reinforce governance and risk management practices by:</p> <p>A) Ensuring that key decisions made by governance committees are formally documented;</p> <p>B) Ensuring that governance structures are operating at the regional level in accordance with the Program Control Framework; and,</p> <p>C) Implementing program risk management practices, including a program compliance framework.</p>	<p>A) The processes related to the key departmental infrastructure oversight Governance Committees (Operations Committee; DG Internal Operations Committee, Regional Operations Senior Management Committee (RO-SMC) and RO-SMC Infrastructure Sub-Committee) will be reviewed and updated with Regional engagement to ensure that all key decisions are formally documented.</p> <p>B) The processes related to the infrastructure-related governance structures at the regional level will be reviewed with the view to compliance, this to be led by the Regions, with CIB support.</p> <p>C) Control and Risk Management practices were reviewed in 2016-17, under the guide of the Departmental Due Diligence Review undertaken by AASB. The Action Plan for this review foresaw a two year implementation for the completion of a CFMP Compliance Program, inclusive of a Framework. In 2016-17, the Sector is completing the first CFMP Program Risk Assessment, with engagement of the Regions. The findings will build on work underway in program risk management practices and direct mitigation plans for management action in 2017-18. These elements will be integrated into the action plan that has been established for the program compliance framework. This framework,</p>	<p>Senior Assistant Deputy Minister, Regional Operations</p> <p>and</p> <p>Assistant Deputy Minister of Northern Affairs Organization</p>	<p>A) i) Aligned with the decisions for 2017-18, the governance processes to be reviewed. <b>Q1 2017-18;</b></p> <p>ii) Business processes, inclusive of internal controls, to be documented and reviewed periodically. <b>Q2 2017-18.</b></p> <p>B) The processes related to the Regional Governance structures for the CFMP will be reviewed, documented, inclusive of internal controls, communicated and enforced. <b>Q1 2017-18.</b></p> <p>C) i) Program Risk Mitigation Action Plan. <b>Q1 2017-18;</b></p> <p>ii) Program Compliance Action Plan. <b>Q1 2017-18;</b></p> <p>iii) Program Compliance Framework Action Plan. <b>Q4 2017-18.</b></p>

	<p>inclusive of updated related business processes, is to be rolled out in 2017-18.</p>		
<p>2. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization, as appropriate, should consider the impact of the recent program and organizational changes (e.g. Budget 2016 funding, creation of RIDB and additional Full-Time Equivalents) and develop appropriate communication, change management and training initiatives to support the adequate and effective delivery of the program, such as:</p> <ul style="list-style-type: none"> <li>• A) Improving communication with regions by clarifying roles and responsibilities through, for example, an up-to-date Program Control Framework, as well as consider using existing forums (e.g. National Infrastructure Directors Committee and National Capital Managers Committee);</li> <li>• B) Reviewing current organizational structures as well as management processes, including reporting, within Headquarters (i.e. between RIDB and CIB) and between Headquarters and regions, in order to improve efficiency, minimize duplication of effort and optimize the use of resources; and,</li> <li>• C) Developing a formal training program for program staff in</li> </ul>	<p>A) The Sector's approaches and practices that ensure adequate and effective communication with the regions will be clarified in 2017-18 through the CFMP governance and authoritative frameworks (such as the program control framework). Engagement will be undertaken with Regions in the following areas to determine best practices to be communicated, such as Oversight Project Framework for Large and Complex Projects and Program Compliance.</p> <p>B) Roles and responsibilities will be clarified in an updated organizational chart, inclusive of key contact information. Standardized processes for managing requests and approvals will be determined with engagement of the Regions. These tools will be shared broadly, and updated on an as needed basis.</p> <p>C) A formal review by CIB of training needs is anticipated in 2017-18, this in collaboration with HR and the Regions and RIDB. This</p>	<p>Senior Assistant Deputy Minister, Regional Operations</p> <p>and</p> <p>Assistant Deputy Minister of Northern Affairs Organization</p>	<p>A i) Verification of the integrity of PCF will be undertaken. <b>Q1 2017-18;</b></p> <p>ii) Update of PCF. <b>Q2 2017-18;</b></p> <p>iii) New format of PCF. <b>Q3 2017-18.</b></p> <p>B i) Roles and responsibilities document to be provided. <b>Q1 2017-18;</b></p> <p>ii) Tools will be forthcoming. <b>Q2 2017-18.</b></p> <p>C i) Formal review. <b>Q1-Q3 2017-18;</b></p> <p>ii) Tools - policy library. <b>Q1 2017-18;</b></p> <p>iii) Annual training calendar for training</p>

<p>consultation with regions to identify the areas of greatest need. The training program should include areas such as maintaining appropriate file documentation and maintaining data (i.e. in ICMS).</p>	<p>formal review will include a needs analysis and existing training materials. During this formal review, key tools and other training documentation will be identified and implemented to address short-term learning needs and maximize program input across Regional Operations, these to complement the existing community infrastructure group on GCconnex. Such an initiative is expected to support risk management, program compliance and change management concerns, leading to a greater level of national consistency in program implementation.</p>		<p>activities at HQ and regional level.  <b>Q2 2017-18;</b>                  iv) Training 101 decks on all assets. <b>Q2 2017-18;</b>                  v) New employee tool kit. <b>Q1 2017-18;</b>                  vi) Update the CFMP page on GCPedia. <b>Q1 2017-18;</b></p>
<p>3.The Senior Assistant Deputy Minister of Regional Operations should update the relevant tools and frameworks and provide further guidance to key program delivery areas, including:                  A) Updating tools and frameworks; specifically:  <ul style="list-style-type: none"> <li>o i) Update asset-specific frameworks to include missing asset categories;</li> <li>o ii) Consider developing standard cost thresholds for other asset categories, as appropriate, and consult with regions on geographic variability as thresholds are periodically updated; and,</li> <li>o iii) Make the Program Control Framework available in French;</li> </ul>                 B) Clarifying the procedure that should be followed for the internal reallocation of unspent project funds; and,</p>	<p>A i) CIB will work with RDIB and Regions to expand existing ranking framework to ensure all assets are ranked.                  ii) A third party assessment is underway to consider options for the development of standard cost thresholds for asset categories under the First Nation Infrastructure Fund (e.g., connectivity, roads and bridges). This assessment will include the use of existing Regional intelligence in this area, inclusive of formal engagement with them. It is anticipated that accommodating for geographic differences, specific commitments for the duration of validity and/or incorporation of indexing will be within the scope.                  iii) Translation of PCF completed.                  B) Procedures for reallocation of unspent project funds have been clarified by CIB, in consultation with the CFO, and have been updated in the 2017-18 Budget</p>	<p>Senior Assistant Deputy Minister, Regional Operations</p>	<p>A i) Existing Priority Ranking Frameworks will be expanded upon to include all amounts in CFMP and FNIIF. <b>Q2 2017-18;</b>                  ii) Completion of a third part assessment for standard cost thresholds. <b>Q4 2017-18;</b>                  iii) Posting of the PCF in French is imminent. <b>Q4 2016-17.</b>                  B) Implementation of procedures for reallocation is complete.                  C i) Guidelines and tools to manage over</p>

<p>C) Providing guidelines and tools to manage over-programming.</p>	<p>Management Regime.</p> <p>C) CIB will work with CFO and Regions and RIDB to provide guidelines and tools to manage over-programming and have this reflected in our program documentation, and to document the Business Processes, inclusive of internal controls.</p>		<p>programming, cash management and risk tolerance. <b>Q3 2017-18;</b></p> <p>ii) Business Processes and Business practices to be documented. <b>Q4 2017-18.</b></p>
<p>4. The Senior Assistant Deputy Minister of Regional Operations and the Assistant Deputy Minister of Northern Affairs Organization should update the program's performance measures and improve the mechanisms to collect and report the data, such as:</p> <ul style="list-style-type: none"> <li>• A) Updating the Performance Measurement Strategy, including revisiting the appropriateness of performance indicators for program outcomes and confirming data sources. This could be undertaken with consideration and integration with the Department's efforts to update their Performance Measurement Strategy in light of their implementation of the Treasury Board <i>Policy on Results</i>; and,</li> <li>• B) Defining a program reporting strategy that includes reporting requirements and data collection needs as well as tools to meet reporting requirements.</li> </ul>	<p>A) In anticipation of the replacement of the departmental Management Resources and Results Structure (MRSS) by the Policy on Results due to actual deliverology implementation, we anticipate a period of departmental transition before we can attempt an update of the Performance Measurement Strategy. It is however recognized that the current Capital Facilities and Maintenance Program authorities accept the structures of the Performance Measurement Strategy in place.</p> <p>B) Building on activities undertaken in 2016-17, the Community Infrastructure Branch will continue to work with relevant partners including the Regional Infrastructure Delivery Branch, Regional Operations, and regional offices to further define a program reporting strategy for the Capital Facilities and Maintenance Program to address the elements of this recommendation. This strategy will align with other Departments' activities involving master data management. It will aim to reduce duplication and ad hoc data collection and include reporting tools and systems to support integration of financial and project information from various systems (ICMS, SAP, GCIMS).</p>	<p>Senior Assistant Deputy Minister, Regional Operations</p> <p>and</p> <p>Assistant Deputy Minister of Northern Affairs Organization</p>	<p>A) Deliverology transition period is estimated to be 9 months from February 2017. PM Strategy renewal and update to be completed <b>Q4 2018-19.</b></p> <p>B) Program Reporting Strategy will be designed by <b>Q3 2017-18.</b></p>

## Appendix A: Audit Criteria

To ensure an appropriate level of assurance to meet the audit objectives, the following audit criteria were developed:

<b>1. Governance and Oversight</b>	
1.1	Governance processes within INAC are in place to provide oversight for the delivery of the program and roles, responsibilities and accountabilities are clearly defined and communicated.
<b>2. Risk Management</b>	
2.1	Appropriate risk management processes are in place to support the effective delivery of CFMP.
<b>3. People Management</b>	
3.1	There is sufficient capacity and capabilities to support the effective and timely delivery of CFMP.
<b>4. Program Delivery</b>	
4.1	The appropriate organizational structures and processes are in place to effectively support the delivery of CFMP.
4.2	CFMP is delivered in an effective and efficient manner in accordance with its Program Control Framework (PCF) and Program Manual.
<b>5. Performance Measurement</b>	
5.1	There is an adequate performance management framework to measure and report on the achievement of objectives and results related to CFMP activities.
<b>6. Information for Decision Making</b>	
6.1	There are controls in place for the information systems supporting CFMP to ensure reliability of data.
6.2	Information systems and processes track, accumulate and report program information in a consistent, efficient, effective and timely manner for decision making purposes.

## **Appendix B: Relevant Policies, Directives and Guidance**

Below is a list of documentation that was referenced in the development of this report.

- TB Policy on Transfer Payments
- TB Directive on Transfer Payments
- TB Directive on Delegation of Financial Authorities for Disbursements
- *Financial Administration Act*
- INAC Financial Delegation of Authority