



Audit of the Special Grant Authority Used to Provide COVID-19 Funding to the Territories

Internal Audit Report

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Prepared by:
Audit and Assurance Services Branch

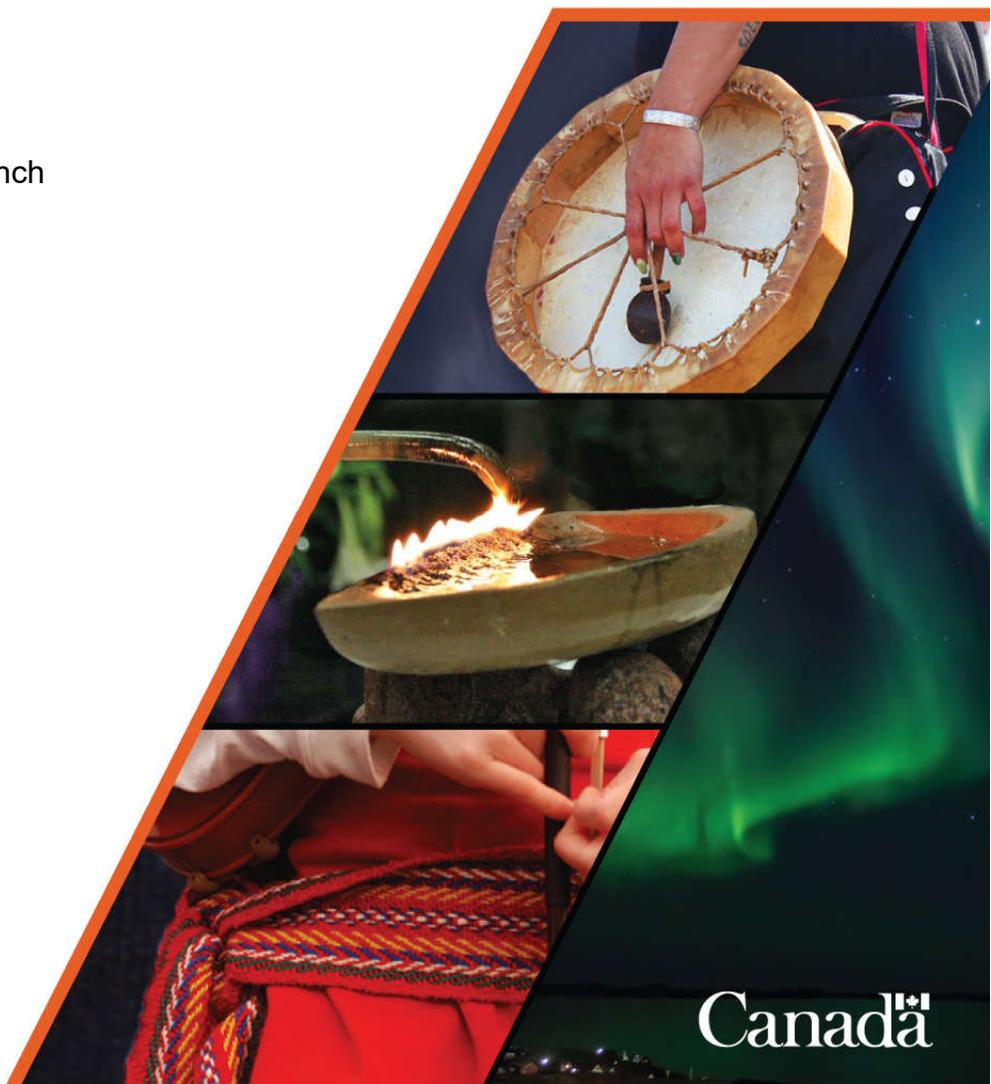


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ACRONYMS

CFRDO	Chief Finances, Results and Delivery Officer
CIRNAC	Crown-Indigenous Relations and Northern Affairs Canada
NAO	Northern Affairs Organization
TBS	Treasury Board Secretariat
TPAS	Transfer Payments Advisory Services



EXECUTIVE SUMMARY

Context

On April 14, 2020, the Government of Canada announced new initiatives to support territorial governments in responding to the 2020 COVID-19 pandemic. Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) received funding totaling \$89.9 million to address immediate health, economic, and transportation needs in the North:

- An amount of \$72.6 million to the governments of Yukon, Northwest Territories, and Nunavut to support their COVID-19 health and social services preparations and response; and
- An amount of \$17.3 million to the governments of Yukon, Northwest Territories, and Nunavut to support northern air carriers.

Why it is important

The Audit of the Special Grant Authority Used to Provide COVID-19 Funding to the Territories is part of the Crown-Indigenous Relations and Northern Affairs Canada and Indigenous Services Canada 2021-2022 Risk Based Audit Plan.

The audit was identified as a priority because of the special authorities granted to CIRNAC to distribute COVID-19 related funds and the accelerated timelines associated with this funding. The audit supports the Department in demonstrating its due diligence as it accelerated the delivery of financial support to the territories and northern communities.

What we examined

The audit objective was to provide assurance that the measures taken to provide COVID-19 related funding to the territories complied with the Treasury Board Secretariat's *Policy and Directive on Transfer Payments* and aligned to CIRNAC's internal guidance.

What we found

Positive Observations

The audit identified the following positive observations:

- There was effective collaboration between Northern Affairs Organization (NAO) and the Chief Finances, Results and Delivery Officer (CFRDO) Sector, which resulted in the off-cycle funding request containing all necessary templates and forms required by the Department of Finance and the appropriate approvals within CIRNAC, including the Chief Financial Officer attestation.



- The process undertaken to determine the appropriate program and the resulting amendments to the program terms and conditions complied with the *Policy and Directive on Transfer Payments*. This process was underpinned by collaboration between NAO and the CFRDO Sector, as well as external input from Treasury Board Secretariat and Privy Council Office.
- The grant agreements complied with the *Policy and Directive on Transfer Payments* and CIRNAC's internal processes. The development of the grant agreement demonstrated effective collaboration between NAO and the CFRDO Sector under tight timelines.

Opportunities for Improvement

While no recommendations were made in this audit, the audit team identified an area where management could consider an opportunity to improve its Transfer Payment Process documentation. CFRDO could consider developing additional guidance to support a risk-based approach to the assessment of strategic or administrative changes from the agreement standard wording, including documentation of the analysis performed.

Statement of conformance

The audit conforms with the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing* and the Government of Canada's *Policy on Internal Audit*, as supported by the results of the Quality Assurance and Improvement Program.

Overall Conclusion

Despite the short timeframe in which the funds had to be delivered and the challenges related to working remotely, CIRNAC, with the support of other external stakeholders, were able to work collaboratively to ensure that critical funds were distributed to the territories to support their COVID-19 efforts. The delivery of the special grant to the territories was in compliance with Treasury Board Secretariat's *Policy and Directive on Transfer Payments* and CIRNAC's internal guidance.

Management's Response

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



1. CONTEXT

As a result of requests for funding support received from the Yukon, Northwest Territories and Nunavut, the Government of Canada announced new initiatives to support territorial governments in responding to the COVID-19 pandemic. Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) received funding totaling \$89.9 million to address immediate health, economic, and transportation needs in the North:

- The amount of \$72.6 million to the governments of Yukon, Northwest Territories, and Nunavut to support their COVID-19 health and social services preparations and response; and
- The amount of \$17.3 million to the governments of Yukon, Northwest Territories, and Nunavut to support northern air carriers.

This funding, in partnership with investments by the territorial governments, was aimed at ensuring the continued supply of food, medical supplies, and other essential goods and services to remote and fly-in communities.

The COVID-19 funds were distributed by CIRNAC's Northern Affairs Organization (NAO) Sector through newly development agreements that were put in place in a short-time period to address the needs of the recipients during the pandemic. Despite the uniqueness of the funding, it was necessary for the applicable Treasury Board policies and directives to be adhered to, specifically the *Policy on Transfer Payments* and the *Directive on Transfer Payments*.

2. ABOUT THE AUDIT

2.1 Why it is important

The Audit of the Special Grant Authority Used to Provide COVID-19 Funding to the Territories is part of the Crown-Indigenous Relations and Northern Affairs Canada and Indigenous Services Canada 2021-2022 Risk Based Audit Plan.

The audit was identified as a priority because of the special authorities granted to CIRNAC to distribute COVID-19 related funds and the accelerated timelines associated with this funding. The audit supports the Department in demonstrating its due diligence as it accelerated the delivery of financial support to the territories and northern communities.

2.2 Audit Objective

The objective of this audit was to provide assurance that the measures taken to provide COVID-19 related funding to the territories complied with the Treasury Board Secretariat's (TBS) *Policy and Directive on Transfer Payments* and aligned to CIRNAC's internal guidance.



2.3 Audit Scope

The scope of the audit included the following activities undertaken to administer the grant funds to the territories between April 14, 2020, and May 14, 2020:

- Off-cycle funding request to the Department of Finance.
- Amendment of an existing program terms and conditions.
- Development and finalization of the grant agreement with each territory.

2.4 Audit Approach and Methodology

This audit was conducted in accordance with the requirements of the TBS *Policy on Internal Audit*. The audit team examined sufficient, relevant evidence and obtained sufficient information to provide a reasonable level of assurance in support of the audit conclusion.

The main audit techniques used included:

- Interviews with relevant stakeholders in NAO and the Chief Finances, Results and Delivery Officer (CFRDO) Sector; and
- Review of relevant documentation.

The audit criteria for this audit engagement can be found in Appendix A of this report.

3. KEY FINDINGS AND RECOMMENDATIONS

3.1 Off-Cycle Funding Request

Once the Prime Minister of Canada announced that COVID-19 funding would be made available to the territories, CIRNAC initiated the preparation of an off-cycle budget request. This is a standard process used to request approval from the Department of Finance and to transfer funds to a department outside the annual budget process. The off-cycle funding request consists of standard templates used to explain the nature of the new funding requirement and how the funds would be spent.

There was a risk that key funding elements may not have considered input from relevant other government departments and sectors to ensure informed decisions were taken. There was also a risk that the appropriate approval may not have been obtained due the tight timelines under which the work was done.



The off-cycle funding request was complete and contained the necessary approvals

Findings

Based on the specific requests received from the territories, the Strategic Policy and Integration Branch within NAO assembled a working group of representatives from relevant government departments to conduct an analysis of the requests received to determine the allocation of the funding being requested by each territory and program/service area.

As part of an off-cycle request, a “Chief Financial Officer Attestation” is required to demonstrate that the financial component of the request had been subject to the appropriate financial review and challenge. The CIRNAC’s CFRDO Sector, in conjunction with the NAO Sector, completed the analysis to support the Chief Financial Officer Attestation, which was subsequently approved by the CFRDO of CIRNAC. Once all the required documents, including the Chief Financial Officer Attestation, were completed, reviewed and approved by all levels, the off-cycle budget request was submitted by the Minister of Northern Affairs to the Department of Finance for approval and release of the requested funds.

The audit found that based on the input received and the analysis performed, the off-cycle funding request was approved by the necessary parties within CIRNAC. This enabled the highest level of approvals to be obtained; specifically, the Chief Financial Officer Attestation from the CFRDO and the off-cycle funding request letter from the Minister of Northern Affairs.

Through the collaboration and flexibility between the NAO and the CIRNAC’s CFRDO Sector the off-cycle funding request included all necessary templates and forms required by the Department of Finance.

3.2 Amended Program Terms and Conditions

In order to administer funds, an overarching program, with applicable terms and conditions, must be used to act as the mechanism to deliver funds. In selecting the program, consideration must be given to the nature of the funds and the alignment of the program terms and conditions with the objective of the funds.

There was a risk that the program selected to be amended for the delivery of the special grant may not have aligned with the objectives of the grant. There was a risk that there may have been non-compliance with the TBS *Policy and Directive on Transfer Payments* - Appendix D – Terms and Conditions – Grants, given the expedited nature in which work was being done under the tight timelines. There was also a risk that input from relevant other government departments and sectors may not have been considered to ensure informed decisions were taken.



Amendments to the program terms and conditions complied with relevant policies and directives and incorporated input from relevant stakeholders in the decision-making process

Findings

Given that the special grant was a new type of funding, NAO undertook an option analysis to assess if an existing program's terms and conditions could be amended to administer the funds within or whether a newly created program with specific terms and conditions would have to be created. The analysis was completed and shared with the CFRDO Sector and TBS for their input and feedback. It was recommended to amend the terms and conditions of the existing "Grants to the Government of Northwest Territories and Government of Nunavut for Health Care of Indians and Inuit" Program. This was selected as it was an existing grant program directed at two of the three territories and was intended to support health programs in the North.

NAO, with the support of the CFRDO Sector, proposed changes to the existing terms and conditions to include the Yukon as a recipient and to add clauses that aligned with the nature of COVID-19 funding. Suggested changes were sent to TBS and the Privy Council Office to confirm that the nature of the proposed amendments of the terms and conditions were considered "minor" and as a result, the amendments were within the authority of the Minister of Northern Affairs to approve.

The Minister of Northern Affairs, through the notification letter sent to the President of Treasury Board, indicated that he was exercising his authority to amend the program terms and conditions. The program was renamed as the "Grants to the Governments of the Northwest Territories and Nunavut for the Health Care of Indigenous Peoples and Grants to the Governments of the Northwest Territories, Nunavut and Yukon for Emergency Response to the Global 2020 COVID-19 Pandemic".

The audit found that based on the flexibility and agility of the NAO Sector and other internal and external stakeholders (i.e. CFRDO Sector, TBS and Privy Council Office), the processes undertaken to determine the appropriate program to amend and the resulting amended program terms and conditions complied with the *Policy and Directive on Transfer Payments*. The audit also found that the amended program terms and conditions were appropriately approved by the Minister of Northern Affairs on May 10, 2020, via a letter to the President of the Treasury Board.

3.3 Grant Agreement Development

According to the TBS *Policy on Transfer Payments*, a grant is a transfer payment subject to pre-established eligibility and other entitlement criteria. The Transfer Payments Advisory Services (TPAS) Directorate within the CFRDO Sector is responsible for drafting and finalizing grant agreements. This includes the development of grant agreement templates in consultation with Legal Services.

In the development of a grant agreement under tight timelines, there was a risk of non-compliance with the TBS *Policy and Directive on Transfer Payments*, specifically appendices D and F. There



was also a risk of non-alignment with CIRNAC's Large Value Transfer System Process and the Transfer Payment Process documentation, as well as a lack of consideration for input from relevant other government departments to ensure informed decisions were taken.

The grant agreement development complied with the TBS *Policy and Directive on Transfer Payments* and aligned with internal guidance for CIRNAC; however, an opportunity for improvement was noted

Findings

An existing grant agreement template was selected to use as a starting point to develop the territorial agreements. The template had been subject to a review by Legal Services in the prior year. The template was included in the Grants and Contribution Information Management System and subsequently shared with NAO.

The draft grant agreements were directly sent to the territories for comments and feedback. Suggested changes from the territories were communicated to NAO and TPAS. Changes were approved by the Assistant Deputy Minister of NAO and then sent to TPAS for their review.

In general, changes to established agreement wording can either be considered administrative or strategic. Changes that are considered strategic would need further approval and consultation with Legal Services. TPAS confirmed that proposed changes to the agreement template for the special grant to the territories were considered administrative and as result, they did not seek additional consultation or approval.

The final agreements were signed by the territory representatives and by the Director General of NAO who had the authority to sign the agreements. As the amounts were going to be provided as individual lump sums to each territory, CIRNAC completed the appropriate form in order to comply with the Large Value Transfer System process for transactions over \$25 million.

With an aim of developing grant agreements quickly to allow funding to be released, TPAS worked closely with NAO and the territories to gain consensus on the agreement wording. The resulting grant agreements complied with the TBS *Policy and Directive on Transfer Payments* and CIRNAC's Large Value Transfer System Process.

Opportunity for Improvement

As part of the Transfer Payment Process, TPAS reviews all proposed wording changes to agreements and determines whether they are administrative or strategic in nature. While it was evident through communications with NAO that TPAS reviewed the proposed wording changes for each grant agreement, there was no documentation to support whether these changes were considered administrative or strategic in nature. This assessment is what determines whether additional consultation or approval is required.



As previously described, CFRDO fully complied with TBS *Policy and Directive on Transfer Payments* and CIRNAC's Large Value Transfer System Process. As an opportunity for improvement, CFRDO could consider developing additional guidance to support a risk-based approach to the assessment of strategic or administrative changes from the agreement standard wording, including documentation of the analysis performed.

4. CONCLUSION

Despite the short timeframe in which the funds had to be delivered and the challenges related to working remotely, CIRNAC, with the support of external stakeholders, were able to work collaboratively to ensure that critical funds were distributed to the territories to support their COVID-19 efforts. The delivery of the special grant to the territories was in compliance with TBS *Policy and Directive on Transfer Payments* and CIRNAC's internal guidance.



5. MANAGEMENT ACTION PLAN

Opportunity for Improvement	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>As an opportunity for improvement, CFRDO could consider developing additional guidance to support a risk-based approach to the assessment of strategic or administrative changes from the agreement standard wording, including documentation of the analysis performed.</p>	<p>A review of the text deviation process will be undertaken to target improved guidance and documentation of individual requests through the development and use of checklists. This will facilitate an improved chain of evidence for these transactions and ensure consistency of treatment that is risk-based.</p>	<p>Manager, Funding Agreement Unit, Transfer Payment Advisory Services</p>	<p>Q2 2021-2022</p>



APPENDIX A: AUDIT CRITERIA

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

Audit Criteria	
1. Off-Cycle Funding Request	
1.1	The determination of allocation funding to each of the territories included consultations with external and internal stakeholders.
1.2	Preparation of the off-cycle funding request included internal reviews and approvals prior to being submitted to the Department of Finance.
2. Amended Program Terms and Conditions	
2.1	The amendment to the program terms and conditions complied with the TBS <i>Policy and Directive on Transfer Payments – Appendix D Terms and Conditions - Grants</i> .
2.2	The program selected and the amendments to the existing terms and conditions included consultation with relevant other government departments and sectors and the necessary documented approvals.
3. Grant Agreement Development	
3.1	The development of the grant agreements adhered to the TBS <i>Policy and Directive on Transfer Payments - Appendix F – Funding Agreement Provisions for Grants</i> .
3.2	The amendment to the standard grant agreement template aligned with CIRNAC's expectations for clauses and delivery standards.
3.3	The finalization of the grant agreements aligned with CIRNAC's relevant internal policies and procedures.

