

**Indian and Northern Affairs Canada**

**AUDIT OF THE CAPITAL FACILITIES AND  
MAINTENANCE PROGRAM**

**Prepared by:  
Audit and Assurance Services Branch**

**Project #07/19  
January 23, 2009**

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# Executive Summary

## Introduction

The goal of the Capital Facilities and Maintenance (CFM) Program is to contribute to healthy, safe and sustainable First Nation (FN) communities and support the department's and government's commitment to assist FNs in fulfilling their aspirations for greater self-reliance. The CFM Program provides assistance to FNs to: invest in physical assets (or services) that mitigate health and safety risks; ensure that assets meet established codes and standards; and, ensure that assets are managed in a cost-effective and efficient manner that protects, maintains and maximizes asset life-cycle; and ensure that the above activities are undertaken in an environmentally sound and sustainable manner.

CFM program funding and advice assists FNs to acquire, construct, operate and maintain needed community infrastructure and facilities including: water supply, storage, treatment and distribution; sewage and waste collection, treatment and disposal; schools; electrical power generation and distribution; roads and bridges; fire protection (fire trucks, fire halls, fire equipment); community buildings; and, environmental contamination. Indian and Northern Affairs Canada (INAC) also provides funding for capacity building including water and wastewater system operator training, fire protection awareness and comprehensive community planning and subsidies and loan guarantees to help communities and individuals meet on-reserve housing needs.

The Capital Facilities and Maintenance Program terms and conditions expire March 31, 2010. The budget is approximately one billion dollars per year.

An audit of the CFM Program was included in the Departmental 2007-2008 Internal Audit Plan.

## Objectives and Scope

The objectives of this audit were to obtain reasonable assurance that:

- national practices for managing and governing the CFM Program are adequate and effective to ensure delivery of the program; and
- regional controls for administering recipient contributions are effective at ensuring compliance with applicable legislation and policy frameworks, both INAC and Government of Canada.

At the level of the management of the CFM program, the scope of the audit covered:

- Program design and approval;
- Program implementation;
- Program monitoring and reporting; and
- Renewal of program authorities.

For the regional controls for administering the CFM Program, the audit scope covered:

- Evaluation and documentation of recipient and project eligibility;
- Development of contribution agreements; and
- Recipient reporting and monitoring.

This audit was conducted between January and July 2008. Audit work was carried out at Socio-Economic Policy and Regional Operations (SEPRO), Headquarters (note that as of September 1, 2008, the principal roles and responsibilities related to the CFM Program have been divided between the Education and Social Development Programs and Partnerships Sector and the Regional Operations Sector), and in the following Regions: B.C.; Alberta; Saskatchewan; Manitoba; Ontario (North and South); Quebec; and, Atlantic. The audit scope covered the 2006-2007 and 2007-2008 fiscal years.

The internal audit was conducted in accordance with the requirements of the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

### Conclusion

Based on the results from the conduct of this internal audit, the Audit and Evaluation Sector has concluded that:

- Although progress has been made to implement an adequate and effective management control framework at the national level to ensure delivery of the program, there remain significant gaps in the areas of program design, performance management, risk management, regional funding allocations and program management guidance;
- Regional controls for the management of Major Capital Projects are adequate overall, with some exceptions primarily related to project file documentation; and
- Significant gaps exist in regional controls over the management of Minor Capital and Operations and Maintenance (O&M) funding to ensure that key risks are being managed and mitigated.

### Recommendations

The audit identified opportunities to strengthen the management control framework of the CFM Program, the management of Major Capital Projects and the management of Minor Capital and O&M funding, and made the following recommendations.

### Management Control Framework

1. Funding Authorities and FN funding agreements that currently provide flexibility in the funding of Minor Capital and O&M expenditures should be reassessed, giving consideration to providing funding on a more 'targeted' basis.
2. Roles and responsibilities for performance management of the CFM Program at the Headquarters and regional senior management and board / committee level should be defined and communicated, and performance information, including Key Performance Indicators (KPIs), should be incorporated into ongoing performance management at both the national and regional levels.
3. A risk management framework specific to the CFM Program should be developed, formalized, documented and implemented, and should incorporate roles and responsibilities at the Headquarters and regional senior management and board / committee level, and an appropriate level of oversight / monitoring / quality assurance role for Headquarters over regional practices.
4. A review of the funding allocation methodology and process for allocating CFM Program funding from Headquarters to regions should be conducted.
5. Updated and comprehensive national guidelines for the management of the CFM Program should be developed and disseminated to program management in the regions.

### Management of Major Capital Projects

1. Guidelines for the categorization of projects to be managed as Major Capital Projects should be developed and communicated, and ongoing monitoring of regional practices should be performed by Headquarters.
2. National comprehensive guidelines for management of the CFM Program should include Major Capital Project file documentation requirements that address key risk areas, and ongoing monitoring of regional practices should be performed by Headquarters.

### Management of Minor Capital and O&M Funding

1. Guidelines outlining minimum requirements or expectations, including monitoring, for the management and oversight of Minor Capital and O&M funding should be developed.
2. The implementation of risk based FN compliance audits, as part of a formalized risk management framework, should be considered.

## **Management Action Plan**

Management has accepted the audit recommendations and established an action plan to address them in a timely manner. The renewal of program terms and conditions for April 1, 2010 provides an opportunity to ensure that the program's management control framework, including performance measurement and risk management strategies and comprehensive national guidelines, is aligned with the requirements of the 2008 Treasury Board Policy on Transfer Payments

## **1.0 STATEMENT OF ASSURANCE**

We have completed the internal audit of the CFM Program as managed by SEPRO at Headquarters (note that as of September 1, 2008, the principal roles and responsibilities related to the CFM Program have been divided between the Education and Social Development Programs and Partnerships Sector and the Regional Operations Sector), and delivered by the Regions.

The internal audit was conducted in accordance with the requirements of the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

The audit team assessed the management control framework against criteria derived from the Treasury Board Policy on Transfer Payments, the Auditor General of Canada's Attributes of a Well-Managed Grant or Contribution, and the INAC Audit and Evaluation Sector's Grants & Contributions Audit Criteria.

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence has been gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations, as they existed at the time of the audit, against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined.

## **2.0 BACKGROUND**

The CFM Program is the major programming element within the Community Infrastructure programming activity which addresses The Economy, one of the Department's strategic outcomes. The goal of the CFM Program is to contribute to healthy, safe and sustainable FN communities and support INAC's and the government's commitment to assist FNs in fulfilling their aspirations for greater self-reliance, particularly in achieving comparability of reserve communities with similar non-reserve communities, in terms of basic living conditions, in the availability of community facilities and services, and in the general quality of life. The stated objective of the CFM Program is *"...to provide assistance to FNs to: invest in physical assets (or services) that mitigate health and safety risks to recipients; ensure that assets meet established codes and standards; and ensure that assets are managed in a cost-effective and efficient manner that protects, maintains and maximizes asset life-cycle; and ensure that the above activities are undertaken in an environmentally sound and sustainable manner"*.

To meet these objectives, CFM Program funding and advice assists FNs to acquire, construct, operate and maintain needed community infrastructure assets and facilities including: water supply, storage, treatment and distribution; sewage and waste

collection, treatment and disposal; schools; electrical power generation and distribution; roads and bridges; fire protection (fire trucks, fire halls, fire equipment); community buildings; and, environmental site cleanup / remediation. INAC also provides funding for capacity building including water and wastewater system operator training, fire protection awareness and comprehensive community planning and subsidies and loan guarantees to help communities and individuals meet on-reserve housing needs.

The Capital Facilities and Maintenance Program terms and conditions expire March 31, 2010. The budget is approximately one billion dollars per year.

There are three categories of expenditures that are funded by the CFM Program:

- Major Capital (representing approximately 26% of the budget) funds large or complex infrastructure projects; Major Capital projects are defined by INAC Headquarters as “non-core” funded acquisition, construction and/or major repair projects in excess of \$1.5 million and require greater involvement and management from INAC.
- Minor Capital (representing approximately 38% of the budget) funds minor infrastructure repairs, renovations and upgrades (under \$1.5 million). The funding is provided in the form of an annual allocation to First Nations.
- Operation and Maintenance (representing approximately 36% of the budget) funds the costs of operating and maintaining community infrastructure. The funding is provided in the form of an annual allocation to First Nations based upon asset inventory.

Two types of agreements are entered into with FNs that govern the funding of all FN programming, including the CFM Program: Comprehensive Funding Arrangement (CFA), a one-year funding arrangement; and, Canada/First Nations Funding Arrangement (CFNFA) or DIAND/First Nations Funding Agreement (DFNFA), which are five-year funding arrangements.

For both CFAs and CFNFAs / DFNFAs, the funding of Major Capital takes the form of a Contribution funding arrangement, whereby only department approved projects are funded. There are established project related processes, including capital project priority rankings and project application/proposal assessments. Major Capital expenditures are funded separately from the “core” funding provided to FNs.

The core funding of Minor Capital and O&M takes the form of a Flexible Transfer Payment (FTP) for CFAs and an Alternative Funding Arrangement (AFA) for CFNFAs / DFNFAs. Under both arrangements, “block” funding of all programming including Minor Capital and O&M, pursuant to the CFM Program, is provided to FNs at intervals specified in funding agreements. FTP funding for Minor Capital and O&M for CFAs involves entitlement to payment based on meeting specific performance targets driven by anticipated program results.

AFA funding for CFNFAs / DFNFAs involves entitlement to payment based on a negotiated formula. FNs can redesign the program in accordance with community priorities provided that the minimum program requirements are met, and any surplus can be retained.

The sources of authorities for the CFM Program, included in its current approved Terms and Conditions, underscore the evolution and complex makeup of the program. These authorities stem from a number of sources, including the Department of Indian Affairs and Northern Development Act, Indian Act and a number of Treasury Board authorities dated between June, 1986 and August, 2003.

CFM Program implementation involves INAC Headquarters, INAC regional offices, and FNs. Note that during the period of audit, Headquarters roles and responsibilities were carried out by SEPRO. As of September 1, 2008, these roles and responsibilities have been divided between the Education and Social Development Programs and Partnerships Sector and the Regional Operations Sector. The CFM Program roles and responsibilities are as follows.

- Headquarters is responsible for: the development of overall policy and for the acquisition and allocation of resources to regions; development and updating of the departmental Long Term Capital Plan (LTCP) in consultation with regions and FNs; the development of national criteria, policies and directives for program delivery; developing reporting requirements and managing program data and performance measurement and, coordinating and seeking capital approvals from Treasury Board for specific projects that exceed delegated departmental authority levels (the amount of which was \$15 million during the period of audit).
- Regional Offices are responsible for: setting priorities consistent with national criteria and methodology; providing advice to FNs regarding development and implementation of their capital plans; developing regional long-term capital plans; allocating funding to, and negotiating and approving capital funding arrangements with FNs; managing capital funding arrangements in compliance with departmental policies and directives; and, monitoring capital management activities undertaken by, and assessing management capacity of FNs.
- FNs are responsible for: developing their own long term capital plans; implementing and managing capital projects and activities pursuant to the plans; maintaining existing assets; and, adhering to regional and national reporting requirements as set out in funding arrangements.

In recent years, the CFM's base funding reference level of approximately \$850 million has been augmented by 'targeted' funding provided through special initiatives such as *Gathering Strength*, the federal *Rust-out Initiative*, the *First Nation Water Management Strategy* and, the *First Nations Infrastructure Program*. Including the targeted funding, the CFM Program currently operates with a total overall budget of approximately one billion dollars per year.

A summary of CFM Program contribution expenditures for the 2006-2007 and 2007-2008 fiscal years (note that planned expenditures were used for 2007-2008 because actual figures were not available at the time of completion of this report) by major category (Infrastructure, Education & Housing) and for each component (Major and Minor Capital and O&M) is included in Appendix A of this report.

An audit of the CFM Program was included in the Departmental 2007-2008 Internal Audit Plan.

### **3.0 AUDIT OBJECTIVES**

The objectives of this audit were to obtain reasonable assurance that:

- national practices for managing and governing the CFM Program are adequate and effective to ensure delivery of the program; and,
- regional controls for administering recipient contributions are effective at ensuring compliance with applicable legislation and policy frameworks, both INAC and Government of Canada.

### **4.0 AUDIT SCOPE**

The audit was conducted between January and July 2008. Audit work was carried out at SEPRO, Headquarters, and in the following Regions: B.C.; Alberta; Saskatchewan; Manitoba; Ontario (North and South); Quebec; and, Atlantic. The audit scope covered the 2006-2007 and 2007-2008 fiscal years.

At the level of the management of the CFM Program, the scope of the audit covered:

- Program design and approval;
- Program implementation;
- Program monitoring and reporting; and,
- Renewal of program authorities.

For the regional controls for administering the CFM Program, the audit scope covered:

- Evaluation and documentation of recipient and project eligibility;
- Development of contribution agreements; and
- Recipient reporting and monitoring.

### **5.0 AUDIT APPROACH**

The audit approach followed was in accordance with the requirements of the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

In order to address the audit objectives, audit criteria, presented in Appendix B to this report, were developed. These criteria were primarily drawn from the following sources:

- Treasury Board's *Policy on Transfer Payments, dated June 1, 2000*;

- “Attributes of a Well-Managed Grant or Contribution Program” as set out in the Auditor General of Canada’s 1998 Report titled *Chapter 27, Grants and Contributions, “A Framework for Identifying Risk in Grant and Contribution Programs”*; and
- the Audit and Evaluation Sector’s Grants & Contributions Audit Criteria. These criteria are specific to INAC and are a set of 37 audit criteria that focus on the seven program management administration areas presented in Section 3.0 Audit Scope above.

The approach followed in conducting this audit included:

- Review of relevant program documentation including but not limited to: Program Terms and Conditions, departmental accountability and risk frameworks, LTCP, National and Regional policies, guidelines, procedures and work tools for administration of the program;
- Interviews and discussions with program management at SEPRO Headquarters and in the seven Regions visited;
- Detailed examination of a sample of Major Capital Project files; and
- Focused review, including the review of relevant documentation, related to the management of Minor Capital Projects, management of O&M expenditures, Asset Condition Reporting System (ACRS) inspections, and Ministerial Loan Guarantees.

For purposes of the detailed examination of Major Capital Project files, a random sample was selected, covering the period of audit covering the 2006-2007 and 2007-2008 fiscal years. A sufficient total sample size was determined using professional judgment to achieve representative coverage among Regions and in the following CFM areas: Water; Schools; and, Infrastructure. A summary of Major Capital Projects reviewed by Region is as follows:

- B.C. – 17;
- Alberta – 8;
- Saskatchewan – 11;
- Manitoba – 5;
- Ontario - 15 (North - 10 and South - 5);
- Quebec – 6; and
- Atlantic – 3.

## **6.0 CONCLUSION**

Based on the results from the conduct of this internal audit, the Audit and Evaluation Sector has concluded that:

- Although progress has been made to implement an adequate and effective management control framework at the national level to ensure delivery of the program, there remain significant gaps in the areas of program design, performance management, risk management, regional funding allocations and program management guidance;
- Regional controls for the management of Major Capital Projects are adequate overall, with some exceptions primarily related to project file documentation; and
- Significant gaps exist in regional controls over the management of Minor Capital and O&M expenditures to ensure that key risks are being managed and mitigated.

The audit identified opportunities to strengthen the management control framework of the CFM Program, the management of Major Capital Projects and the management of Minor Capital and O&M funding. The observations and recommendations that follow address areas where these opportunities were identified.

## **7.0 OBSERVATIONS AND RECOMMENDATIONS**

### ***7.1 Management Control Framework***

The audit identified the following management control framework elements that were in place during the period of audit.

1. Program Governance. At the national level, a National Capital Management Board (NCMB) reporting to the Deputy Minister has been recently created to oversee the planning, approval and resourcing of capital investments and to ensure that appropriate control and monitoring frameworks are in place to support the capital investment process. In the regions, capital activities and decisions are also overseen by Regional Investment Management Boards or equivalents, consistent with their terms of references and with national principles.
2. Planning. There is an ongoing annual planning process that requires five year FN, Regional and National capital plans to be prepared and updated.
3. Investment Management/Analysis. Headquarters has developed and communicated a National Priority Ranking Framework and criteria to guide Major Capital funding decisions. Regions are aware of the national priority framework. Major Capital funding decisions in Regions reflect the framework, while addressing FN priorities.

4. Data/Information Management. Information systems and processes in place to capture CFM Program related information include:
- The Integrated Capital Management System (ICMS), which is in the process of replacing the Capital Asset Management System (CAMS) and its subsystems, the Capital Asset Inventory System (CAIS), that manages capital asset inventories and the ACRS. The ICMS is also integrating the Water Analysis Testing Evaluation and Reporting System (WATERS).; and
  - Environment Stewardship Strategy Information Management System (ESSIMS).

There is a process in place for soliciting information and updating the databases. This is accomplished primarily from information provided by FNs on an annual basis as part of the reporting process outlined in the Recipient Reporting Guide, formerly the First Nation National Reporting Guide.

The audit identified the areas below where the management control framework for the CFM Program can be strengthened.

#### 7.1.1 Program Design

##### ***The Flexible Arrangements Governing CFM Program Funding May Inhibit Accountability for the Use of Minor Capital and O&M Funds in the Absence of Sufficient Risk Management Practices.***

The Office of the Auditor General's Attributes of a Well Managed Grant and Contribution Program include the requirement to choose the appropriate funding arrangement. The Treasury Board Guide on Grants, Contributions and Other Transfer Payments and Treasury Board Guide on Financial Arrangements and Funding Options also address this requirement.

Section 2. of this report describes the funding arrangements for Major Capital, Minor Capital and O&M components of the CFM Program.

We found that the design and implementation of flexible funding arrangements for Minor Capital and O&M expenditures, particularly for FNs on five year funding agreements (CFNFAs / DFNFAs), may inhibit accountability for the use of Minor Capital and O&M funds and pose significant risks to the department in the absence of a sufficient level of risk management practices. Therefore, these flexible funding arrangements may not be appropriate.

Funding of Minor Capital and O&M expenditures is in the form of “block” funding that is combined with other FN program expenditures. Funding is generally provided to FNs based on a schedule provided for in funding agreements. FNs, particularly those governed by CFNFAs / DFNFAs, have the flexibility to realign community priorities and manage their funding accordingly. Any surplus can be retained by these FNs.

The block funding arrangements for Minor Capital and O&M expenditures, with their inherent flexibility, support devolution to FNs and empowerment of authority and responsibility for the management of CFM Program funds. The use of these funding arrangements, however, inherently creates a need for a sufficient level of sound program risk management practices, such as active monitoring and the conduct of FN compliance audits, in order to mitigate key program risks and ensure accountability and stewardship for the use of program funds. Observations related to program risk management practices for Minor Capital and O&M expenditures are addressed in Section 7.3 of this report.

The use of block funding arrangements in the absence of a sufficient level of departmental risk management practices increases the risk that the capital component of block funding to FNs is not spent for purposes intended or that insufficient O&M activities are being carried out. Consequently, this could result in the impairment of attaining CFM objectives, both in an effective and cost effective manner, by:

- The shortening of the lifespan of FN assets through premature asset “rust out”; and
- Not having program funding based on need, potentially resulting in FNs receiving either excessive or insufficient funding to meet their requirements.

### **Recommendation**

1. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should work closely with the Chief Financial Officer to reassess the Funding Authorities and FN funding agreements that currently provide flexibility in the funding of Minor Capital and O&M expenditures, giving consideration to providing funding on a more ‘targeted’ basis.

### **7.1.2 Performance Management**

#### ***Performance Management of the CFM Program Is Not Being Sufficiently Addressed At The Senior Management And Board / Committee Level, Both At Headquarters And In The Regions.***

The Treasury Board Policy on Transfer Payments states that departments are to ensure that cost effective oversight, internal control, and performance measurement and reporting systems are in place to support the management of transfer payments.

We found that KPIs have been developed for the CFM Program, and that information / data related to the KPIs is being extracted from information systems / databases and is being reported for department performance reporting purposes.

We found no evidence, however, of audit of performance management being formally addressed at the senior management and board / committee level, both at Headquarters and in the regions, for management decision making purposes. In particular, there was no evidence of performance reporting of KPIs being provided to senior management or the national / regional boards / committees. There was evidence of reports compiled by Headquarters, but these served the primary purpose of fulfilling reporting requirements to Treasury Board and Parliament.

The insufficient addressing and incorporation of CFM Program performance into the decision making of program management at the senior management and board / committee level increases the risk that program objectives are not met or that resources are not efficiently and effectively utilized.

### Recommendation

2. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should ensure that the roles and responsibilities for performance management at the senior management and board / committee level are defined and communicated, and that performance information, including KPIs, is incorporated into ongoing performance management at both the national and regional levels.

### **7.1.3 Risk Management Framework**

#### ***A Formalized Risk Management Framework Specific to The CFM Program Is Not In Place, and There Is No Active Oversight / Monitoring / Quality Assurance Role By Headquarters Over Regional Operations***

The Treasury Board Policy on Transfer Payments includes the requirement for the management of transfer payments programs in a manner that takes account of risk. The Treasury Board Guide on Grants, Contributions and Other Transfer Payments

states that risk management should be part of overall program management and administration and influence the design of internal administrative, operational and financial controls.

We found that there was no formalized CFM Program level risk management framework in place during the period of audit. A formalized risk management framework would identify and assess key program risks and identify risk mitigation strategies for each identified risk, such as specific monitoring activities or FN compliance audits. Roles and

responsibilities for risk management (including Headquarters and regional senior management and board / committee level oversight, and Headquarters oversight and quality assurance over regional practices) would be established.

We note that the department had previously identified risks through its Departmental Risk-based Audit Framework (DRBAF). We found, however, that this framework does not identify risks and related management risk management strategies that are useful for the CFM Program. More specifically, identified key risk areas are linked to the strategic outcomes for the department overall, not on a program basis.

We note that there are regional processes in place for managing the CFM Program that incorporate risk management strategies and practices; however, these processes were often insufficiently formalized / documented, and therefore do not lend themselves to effective monitoring or review / challenge. For example, participation of CFM officers on major project management teams and evidence of FN tendering processes for Major Capital Projects were noted through the review of Major Capital Project files; however, the extent and level of these activities varied from region to region, and among projects within regions. There was a lack of documented evidence of the assessment of risks being managed or of the justification of activities undertaken to manage these risks.

We also found that there is no active oversight / monitoring / quality assurance role by headquarters over regional operations. The audit identified that there are perceived risks at headquarters regarding certain practices at the regional level. One example is the perception that there may be non-adherence to the departmental Levels of Service Standards, with the consequence of “overbuilding” of education and water facility assets. Although the audit was not able to determine if this is in fact happening, there is a certain level of inherent risk that this may in fact be occurring given the pressures that regions face in their day to day dealings with FNs. Headquarters oversight / monitoring / quality assurance would represent a means to manage such risks materializing at the regional level.

### **Recommendation**

3. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should develop, formalize, document and implement a risk management framework specific to the CFM Program that incorporate roles and responsibilities at the Headquarters and regional senior management and board / committee level, and incorporate an appropriate level of oversight / monitoring / quality assurance role for Headquarters over regional practices.

#### **7.1.4 Allocation Of Program Funding To Regions**

##### ***Current CFM Program Funding Allocations From Headquarters To Regions Is Based On Dated Reference Levels***

The Office of the Auditor General's Attributes of a Well Management Grant and Contribution Program includes an expectation that more deserving projects should be funded at an appropriate level.

CFM Program funding is allocated by Headquarters to the regions based on a 'Global' or 'Block' Funding Methodology adopted in 1998-1999. Under this methodology, funds for the delivery of most programs and services to FNs are transferred to regions as a single block or the 'core budget'. This core budget includes most of INAC's basic programming services to FNs, such as education, social services, and Indian Government Support. From CFM Program funding, the core budget includes funding for Minor Capital and O&M expenditures.

Each region's allocation of the overall capital budget during the period of audit was determined based on the prior year's allocations to the regions which in turn date back to a 1990-1991 re-basing.

The audit found that relative proportions of CFM Program funding allocated to regions have not been altered since the launch of the Global Funding Methodology and effectively since the 1990-1991 re-basing. Consequently, the current funding allocation to regions is based on dated reference levels. It is noted that the NCMB and program management have identified the need for reviewing allocation reference levels and the possibility of rebasing allocations to regions.

The lack of updated funding allocations to regions increases the risk that program financial resources are not allocated based on need, resulting in the ineffective or inefficient use of these resources, and that more deserving projects are not being funded at an appropriate level.

##### **Recommendation**

4. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should conduct a review of the methodology and process for allocating CFM Program funding from Headquarters to regions.

### **7.1.5 Program Management Guidance**

#### ***An Updated Set of Comprehensive National Guidelines for The Management of The CFM Program Is Not In Place***

The Treasury Board Policy on Transfer Payments includes the requirement for ensuring that opportunities are pursued to standardize the administration of transfer payment processes, procedures and requirements within the department. The Treasury Board Guide on Grants, Contributions and Other Transfer Payments addresses the requirement for having departmental systems, procedures and resources in place for ensuring due diligence in approving transfer payments and verifying eligibility and entitlement, and for the management and administration of the programs.

We found that an up to date comprehensive set of national guidelines addressing all aspects of the management of the CFM Program is not in place, and, notwithstanding the LTCP, national guidance / procedures for management of the CFM is mostly in the form of dated manuals and directives (going back to the 1990s). We note that some guidance initiatives have been undertaken and documents have been produced and disseminated including the Saving Corporate Memory document and, the 2007 “Capital Facilities and Maintenance Program – Tools, Tips and Best Practices”, a document prepared by the Institute on Governance, an independent non-profit think tank. These documents do not constitute guidance and procedures per se, but rather constitute concept papers. In addition, there are some issue specific documents (e.g., Housing Guidelines) that are currently in the process of being developed.

We found that regions are generally aware of and understand program requirements; however, in the absence of any nationally mandated guidance / procedures, many regions have, to varying degrees, developed and implemented their own program guidelines / procedures (e.g., B.C., Manitoba, Saskatchewan and Ontario). Consequently, there are substantial variances and inconsistencies among regions in procedures and related program tools and file documentation pertaining to the management of the CFM program.

The lack of updated and comprehensive national guidelines increases the risk that regional management practices are contrary to national standards and are carried out in a manner that exposes the CFM Program to major risks. Furthermore, inconsistent regional practices inhibit the ability of Headquarters to effectively exercise monitoring and oversight over regional activities.

#### **Recommendation**

5. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should ensure that updated and comprehensive national guidelines for the management of the CFM Program are developed and disseminated to program management in the regions.

## **7.2 Management of Major Capital Projects**

The management of Major Capital Projects involves the following departmental practices.

1. Long Term Capital Planning Processes. Funding of Major Capital Projects is aligned with the objectives of the CFM Program and is consistent with the Terms and Conditions of the program. Regional practices are consistent with the Capital Management Regime to ensure that Major Capital Projects focus on LTCP priorities. Prioritization of Major Capital Projects undertaken by the regions is consistent with the National Priority Ranking Framework of the CFM Program.
2. Approval Of Funding for Capital Projects. During the period of audit, there was a requirement for funding proposals for Major Capital Projects over \$15 million to be reviewed and assessed by Headquarters for submission to Treasury Board for approval. Regions had full authority for the funding of Major Capital Projects up to \$15 million. All projects reviewed were appropriately authorized.
3. Payment Processes. Payments for Major Capital Projects are based on cash flow projections and/or submitted project progress reports and project completion reports that are covered by funding agreements. Payments were approved by persons with delegated authority for projects reviewed.

The audit identified the areas below where the management practices related to Major Capital Projects can be strengthened.

### **7.2.1 Definition of Major Capital Projects**

#### ***There Are Inconsistencies Among Regions In Terms Of Which Projects Are Categorized And Managed As Major Capital Projects***

The Treasury Board Policy on Transfer Payments requires that transfer payment programs be supported by cost effective oversight and internal control systems, and that opportunities are pursued to standardize the administration of processes, procedures and requirements.

Major Capital Projects are large scale projects that typically involve the following phases: Feasibility Study; Preliminary Project Approval at the design phase; and, Effective Project Approval at the construction phase. Due diligence and approval processes are generally being followed in these phases. Major Capital Projects are managed by FNs via contracted project managers. Project management teams are established with INAC participation, generally by Capital Managers and Technical Services Managers.

Projects not categorized as Major Capital are included as Core Minor Capital and are subject to less rigour and management / challenge by regions.

For external reporting purposes, a \$1.5 million threshold has been established for the categorization of projects as Major Capital Projects for the department.

From the review of listings of Major Capital Projects included with regional five year LTCPs, we found inconsistencies in terms of projects categorized and included as Major Capital, both in terms of dollar value and nature. Regions do not consistently define Major Capital Projects in terms of the \$ 1.5 million threshold.

As a result, projects similar in size, dollar value and risk may be managed in different manners among regions and smaller and less risky projects may not be managed in an efficient and cost effective manner.

### Recommendation

6. The Director General, Community Infrastructure Branch should develop and communicate guidelines for the categorization of projects to be managed as Major Capital Projects; and

The Director General, Operations and Planning Support Branch should establish processes for the ongoing monitoring of regional practices by Headquarters.

## **7.2.2 File Documentation of Major Capital Projects**

### ***There Are Inconsistencies In The Extent Of Documented Project File Evidence Addressing Key Risks Related To The Management Of Major Capital Projects***

The Treasury Board Guide on Grants, Contributions and Other Transfer Payments addresses the requirement for having departmental systems, procedures and resources in place for ensuring due diligence in approving transfer payments and verifying eligibility and entitlement in the management and administration of programs.

The existence and accessibility of relevant program file documentation is critical in providing evidence to demonstrate the exercise of due diligence in approving transfer payments and verifying eligibility and entitlement and in the management and administration of programs.

During the audit, we identified a number of key risks related to the management of Major Capital Projects including the overbuilding of assets, FN tendering policies not being respected and cost overruns. The management of key risks is an important component of due diligence, verification and other program management processes.

From the review of a sample of Major Capital Project files, we found inconsistencies in the extent and content of documented project file evidence demonstrating that key risks were being addressed in the following areas:

- Due Diligence. Project file documentation generally contained summaries of due diligence performed by either or both of Capital and Technical Services Officers at the Preliminary Project Approval (design) phase and in the case of cost overruns, but these summaries were inconsistent in terms of extent and content. There was a limited use of capital project review and assessment checklists among regions to ensure that key risks were being addressed.
- Levels of Service Standards. Levels of Service Standards are established to address the risk of “overbuilding” of education and water facility assets (e.g., School Accommodation Standards and anticipated enrollment figures govern the size of schools to be built and, the size of communities factor into the design/type and size of water supply and sewage projects to be built). Various types of documentation were on file as evidence that Levels of Service Standards were being addressed; however, the extent of file documentation was inconsistent ranging from: Technical Services Officer project signoff; Technical Services Officer signoff and checkoff on a checklist form; statements from Technical Services Officer that Levels of Service Standards were met; narrative summary by Technical Services Officers. In some cases, no documentation was found.
- FN Tendering Practices. The departmental ‘Indian Programs Manual’ outlines the *“Tendering Policy on Federally Funded Capital Projects on Reserve”*. In general, this policy requires FN tendering practices to be guided by policies that encompasses the key principles and mechanisms applied by the public and private sectors in tendering projects. As part of their regular assessment of individual FN capacity, regions ascertain whether or not FNs have tendering policies in place in adherence with departmental directives. Files reviewed however did not clearly document the extent to which adherence to tendering policies was monitored by the regions. Documented file evidence was generally limited to minutes of project management meetings that identified examples of project related contracts being tendered. There were some examples where tendering documentation such as the RFP document and the evaluation results were on file; however, project files did not contain a summary or checklist completed by Capital Officers as evidence of FN tendering practices being observed.
- INAC Participation on Project Management Teams. Project management teams are established for Major Capital Projects, and are led by project managers who are procured by FNs. Project management teams typically have INAC Capital and Technical Services representation. INAC participation is an important means to mitigate key project risks. We found examples of minutes of project management meetings on file as evidence of INAC participation, but the extent of existence of these documents on file varied both within and among regions.

- Emergency and/or High Risk Projects. Our review of Major Capital Project files included one large emergency project where the requirements for managing Major Capital Projects were not respected, and one project where the Levels of Service Standards were not respected. In each of these cases, documentation of decisions taken and justifications for these decisions with sufficient demonstration of how risks were being managed were not included on file.

During the review of Major Capital Project files, we also found that project files were not indexed and generally not well organized, resulting in difficulty in locating key documents that demonstrated that key risks were addressed.

The above findings can be attributed to the lack of national guidance and management practices related to Major Capital File documentation to address key project risks. The inconsistency in the extent and content of Major Capital Project file documentation increases the risk that project files are incomplete and do not provide evidence that key project risks, particularly those related to the impairment of value for money, are being addressed and mitigated. Adequate project file documentation also facilitates effective monitoring and audit processes, which are important components of a risk management framework.

### **Recommendation**

7. The Director General, Community Infrastructure Branch should ensure that national comprehensive guidelines for management of the CFM Program (recommended in Section 7.1.5 of this report) include Major Capital Project file documentation requirements to address key risk areas; and

The Director General, Operations and Planning Support Branch should establish processes for the ongoing monitoring of regional practices by Headquarters to assess compliance with the guidelines.

## **7.3 Management of Minor Capital and Operations and Maintenance Funding**

As described in Sections 2, 7.1.1 and 7.1.4 above, the management of funding for Minor Capital and O&M expenditures involves both funding from Headquarters to regions and funding from regions to FNs.

CFM Program funding is allocated by Headquarters to regions pursuant to the Global Funding Methodology known as “block funding”. Under this block funding approach, a ‘core’ budget was established including funding for Minor Capital and O&M expenditures. Annual budgets for regional allocations are being derived using “base” figures established in 1989, with subsequent annual increases that mirror INAC’s annual appropriation increase which has historically been 2%.

Regions in turn allocate funding to FNs, depending on their funding arrangement, i.e. five-year CFNFA/DFNFA or one-year CFA. Funding to FNs pursuant to CFNFAs / DFNFAs is based on a negotiated formula with annual funded amounts based on percentage increases from the above noted base amount. Funding to FNs pursuant to CFAs is derived in a variety of manners among regions. Generally, FN Minor Capital plans and CAIS asset information for O&M in conjunction with the INAC Cost Reference Manual are used to determine funding amounts. Estimates of the operation and maintenance funding requirements for funded assets are generated by the CAIS using the asset location, type and quantity data together with a cost look-up table that is linked to the CAIS.

Findings related to the design of the funding of Minor Capital and O&M as block funding and the lack of recent rebasing of funding were raised in Sections 7.1.1 and 7.1.4 of this report.

As noted in Section 7.1.1 of the report, the flexibility in funding arrangements for Minor Capital and O&M expenditures inherently creates a need for a sufficient level of departmental risk management practices, such as active monitoring and the conduct of FN compliance audits, in order to mitigate key program risks and ensure accountability and stewardship for the use of funds. One management practice in place involves the undertaking of ACRS inspections in all regions as a means to indirectly assess the extent to which O&M activities are being undertaken by FNs. These inspections target one third of all FNs each year (i.e. each FN is subjected to inspection every third year). The outcome of ACRS inspections is reports that include general and specific asset conditions, the identification of asset deficiencies and an assessment of criticality with recommendations to address these deficiencies. FNs have responsibility to act on recommendations to address asset deficiencies.

The department also enters into Ministerial Loan Guarantees, which provides loan security required by lenders providing financing to FNs, their delegated authorities or individual band members for the acquisition, construction or renovation of on reserve housing. INAC's Finance Branch operates the Guarantee Loan Management System (GLMS) and is responsible for the monitoring of the loan guarantee authority. Regions are responsible for administering their Ministerial Loan Guarantees portfolio, including: the review and approval of applications and required documentation; entering into agreements using the National Templates; capturing and updating data in the GLMS; monitoring the status of individual Ministerial Loan Guarantees by receiving and reviewing loan status reports from lenders; and, reviewing requests for and recommending payments resulting from housing loan defaults. The audit found that the above processes were being followed in regions during the period of audit.

The audit identified the areas below where risk management practices related to Minor Capital and O&M expenditures can be strengthened.

### **7.3.1 Overall Management and Oversight**

#### ***The Extent of Management and Oversight Over Minor Capital and O&M Funding Among Regions is Inconsistent and May Not Be Sufficient To Mitigate Key Program Risks Related to the Accountability For The Use of These Funds***

The Treasury Board Policy on Transfer Payments requires that transfer payment programs be supported by cost effective oversight and internal control systems, and that opportunities are pursued to standardize the administration of processes, procedures and requirements. The Treasury Board Policy on Transfer Payments also includes the requirement for the management of transfer payment programs in a manner that takes account of risk. The Treasury Board Guide on Grants, Contributions and Other Transfer Payments addresses the requirement for monitoring of funding recipients by program officers as a crucial element of a transfer program control framework to manage risks.

We found inconsistencies among regions in the extent of management and oversight being exercised to mitigate key risks related to the accountability for the use of Minor Capital and O&M funds. In one region, Minor Capital is managed closely, similar to Major Capital Projects, with all capital funding decisions made on a “needs” basis pursuant to a project submission process and assessment against the priority ranking framework. In two other regions, minor capital funding to FNs under CFAs is very closely tied to progress and completion reports on projects including substantial holdbacks in effect in one region until requisite reporting is received. In other regions, funding is linked to the submission of Minor Capital plans and to approved cash flow projections with controls in the management of Minor Capital funding exercised at varying degrees. O&M expenditures are generally managed in regions with a relatively low degree of control. In one region, however, O&M is managed relatively closely.

The ACRS inspection process is a primary means implemented by program management to assess that O&M funds are being spent for the purposes intended. We found that although this is a necessary process, it is not sufficient because it only provides indirect evidence that O&M funds are being spent for the purposes intended.

#### **PREVIOUS PARAGRAPH ON MLGs WAS MOVED BEFORE SECTION 7.3.1**

We found that the degree of monitoring of FNs related to both Minor Capital and O&M is inconsistent among regions and overall may not be sufficient in the following areas:

- Minor Capital and O&M Priorities. INAC program directives state that Community Housing Plans and / or Physical Development Plans should be kept up to date by FNs as a means to identify capital priorities. In addition, CFAs and CFNFAs/DFNFAs with FNs identify the requirement for updated Management

Maintenance Plans to identify O&M priorities. We found no evidence of monitoring in regions to ensure that the above plans are being kept up to date by FNs.

- Annual Minor Capital Plans. CFAs and CFNFAs/DFNFAs include requirements, as a basis for payment, for FNs to submit plans for Minor Capital to regions on an annual basis. We found that annual plans were being submitted by FNs; however, there was an inconsistency in the extent of documented evidence of the review and challenge of these annual plans by regions.
- Project Completion Reports for Minor Capital. CFAs and CFNFAs/DFNFAs also include requirements, as a basis for payment, for FNs to submit Project Completion Reports as evidence of completion of Minor Capital projects. We found that Project Completion Reports were being submitted by FNs, but there was an inconsistency in the extent of file documentation maintained by regions and the extent of information contained in Project Completion Reports. Project Completion Reports were often signed by FN representatives, and this does not provide independent verification of project completion.
- Site Visits. We found that site visits were being conducted in all regions, however they were not formalized, not linked to a risk management process, and not done on a regular, consistent basis and consistently documented.

The lack of sufficient management and oversight, including monitoring, of Minor Capital and O&M increases the risk that funds are not being spent for purposes intended or that insufficient Minor Capital and O&M activities are being carried out. Consequently, this could result in the impairment of attaining CFM objectives, both in an effective and cost effective manner, by:

- The shortening of the lifespan of FN assets through premature asset “rust out”; and
- Not having program funding based on need, potentially resulting in FNs receiving either excessive or insufficient funding to meet their requirements.

### Recommendation

8. The Director General, Community Infrastructure Branch should develop guidelines outlining minimum requirements or expectations, including monitoring, for the management and oversight of Minor Capital and O&M; and

The Director General, Operations and Planning Support Branch should work closely with the Chief Financial Officer to establish processes for the ongoing monitoring of regional practices by Headquarters to assess compliance with the guidelines.

### **7.3.2 Compliance Audits of First Nations**

#### ***Compliance Audits of First Nations Are Not Being Performed As a Means to Mitigate Key Risks***

The Treasury Board Policy on Transfer Payments includes the requirement for the management of transfer payment programs in a manner that takes account of risk. The Treasury Board Guide on Grants, Contributions and Other Transfer Payments addresses compliance audits of recipients as a means to manage key risks.

We found compliance audits of FNs are not being undertaken in all regions in order to ascertain the nature and extent of Minor Capital and O&M activities and related expenditures.

We further found that all regions place reliance on the review of Annual Audited Financial Statements of FNs as a means of obtaining some degree of assurance on the nature and extent of Minor Capital and O&M activities and related expenditures. However, these Financial Statement reviews of FNs are being performed primarily for purposes of assessing the financial capacity and management of FNs as part of the management of the five year or annual funding agreements. We reviewed a sample of FN Audited Financial Statements and found that Minor Capital and O&M expenditures are not consistently reported to the detail and extent necessary to obtain assurance that Minor Capital and O&M funding is being spent for the purposes intended. Minor Capital and O&M expenditures are often identified in supporting schedules to the Audited Financial Statements and are not subject to audit. Consequently, these Financial Statement reviews do not serve as an effective means to manage key risks.

The lack of FN compliance audits increases the risk that funds for Minor Capital and O&M are not being spent for purposes intended or that insufficient Minor Capital and O&M activities are being carried out.

#### **Recommendation**

9. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should consider the implementation of risk based FN compliance audits as part of a formalized risk management framework.

## APPENDIX A –SUMMARY OF CFM PROGRAM CONTRIBUTION EXPENDITURES

<b>EXPENDITURE CATEGORY &amp; COMPONENT</b>	<b>2006-2007 (Actual) (\$000s)</b>	<b>2007-2008 (Planned) (\$000s)</b>
<b>Infrastructure</b>		
Capital - Major Projects	208,007	181,550
Capital - Minor Projects	178,283	242,062
O&M	279,122	299,926
<b>Subtotal</b>	<b>665,412</b>	<b>723,538</b>
<b>Education</b>		
Capital - Major Projects	75,608	94,775
Capital - Minor Projects	22,445	50,746
O&M	96,723	102,964
<b>Subtotal</b>	<b>194,777</b>	<b>248,485</b>
<b>Housing</b>		
Capital - Major Projects	15,456	19,466
Capital - Minor Projects	235,136	140,371
O&M	3,934	3,863
<b>Subtotal</b>	<b>254,526</b>	<b>163,700</b>
<b>GRAND TOTAL</b>	<b>1,114,715</b>	<b>1,135,723</b>

**Note:** The information presented is extracted from information presented by INAC in its update to the LTCP through the Annual Reference Level Update (ARLU) for 2006-2007.

## **APPENDIX B – AUDIT CRITERIA**

### **PROGRAM DESIGN AND APPROVAL**

1. Program Activities Are Authorized And Aligned With Departmental And Program Objectives And Priorities
2. A Performance Management Framework Is In Place To Measure And Report On Achievement Of Program Objectives And Results
3. A Risk Management Framework Is In Place To Identify, Assess And Mitigate Program Risks

### **PROGRAM IMPLEMENTATION**

4. There Is An Appropriate Allocation Of Funding To Regions For Major Capital, Minor Band Based Capital And O&M Expenditures
5. Funding For Capital Projects And O&M Expenditures Is Aligned With National, Regional And First Nation Priorities
6. There Is An Awareness Of CFM Program Requirements, Including Roles And Responsibilities
7. There Is Sufficient Capacity And Resources To Effectively Deliver And Manage The CFM Program
8. Information Systems Are Adequate To Track, Accumulate And Report Program Management Information For Decision Making Purposes

### **PROGRAM MONITORING AND REPORTING**

9. Program Performance Is Measured And Reported To Senior Management

### **ELIGIBILITY / EVALUATION**

10. Project Assessment Is Conducted With Appropriate Due Diligence
11. Project Funding Decisions Are Made In A Fair And Consistent Manner

## **AGREEMENT DEVELOPMENT**

12. Appropriate Funding Arrangements Are Being Implemented – Eg. Use Of Long Term Flexible Agreements For First Nations Who Have Sufficient Capacity
13. Funding Arrangements Contain Sufficient And Appropriate Terms And Conditions To Mitigate Key Program Risks And To Ensure Compliance With INAC And Treasury Board Policies And Directives

## **ELIGIBILITY/EVALUATION / AGREEMENT DEVELOPMENT / AGREEMENT MONITORING AND REPORTING**

14. Projects Are Approved, Agreements Are Signed And Payments Are Approved By Persons With Delegated Authority

## **AGREEMENT MONITORING AND REPORTING**

15. Payments Are Not Made Where There Are Outstanding First Nation Reporting Requirements
16. Payments Are Made Pursuant To Agreements, The Financial Administration Act, And/Or Based On Need In Accordance With The Treasury Board Cash Management Policy And Policy On Transfer Payments
17. Funds Are Spent As Intended And There Is General Compliance To Agreement Terms And Conditions
18. Reporting On ACRS Inspections And On Asset Conditions Is Done In A Timely Manner And Required Actions Are Identified And Monitored.

# **ACTION PLAN**

## ACTION PLAN

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Director General, Community Infrastructure Branch should work closely with the Director General, Operations and Planning Support Branch and the Chief Financial Officer to reassess the funding authorities and First Nation funding agreements that currently provide flexibility in the funding on minor capital and operations &amp; maintenance expenditures, giving consideration to providing funding on a more 'targeted' basis.</p>	<p>a) Chief Financial Office to develop standardized departmental approach to drafting First Nation funding agreements that respond to funding authority requirements under the new TB Transfer Payment Policy.</p>	<p>Chief Financial Officer, Chief Financial Officer Sector</p>	<p>September 30, 2009</p>
	<p>b) Community Infrastructure Branch to work with Chief Financial Office (Transfer Payments and Financial Policy Directorate) to understand broad framework of new Treasury Board Transfer Payment Policy and how it affects future funding authorities /agreements as it relates to community infrastructure and apply these principles to the future funding agreements.</p>	<p>Director General, Community Infrastructure Branch</p>	<p>December 31, 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
	c) Operations and Planning Support Branch to work with Regional Offices (Chief Financial Office and Community Infrastructure Branch in support) to develop mechanisms to bring about more effective oversight of minor capital and operations & maintenance spending in First Nation funding agreements. This work will be aligned with a and b.	Director General, Operations and Planning Support Branch	March 31, 2010
2. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should ensure that the roles and responsibilities for performance management at the senior management and board / committee level are defined and communicated, and that performance information, including Key Performance Indicators, is incorporated into ongoing performance management at both the	a) Community Infrastructure Branch to develop a CFM Program-specific Performance Measurement Strategy (replacement for now defunct RMAF/RBAF) in conjunction with program renewal. Performance Measurement Strategy will spell out roles and responsibilities, as well as key performance indicators. Key performance indicators will also continue to be reported on quarterly through the department's smart reporting process.	Director General, Community Infrastructure Branch	December 31, 2009

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
national and regional levels.	b) Community Infrastructure Branch to work with Operations and Planning Support Branch to restructure terms of reference for the National Capital Management Board and/or other senior management committees, clarify roles and responsibilities with respect to CFM Program, and establish key performance measurement indicators for ADM-Committee level (i.e., review of quarterly reporting input, follow up on A&E action plans, DPR/RPP input, etc.).	Director General, Community Infrastructure Branch	June 30, 2009
	c) Operations and Planning Support Branch to communicate roles and responsibilities to Regional Offices and develop procedures to collective performance information on key performance indicators and ensure that the key performance indicators are incorporated into regional and national level Performance Management Agreements.	Director General, Operations and Planning Support Branch	March 31, 2010
3. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should develop, formalize, document and implement a risk management framework specific to the CFM Program that incorporates roles and responsibilities at the Headquarters and	a) Community Infrastructure Branch to develop a CFM Program-specific Performance Measurement Strategy in conjunction with program renewal. The Strategy will include a risk management framework that details oversight and quality assurance functions for headquarters and regions.	Director General, Community Infrastructure Branch	December 31, 2009

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
regional senior management and board / committee level and an appropriate level of oversight / monitoring / quality assurance role for Headquarters over regional practices.	b) Operations and Planning Support Branch to work with Regional Offices to implement risk management framework and oversight and quality assurance functions for Headquarters and regions	Director General, Operations and Planning Support Branch	March 31, 2010
4. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should conduct a review of the methodology and process for allocating CFM Program funding from Headquarters to regions.	a) Community Infrastructure Branch to work with Chief Financial Office, Operations and Planning Support Branch and Regional Offices to explore options for enhancing the methodology and process for allocating CFM Program funding (core and non-core) from Headquarters to regions.	Director General, Community Infrastructure Branch	December 31, 2010
	b) Community Infrastructure Branch to work with Chief Financial Office, Operations and Planning Support Branch and Regional Offices to take results from a) and apply to each of the asset classes (i.e., water, schools, housing). The current engineering assessment for water will also provide information for this exercise.	Director General, Community Infrastructure Branch	December 31, 2011

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>5. The Director General, Community Infrastructure Branch and the Director General, Operations and Planning Support Branch should ensure that updated and comprehensive national guidelines for the management of the CFM Program are developed and disseminated to program management in the regions.</p>	<p>a) Community Infrastructure Branch to develop/update high level flowchart, indicating various activities undertaken by the department and the purpose of each activity. Will cover generic processes (major capital, minor capital, etc.) and theme-specific processes (water major capital, school major capital, etc.)</p>	<p>Director General, Community Infrastructure Branch</p>	<p>June 30, 2009</p>
	<p>b) Operations and Planning Support Branch to work with regions to implement work done in a).</p>	<p>Director General, Operations and Planning Support Branch</p>	<p>June 30, 2009</p>
	<p>c) Community Infrastructure Branch to develop/update 2<sup>nd</sup> tier guidelines that will detail roles and responsibilities, the management control framework for the CFM Program, and authorities to approve funding expenditures. Flowcharts in 5.1.1 will also be expanded to additional themes including roads and bridges major capital and electrification major capital.</p>	<p>Director General, Community Infrastructure Branch</p>	<p>September 30, 2009</p>
	<p>d) Operations and Planning Support Branch to work with regions to implement work done in c).</p>	<p>Director General, Operations and Planning Support Branch</p>	<p>September 30, 2009</p>

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
	e) Community Infrastructure Branch to compile/consolidate national standards for engineering and/or construction standards, templates, financial coding, detailed audit and compliance regimes, checklists for business processes, etc. Regional variations may be introduced to account for different regional factors. Identified gaps in information will be filled with new procedures/processes development as required.	Director General, Community Infrastructure Branch	December 31, 2009
	f) Operations and Planning Support Branch to work with regions to implement work done in e).	Director General, Operations and Planning Support Branch	December 31, 2009
6 a) The Director General, Community Infrastructure Branch should develop and communicate guidelines for the categorization of projects to be managed as major capital projects.	a) Community Infrastructure Branch to draft/update comprehensive national guidelines for the categorization of projects to be managed as major capital projects.	Director General, Community Infrastructure Branch	June 30, 2009
	b) Operations and Planning Support Branch to implement in regions comprehensive national guidelines for the categorization of projects to be managed as major capital projects.	Director General, Operations and Planning Support Branch	September 30, 2009
6 b) The Director General, Operations and Planning Support Branch should establish processes for the ongoing monitoring of regional practices by Headquarters.	Operations and Planning Support Branch to establish processes for the ongoing monitoring of major capital regional practices (i.e., file review, project approval process) by Headquarters, including communication interface between Operations and Planning Support Branch and Community Infrastructure Branch.	Director General, Operations and Planning Support Branch	September 30, 2009

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
7 a) The Director General, Community Infrastructure Branch should ensure that national comprehensive guidelines for management of the CFM Program (as recommended in item 5 include major capital project file documentation requirements to address key risk areas.	a) Community Infrastructure Branch to draft/update comprehensive national guidelines for major capital project file documentation requirements to address key risk areas.	Director General, Community Infrastructure Branch	September 30, 2009
	b) Operations and Planning Support Branch to implement in regions comprehensive national guidelines for the management of the CFM Program that include major capital project file documentation requirements, which address key risk areas.	Director General, Operations and Planning Support Branch	September 30, 2009
7 b) The Director General, Operations and Planning Support Branch should establish processes for the ongoing monitoring of regional practices by Headquarters to assess compliance with the guidelines.	Operations and Planning Support Branch to establish processes for the ongoing monitoring of regional practices by headquarters to assess compliance with guidelines as they relate the major capital project file documentation.	Director General, Operations and Planning Support Branch	December 31, 2009
8 a) The Director General, Community Infrastructure Branch should develop guidelines outlining minimum requirements or expectations, including monitoring, for the management and oversight of minor capital and operations & maintenance.	a) Community Infrastructure Branch to draft/update guidelines detailing minimum requirements for the management of oversight of minor capital and operations & maintenance.	Director General, Community Infrastructure Branch	December 31, 2009
	b) Operations and Planning Support Branch to implement in regions guidelines detailing minimum requirements for the management of oversight of minor capital and operations & maintenance.	Director General, Operations and Planning Support Branch	March 31, 2010
8 b) The Director General, Operations and Planning Support Branch should work closely with the Chief Financial Officer to establish processes for the ongoing monitoring of regional practices by Headquarters to assess compliance with the guidelines.	Operations and Planning Support Branch to work with Chief Financial Office to establish processes for the ongoing monitoring of regional practices by headquarters to assess compliance with the minor capital and operations & maintenance guidelines.	Director General, Operations and Planning Support Branch	March 31, 2010

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>9. The Director General, Community Infrastructure Branch and the Director General , Operations and Planning Support Branch should consider the implementation of risk based FN compliance audits as part of a formalized risk management framework.</p>	<p>a) Community Infrastructure Branch to work with Operations and Planning Support Branch to develop compliance audit framework and process for the CFM Program, building upon the compliance audit work that has been undertaken specifically for the First Nations Water and Wastewater Action Plan.</p>	<p>Director General, Community Infrastructure Branch</p>	<p>December 31, 2009</p>
	<p>b) Operations and Planning Support Branch, with support from Community Infrastructure Branch, to implement the compliance audit framework and processes in the regions.</p>	<p>Director General, Operations and Planning Support Branch</p>	<p>March 31, 2010</p>