

# **Indian and Northern Affairs Canada**

## **Internal Audit Report**

### **Post-Implementation Audit of the First Nations and Inuit Transfer Payment (FNITP) System**

**Prepared by**

**Audit and Assurance Services Branch**

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## List of acronyms

The following is a list of acronyms used in this document.

AES	Audit and Evaluation Sector
CEAP	Canada's Economic Action Plan
CIDM	Comprehensive Integrated Document Management
COBIT	Control Objectives for Information and related Technology
FAA	Financial Administration Act
FNITP <sup>1</sup>	First Nations and Inuit Transfer Payment
Gs&Cs	Grants and Contributions
GAAS	Generally Accepted Auditing Standards
INAC <sup>2</sup>	Indian and Northern Affairs Canada
ITDM	IT Dependent Manual
MOU	Memorandum of Understanding
OASIS	Oracle Application Software Implementation Strategy
PKI	Public Key Infrastructure
PMBOK	Project Management Body of Knowledge
PMI	Project Management Institute
TPMS	Transfer Payments Management System

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<sup>1</sup> FNITP is also referred to as "the system"

<sup>2</sup> INAC is also referred to as "the Department"

## **Executive summary**

### **Background**

The First Nations and Inuit Transfer Payment (FNITP) system is the enterprise system in place since 2006 to manage more than \$6 billion entrusted annually to Indian and Northern Affairs Canada (INAC)<sup>3</sup> for the management of grants, contributions and other transfer payments.

The audit was conducted from November 2009 to August 2010. The work was conducted in a sample of five regions and INAC's headquarters in Gatineau, QC.

FNITP is not a stand-alone system, as interfaces exist to other departmental systems such as Oracle Application Software Implementation Strategy (OASIS) and Comprehensive Integrated Document Management (CIDM). These interfacing systems were not assessed as part of the audit. However, reports from these systems were used to validate the performance of control activities related to sections 32, 34 and 33 of the *Financial Administration Act* (FAA).

### **Objective and scope**

The objective of the audit was to determine if the FNITP system supports an effective and efficient process to manage INAC's grants and contributions.

The scope of the audit included review of the following:

- ▶ Responses to past audit findings and recommendations;
- ▶ Project/program documentation for the following key program areas: vision & direction, planning, program execution, measurement & monitoring, business acceptance;
- ▶ Plans to account for changes in system development, integration with new systems and new functional requirements and tracking of impact on budgets, resources levels and delivery schedules;
- ▶ Operational grants and contributions business process across each of the sample regions; and
- ▶ Workflow controls, application controls, IT-dependent manual controls and IT general controls.

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<sup>3</sup> INAC is also referred to as the "Department" in this report.

## **Methodology**

The audit was conducted in three distinct phases: planning, conduct and reporting. A risk-based audit program was developed during the planning phase which focused on aspects of the FNITP system that impact program delivery and operations. The audit fieldwork was carried out during the conduct phase at headquarters in Gatineau, Quebec and in regional offices in Ontario, Saskatchewan, Alberta, British Columbia, and Northwest Territories. The audit program was structured to include documentation reviews, observations, interviews, and testing.

## **Findings and conclusions**

The consensus of the interviewees was that the FNITP system is a significant improvement from the previous system known as the Transfer Payments Management System (TPMS). Throughout the audit process a number of key strengths were observed with the FNITP system. The top three strengths observed for the system were:

- ▶ Streamlined national system to manage Gs&Cs;
- ▶ Integrated with other departmental systems (e.g. CIDM, OASIS); and
- ▶ In line with Treasury Board's *Policy on the Use of Official Languages for Communications with and Services to the Public*.

The audit identified the following findings:

- ▶ A lack of training and support available to regional offices and recipients has resulted in limited adoption of the FNITP system by recipients;
- ▶ A policy framework has not been established to include appropriate support from the Transfer Payments Center of Expertise;
- ▶ No evidence was available for review showing Memorandums of Understanding (MOU) were in place in the cases where more than one department or other levels of government are signing the funding agreements with First Nations.
- ▶ Regional business processes and system capabilities do not fully align to effectively support the delivery of grants and contributions across all regions and programs;
- ▶ The INAC Gs&Cs process and FNITP system were not designed to fully utilize the capabilities of an automated system; and
- ▶ FNITP does not provide certain types of reports that would be relevant to regional users.

The following root-causes of the performance issues were:

- ▶ Lack of policy framework to define system and business ownership;
- ▶ Lack of training resources is undermining the Department's ability to optimize the use of a national Gs&Cs system; and
- ▶ Lack of a finalized, adopted and communicated system change management directive to manage the approval and implementation of system changes.

The evidence gathered suggests that there has been, and continues to be, a lack of sufficient training and support resources to maintain a Gs&Cs system that will effectively support funding to First Nations, Inuit, Métis and Northerners.

Furthermore, the lack of dedicated training and support resources to communicate the potential benefits of the system has resulted in under-utilization of the system by recipients.

In addition to the shortcomings related to resourcing, the lack of a policy framework and defined system ownership has also caused significant issues within the Department. The lack of a defined process to request, approve and implement system changes has resulted in changes being implemented without consultation or approval from the Transfer Payments Center of Expertise.

### **Recommendations**

- ▶ The CFO, in collaboration with the ADMs responsible for regional operations and staff, should develop and implement a program that ensures sufficient resources are allocated to providing training and support to recipient users. In conjunction with this training and support program, regional representatives across the country should champion the adoption of FNITP by their recipients.
- ▶ The CFO should ensure that the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate develop a policy framework and departmental directive to address issues related to system change management and ownership.
- ▶ The CFO should implement the requirement to finalize MOUs in the cases where more than one department or other levels of government are signing the funding agreements with First Nations. The MOUs should clearly indicate how notifications of payment withholdings will be communicated from departments or other levels of government providing funding to INAC and under what circumstances these payment withholdings will be executed.
- ▶ The CFO should lead a cross functional team responsible for assessing regional processing requirements and establishing a procedure to incorporate them into FNITP. The team should be comprised of members from the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.

- ▶ The CFO should refine INAC's *Financial Management Manual for Transfer Payments* to include a clear definition of FAA sections 32, 34 and 33 controls. The definition should outline how the controls will be captured and represented in FNITP. System application controls should be modified to align with the refinements to the Financial Management Manual.
- ▶ The CFO should lead a cross functional team responsible for determining whether FNITP is meeting regional reporting needs. The team should be comprised of members from the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.

## **1. Background**

INAC is one of the federal government departments responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutional responsibilities in the North. The 2010-2011 main estimates total more than \$7.2 billion of budgetary expenditures, with \$6 billion earmarked for grants and contributions (Gs&Cs).

The Department supports Aboriginal people (First Nations, Inuit and Métis) and Northerners in their efforts to:

- ▶ Improve social well-being and economic prosperity;
- ▶ Develop healthier, more sustainable communities; and
- ▶ Participate more fully in Canada's political, social and economic development to the benefit of all Canadians.

INAC delivers the vast majority of its programs and services in partnership with First Nations and federal-provincial or federal-territorial agreements. INAC's significant investment in Information Technology supports key strategic INAC programs and operational business activities within the Department.

A Preliminary Survey of IM/IT Applications dated April 2008 was conducted to identify the applications with issues and risks that would require further attention by the Audit and Evaluation Sector (AES). This preliminary survey of IM/IT applications identified the First Nations and Inuit Transfer Payment (FNITP) application as a high-risk system.

FNITP was designed to replace the Transfer Payment Management System (TPMS). FNITP is the enterprise system in place since 2006 to manage INAC's grants, contributions and other transfer payments.

## **2. Objective and scope**

### **2.1 Objective**

The objective of the audit was to determine if FNITP supports an effective and efficient process to manage INAC's grants and contributions.

### **2.2 Scope**

The scope of the audit included review of the following:

- ▶ Responses to past audit findings and recommendations;
- ▶ Project/program documentation for the following key program areas:
  - ▶ Vision & direction
  - ▶ Planning



- ▶ Program execution
- ▶ Measurement & monitoring
- ▶ Business acceptance;
- ▶ Plans to account for changes in system development, integration with new systems and new functional requirements and tracking of impact on budgets, resources levels and delivery schedules;
- ▶ Operational Gs&Cs business process across each of the sample regions; and
- ▶ Workflow controls, application controls, IT-dependent manual controls and IT general controls.

For greater clarity, potential risks not assessed as part of this audit are the following:

- ▶ Amounts of overpayments (if any);
- ▶ Performance of interfacing systems i.e. Comprehensive Integrated Document Management (CIDM) system, Oracle Application Software Implementation Strategy (OASIS); and
- ▶ Separate operating agencies, such as the following:
  - ▶ Indian Oil and Gas Canada (IOGC) – While IOGC provided funding to INAC to be administered on their behalf, IOGC did not use FNITP; and
  - ▶ Canadian Northern Economic Development (CanNor) – While CanNor did use FNITP, their funding arrangements were not included in the sample-based testing.

### **3. Statement of assurance**

Sufficient work was performed and the necessary evidence was gathered to support the findings, recommendations and conclusions contained in this report. The work was conducted according to a risk-based audit program developed collaboratively with INAC management.

The risk-based audit program was based on *Control Objectives for Information and related Technology*, version 4.1 (COBIT 4.1) and the Project Management Institute's *Project Management Body of Knowledge*, version 4 (PMI PMBOK 4). The audit was executed in conformity with the *Internal Auditing Standards for the Government of Canada*. It does not constitute an audit or review in accordance with any Generally Accepted Auditing Standards (GAAS).

In addition to the *Internal Auditing Standards for the Government of Canada*, the audit procedures were aligned with Treasury Board's *Policy on Internal Audit* and related policy instruments as well as the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*.

## **4. Methodology**

### **4.1 Timeline**

The audit was conducted in three distinct phases:

- ▶ Planning Phase (November 2009 – January 2010);
- ▶ Conduct Phase (January 2010 – June 2010); and
- ▶ Reporting Phase (June 2010 – August 2010).

### **4.2 Areas of focus**

The following are areas that were assessed for the FNITP application and the FNITP business process transformation program:

- ▶ Management response to past audit findings;
- ▶ Program and project delivery documentation;
- ▶ Operational business process and practices for grants and contributions;
- ▶ Workflow controls, Application controls, IT-dependent manual (ITDM) controls and IT general controls; and
- ▶ Compliance with relevant Government of Canada policies.

### **4.3 Audit approach**

The following approach was based on the status of FNITP at the time of the audit:

- ▶ Information gathered through interviews was validated through testing;
- ▶ Controls reviewed included workflow controls, manual controls and system controls;
- ▶ Control design was validated through walk-throughs in the regions; and
- ▶ Adoption of the system by recipient users was assessed through sample-based testing.

The audit fieldwork was conducted at headquarters and in a sample of regions as follows:

- ▶ Ontario (Toronto Office);
- ▶ Alberta (Edmonton Office);
- ▶ Saskatchewan (Regina Office);
- ▶ British Columbia (Vancouver Office); and
- ▶ Northwest Territories (Yellowknife Office).

Regions were selected based on the following criteria:

- ▶ Size of recipient population served by the regional office;
- ▶ Unique operational processes executed for certain programs in specific regional offices;
- ▶ Findings from other audits and reviews; and
- ▶ Other factors identified which would increase the level of risk relative to grants and contributions.

We used a risk-based approach to scope the audit and focus on areas of greatest risk to the Department. The audit program was structured to include documentation reviews, observations, interviews, and testing.

## **5. Understanding the business context of FNITP**

FNITP is an integral tool in facilitating the management of grants and contributions at INAC. The FNITP system provides functionality to:

- ▶ Facilitate the front-end preparatory work to develop funding arrangements (e.g. budget allocation activities);
- ▶ Create and maintain funding arrangements; and
- ▶ Manage recipient reports through which expenditures are justified, results of activities are recorded, and the potential need for corrective action is identified (e.g. noncompliance with funding arrangement terms and conditions).

The goals of the FNITP system are to:

- ▶ Streamline the transfer payments business processes consistently across all regions and sectors;
- ▶ Provide improved accountability by introducing better financial and non-financial reporting capabilities; and
- ▶ Grant access to First Nations, Inuit, Métis and Northerners through a Web-Enabled Portal.

FNITP assists INAC in applying funding management practices in accordance with the Management Accountability Framework and the Treasury Board's *Policy on Transfer Payments*.

FNITP is a centralized departmental system that interfaces to other departmental systems. It is used by both internal and external stakeholders. FNITP is supported by the Integrated Performance and Corporate Systems Directorate and guided by the Transfer Payments Center of Expertise.

## 6. System strengths

The consensus of the interviewees was that the FNITP system is a significant improvement from the previous system known as the Transfer Payments Management System (TPMS).

Throughout the audit, it was observed that the FNITP system:

- ▶ Is a streamlined national system to manage Gs&Cs;
- ▶ Is integrated with other departmental systems (e.g. CIDM, OASIS);
- ▶ Is in line with the Government of Canada's *Policy on the Use of Official Languages for Communications with and Services to the Public*;
- ▶ Contains templates for funding arrangements;
- ▶ Provides workflow of G&Cs administration; and
- ▶ Is available to recipient users to access information and submit required reports.

## 7. Findings

The audit findings are outlined according to four main areas of examination as follows:

- ▶ Program review;
- ▶ Operational business process;
- ▶ Reporting; and
- ▶ System performance.

These areas are described in the following sections.

### 7.1 Program review

#### 7.1.1 Adoption of the system by recipient users

A major driver for implementation of the system was to allow recipients to have access to their Gs&Cs information from within their community. The original FNITP Business Case listed the following objectives:

- ▶ Provide on-line access and sharing of common data and information by all stakeholders;
- ▶ Contribute to the development of eligible recipients' capacity to apply new technologies; and
- ▶ Improve the collection of, and access to, information for analysis for all stakeholders to help inform decision-making.

Some of the benefits for recipients of FNITP include the ability to:

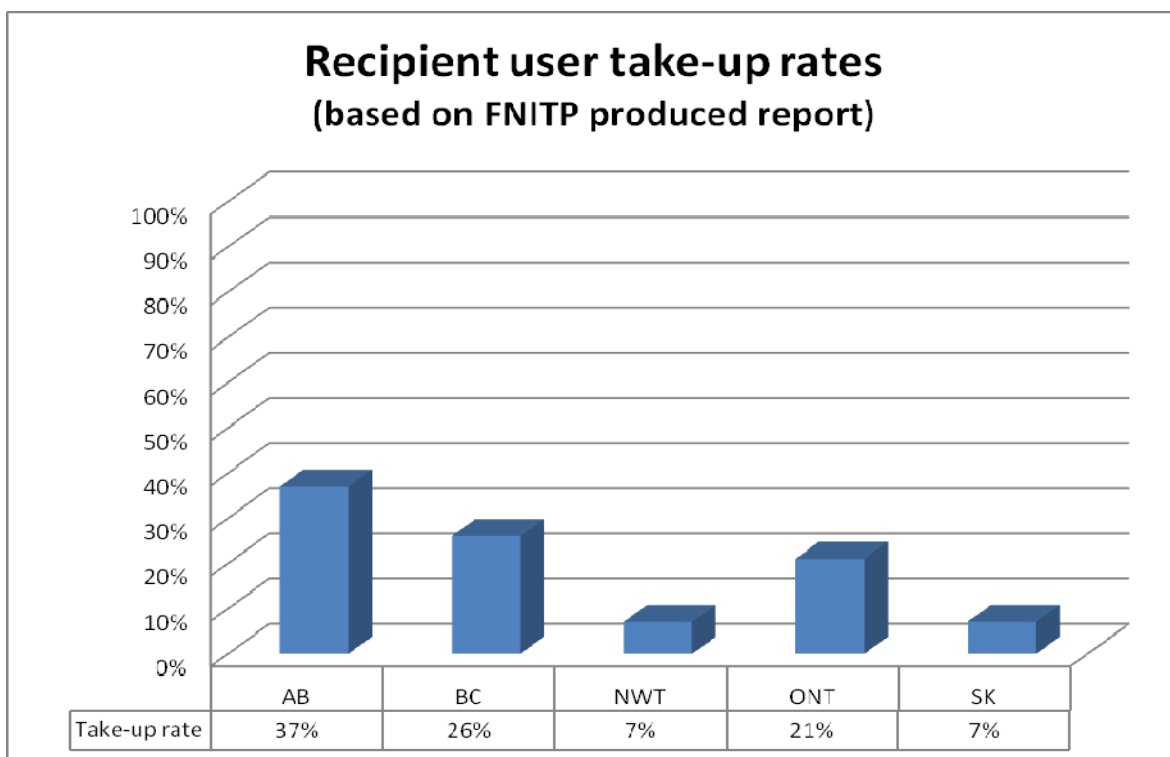
- ▶ Upload recipient reports directly into FNITP;

- ▶ Verify the status of payments; and
- ▶ Retrieve the most recent copy of the signed funding agreement.

The audit measured the adoption of the system by recipient users by calculating the percentage of users who appeared to be actively using the system. This was termed the “take-up rate”. The recipient user take-up rate is the percentage of total recipients logging in to the FNITP system. Interviews and testing in the regions confirmed that the take-up rate for recipient users of the system was low. Figure 1 shows the results of the testing in the five regions visited. Take-up rates were calculated based on the following FNITP reports:

- ▶ Recipient User Login Report; and
- ▶ List of funding arrangements – filtered to include only active funding arrangements.

It is possible for a recipient user to have several active accounts. For purposes of testing a recipient user, it was considered valid, if at a minimum, the recipient user had at least one active account with a reported login date. Any login date was considered valid (login dates can extend back to system inception in 2006). For each region, the total number of active recipients (recipients with active funding arrangements in 2009-2010) was divided by the total number of recipient users to determine the take-up rate.



**Figure 1 – Recipient user take-up rates**

Interviewees explained that the low take-up rate was a result of a lack of training and support provided to recipient users. Interviews confirmed that in all regions recipient users did not receive adequate support tailored to their individual needs. Regional

interviewees indicated that the national help desk model did not provide adequate support required to meet the needs of the regional recipient users.

Interviewees stated that there were not enough dedicated trainers to accommodate the needs of recipients. Rather than having a trainer available at the national level, interviewees suggested that additional regionally dedicated resources be obtained to deliver training to recipients.

Interviewees explained that in some instances recipients did not trust FNITP's ability to provide recipient reports to the appropriate INAC staff. This lack of trust results in recipients not only uploading recipient reports to FNITP, but also submitting copies of the same report by mail and/or fax and/or dropping off in person. Their expectation is that the more copies provided, and communication media used, the more likely the recipient report would be received and approved. However, interviewees noted that multiple submissions did not necessarily ensure a greater likelihood that the recipient report would be received and approved. Interviewees attributed the occurrence of these events to the lack of communication from INAC to recipients of the optimum method of recipient report submission.

#### 7.1.2 Training and support

Training for recipients, Funding/Field Services Officers, Financial Arrangements and Quality Assurance Officers, and Accounting Officers is critical to FNITP data integrity and functionality. Interviewees stated that not enough training was available to support:

- ▶ Numerous upgrades;
- ▶ New modules available for use; and
- ▶ Incoming employees unfamiliar with the system.

During the audit we identified discrepancies among regions in the following areas:

- ▶ Lack of formal mechanism to gather feedback from end-users;
- ▶ No sharing of best practices across regions, headquarters and recipients users;
- ▶ Lack of identification of a formal FNITP champion or functional expert; and
- ▶ Disconnect between headquarters and the regions on how to use the system.

Furthermore, the training and support provided at the national level did not support the day to day operational enquiries encountered in the regions. The Department had not defined service standards for internal and external users of FNITP.

Although most regions informally identified an FNITP functional expert, interviewees stated their strong desire for additional dedicated FNITP functional experts to serve both internal and external users in the regions.

- ▶ **Finding 1:** A lack of training and support available to regional offices and recipients has resulted in limited adoption of the FNITP system by recipients. Due to the lack of training and support, some regions no longer encourage the adoption of FNITP by their recipients.

Without sufficient training and support to meet the needs of staff and recipients, acceptance of the system will continue to be affected. Interviewees stated that many users, particularly the recipient users, are unaware of the many benefits of the system.

- ▶ **Recommendation 1:** The CFO, in collaboration with the ADMs responsible for regional operations and staff, should develop and implement a program that ensures sufficient resources are allocated to providing training and support to recipient users. In conjunction with this training and support program, regional representatives across the country should champion the adoption of FNITP by their recipients.

### 7.1.3 System governance

Establishing alignment between the functional and technical areas of an organization is crucial to successful system governance. During the audit, we observed gaps in system governance as detailed below.

#### *System change management*

Alignment between functional and technical areas for change management purposes is vital in supporting operational processes effectively and in accordance with policy. Interviewees stated that the process to perform system changes remains undefined. They explained that changes were completed without consultation or approval from the functional group (INAC's Transfer Payments Center of Expertise). At the end portion of the conduct phase of the audit, we received the draft *Directive for the Submission and Management of Change Requests*. Although the directive has not been formally approved, it represents a step in a positive direction for the Department in implementing a policy framework to manage system changes.

Interviews with regional users identified the FNITP Change Management Governing Group as the authority responsible for the discussion and review of the changes to the system; however, interviewees noted that the mandate of this group remains unclear. Particularly, it is unclear whether this group was granted the authority to approve the implementation of changes to the system. As a result of this, changes were implemented into the system without the consent of key operational staff.

#### *Ownership*

In addition to the system change management issues resulting from the lack of a policy framework, we also observed confusion related to system ownership. Interviewees stated that both system and business ownership are associated with the Integrated

Performance and Corporate Systems Directorate within the Information Management Branch.

► **Finding 2:** A policy framework has not been established to include appropriate support from the Transfer Payments Center of Expertise. This resulted in issues related to system change management and ownership.

► **Recommendation 2:** The CFO should ensure that the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate finalize a policy framework and departmental directive to address issues related to system change management and ownership.

#### 7.1.4 Flow-through/Interdepartmental coordination

During the audit we observed flow-through funding. According to the interviews three types of flow-through funding exist:

- by INAC to a Tribal Council for distribution to its members;
- by a headquarters funded program to a regional office for distribution to a regional recipient; and
- by other government departments, other levels of government, agencies and organizations to INAC for distribution to recipients.

Flow-through funding involves a transfer of goods between budgetary appropriations (between departments). Adherence to Treasury Board's *Policy on Interdepartmental Charging and Transfers between Appropriations* was required when executing flow-through payments. This Policy requires a written financial arrangement between the department supplying goods and services and the department receiving goods and services. This arrangement provides the basis for charging and recovering for the goods or services transferred between appropriations.

Responsible managers of stakeholder organizations negotiate the inclusion of the following within the financial arrangement:

- Clear delineation of the respective responsibilities of the parties involved;
- Specifications detailing the goods or services to be provided;
- Date(s) when such goods or services are to be provided;
- Estimated costs involved;
- Terms and conditions under which recoveries will be made; and
- Other terms or conditions considered necessary.

No evidence was provided to demonstrate that an agreement and/or Memorandum of Understanding (MOU) existed between INAC and other parties (i.e. other departments and other levels of government) providing funding.



In one case, a recipient funding agreement provided funding from INAC and Health Canada to a recipient First Nation. According to this agreement,

“The Minister (of Health) reserves the right to audit or cause to have audited the accounts and records of the Council... to ensure compliance with the terms and conditions of the Health Canada Schedule.”

This agreement also indicated that

“INAC may withhold from any payment due under this Health Canada Schedule or any subsequent agreement between the Minister (of Health) or INAC and the Council.”

However, the agreement did not clearly indicate how notification of a payment withholding would be communicated from Health Canada to INAC and under what circumstances the recovery would be executed.

Furthermore, execution of payment withholdings on the behalf of other parties poses a reputational risk to INAC. The recipient cannot easily distinguish the payment withholdings between INAC and other parties involved.

► **Finding 3:** In the cases where more than one department or other levels of government are signing the funding agreements with First Nations, no evidence was available for review showing Memorandums of Understanding (MOU) exist. MOUs should detail how departments or other levels of government notify INAC of payment withholdings and under what circumstances these payment withholdings should be executed.

► **Recommendations 3:** The CFO should implement the requirement to finalize MOUs in the cases where more than one department or other levels of government are signing the funding agreements with First Nations. The MOUs should clearly indicate how notifications of payment withholdings will be communicated from departments or other levels of government providing funding to INAC and under what circumstances these payment withholdings will be executed.

## 7.2 Operational business process

### 7.2.1 System support of grants and contributions process

The FNITP system assumes a streamlined national process for managing funding arrangements with First Nations and other funding recipients; however, regions have unique business requirements and distinct business processes that are not being supported by the system. Regional interviews identified several instances where the system was not supporting the regional process including:

- ▶ Interviews in regions have stated that the system did not have the capability to manage flow through<sup>4</sup> agreements involving a Tribal Council. Management of flow through agreements was not done using FNITP but on manually maintained paper files.
- ▶ Testing identified discrepancies among regions in what they considered the official approval of FAA section 32 for grants and contributions. During the testing in the five regions selected, we observed three different forms used to capture the approval:
  - ▶ Funding Arrangement;
  - ▶ Recipient Budget Allocation Form; and
  - ▶ Notice to Commit Funds.
- ▶ The way some regions managed their capital projects was not aligned with workflow provided by FNITP. These regions have implemented a blanket override function that would allow for recognition of more than one arrangement per recipient.
- ▶ Delegated authorities for the approval of FAA section 32, 34 and 33 were not configured directly into FNITP. Authority codes defined by the Financial Signing Authority Manual were not linked to activities in FNITP.

▶ **Finding 4:** FNITP is a central system supporting a decentralized process. Regional business processes and system capabilities do not fully align to effectively support the delivery of grants and contributions across all regions and programs.

▶ **Recommendations 4:** The CFO should lead a cross functional team responsible for assessing regional processing requirements and establishing a procedure to incorporate them into FNITP. The team should be comprised of members from the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.

### 7.2.2 Application controls

The Financial Administration Act (FAA) and Management Control Framework provided procedures for the internal control of funds allocated to departments and agencies that are important in maintaining accountability and integrity. During the testing, we identified gaps in the way headquarters, the regions and the FNITP system applied these procedures:

#### *FAA Section 32*

- ▶ Regions did not store the section 32 approval form in FNITP;

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<sup>4</sup> Funding provided by INAC to a Tribal Council for distribution to its members.

- ▶ Multiple Section 32 forms used by regions do not indicate the following statement above or below the signature of the approver “Pursuant to section 32 of the FAA, I certify that sufficient unencumbered funds are available to process the request”; and
- ▶ Multiple Section 32 forms were misclassified or missing in FNITP.
- ▶ As noted in section 7.2.1, regions used different forms to record section 32 approval;

#### *FAA Section 34*

- ▶ A Section 34 approval was provided by an individual without proper authority.

#### *FAA Section 33*

- ▶ No Section 33 gaps identified.

#### *FAA Delegated authorities*

- ▶ Multiple signature cards used to validate delegated authority contained inaccurate information; and
- ▶ Multiple signature cards were not signed by the incumbent.

#### *Approval/Acceptance*

- ▶ FNITP did not have built-in configuration to accommodate delegated authority approval;
- ▶ Approval process did not utilize the functionality of an automated system. Instead it involves printing the approval document from the system, obtaining the approval sign-off and scanning the document back into the system; and
- ▶ FNITP did not prevent the acceptance of recipient reports when no report has been attached in the system.

#### *Overrides*

- ▶ Blanket override approval memos were used by some programs circumventing key controls.

#### *Funding arrangements*

- ▶ FNITP did not prevent the creation of more than one Funding Arrangement per recipient per fiscal period; and
- ▶ FNITP did not prevent the processing of payments when no Funding Arrangement has been uploaded to the system.

- ▶ **Finding 5:** The INAC Gs&Cs process and FNITP system were not designed to fully utilize the capabilities of an automated system that supports the Management Control Framework, the *Financial Administration Act* (sections 32, 34 and 33) and Treasury Board's *Policy on Transfer Payments*.
- ▶ **Previously identified findings in 2007 System Under Development Audit:**
- ▶ FNITP allows the user to create more than one funding arrangement per recipient per fiscal year.
- ▶ Many control statements from the Transfer Payments Directorate Management Control Framework are not fully supported by FNITP application controls.

- ▶ **Recommendation 5:** The CFO should refine INAC's *Financial Management Manual for Transfer Payments* to include a clear definition of FAA sections 32, 34 and 33 controls. The definition should outline how the controls will be captured and represented in FNITP. System application controls should be modified to align with the refinements to the Financial Management Manual.

### 7.3 Reporting

The FNITP system plays a key role in providing a departmental overview of Gs&Cs information. INAC provides more than \$6 billion worth of grants, contributions and other transfer payments for which it requires accurate and relevant reporting capabilities.

Throughout the audit, we observed that some regions were using other mechanisms to manage information to conduct their programs. Regionally-developed systems and spreadsheets were being used for tracking and reporting purposes. Listed below are examples of regionally-developed systems and spreadsheets:

- ▶ Business Intelligence (BI) System;
- ▶ Audit Review Information Evaluation System (ARIES);
- ▶ Social Assistance Management System (SAMS);
- ▶ Capital Project Management System (CPMS);
- ▶ Budget Record and Transaction System (BRATS);
- ▶ Tracking report spreadsheet; and
- ▶ Audit tracking spreadsheet.

► **Finding 6:** FNITP does not provide certain types of reports that would be relevant to regional users. This capability is critical to the objective of providing a centralized repository for Gs&Cs data.

► **Recommendation 6:** The CFO should lead a cross functional team responsible for determining whether FNITP is meeting regional reporting needs. The team should be comprised of members from the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.

The use of regionally-developed systems and spreadsheets undermine the integrity of the data in the FNITP system and adds to operational workload. Below are ways in which it negatively impacted the Department:

#### *Management decisions*

A lack of relevant reports impaired management in making decisions about programs. Interviewees stated that regional management had formally requested new reports and enhancements to existing reports; however, we were informed that these requests were never processed. As described by interviewees, there came a point where so many enhancements were being requested that the helpdesk could not track them all. At some point, helpdesk staff disregarded all outstanding requests and began to only process new requests. As a result, many of the requests originally made were not implemented.

#### *Duplication of effort*

Significant effort is required to maintain multiple reporting systems used to track the same data. Interviewees explained that they have implemented regionally-developed systems and spreadsheets to overcome the reporting shortcomings of the FNITP system.

#### *Availability of information*

Many of the regionally-developed systems and spreadsheets are located on regional servers and in some cases on local hard drives. Having multiple regionally-developed systems and spreadsheets can be the cause of information not being available when required and increases the risk of information loss due to system failures.

## **8. Value added considerations**

The following are considerations to take into account that may add value to the FNITP system:

► Integration of the *Financial Signing Authority* (FSA) System with FNITP. This would implement the necessary controls in FNITP to conduct FAA sections 32, 34 and 33

approvals according to the *Financial Signing Authorities Chart*. Prior to integration, it is important that the FSA be reviewed from an audit perspective to evaluate:

- ▶ Change management policy;
  - ▶ Logical access procedures;
  - ▶ Backup and recovery procedures;
  - ▶ Scheduling; and
  - ▶ Problem and incident management.
- ▶ Implementation of a *Public Key Infrastructure* (PKI) to perform FAA sections 32, 33 and 34 approvals. This would grant the system the ability to perform electronic approvals. Prior to the implementation of PKI it is important that INAC develop and implement a formal policy and procedures on electronic authorization and authentication to be compliant with Treasury Board's *Policy on Electronic Authorization and Authentication*.

## 9. Conclusion

The objective of the audit was to determine if the FNITP system supports an effective and efficient process to manage INAC's grants and contributions. The audit also assessed the degree to which the key program areas are documented for ongoing operations and whether the current FNITP production system has sufficient activity (workflow) controls, application controls, IT dependent manual controls and IT general controls to maintain data integrity, information privacy and information security.

The following root-causes of the performance issues were:

- ▶ Lack of policy framework to define system and business ownership;
- ▶ Lack of training resources is undermining the Department's ability to optimize the use of a national Gs&Cs system; and
- ▶ Lack of a finalized, adopted and communicated system change management directive to manage the approval and implementation of system changes.

We conclude that there has been, and continues to be, a lack of sufficient training and support resources to maintain a Gs&Cs system that will effectively support funding to First Nations, Inuit, Métis and Northerners.

Furthermore, the lack of dedicated training and support resources to communicate the potential benefits of the system has resulted in under-utilization of the system by recipients.

In addition to the shortcomings related to resourcing, the lack of a policy framework and defined system ownership has also caused significant issues within the Department. The lack of a defined process to request, approve and implement system changes has

resulted in changes being implemented without consultation or approval from the Transfer Payments Center of Expertise.

### **Summary**

Progress was observed to suggest that the Department has the capability to maintain a national, integrated Gs&Cs system. However, audit findings are indicative of insufficient resource levels for program delivery and business operations which are inhibiting outreach and communication to recipients, in addition to causing departmental inefficiencies.

## 10. Management Action Plan

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The CFO, in collaboration with the ADMs responsible for regional operations and staff, should develop and implement a program that ensures sufficient resources are allocated to providing training and support to recipient users. In conjunction with this training and support program, regional representatives across the country should champion the adoption of FNITP by their recipients.</p>	<p>1) The CIO is currently conducting an organizational review for the FNITP support model. The review includes the transfer of responsibilities for the support and training of employees and recipients from the CIO to Corporate Accounting and Material Management Branch (CAMMB). The transition plan will identify required resources (support and training) requirements, a proposed support model and the associated cost requirements.</p> <p>The implementation of the model will require management approval before proceeding, i.e.: approval of model, funding and staffing.</p> <p>2) Subsequent to the transfer of FNITP business functions from CIO to CAMMB:</p> <ul style="list-style-type: none"> <li>• Establish a national training working group to identify training gaps/requirements (both INAC</li> </ul>	<p>Chief Information Officer (CIO) and Director General (DG), Corporate Accounting and Material Management Branch (CAMMB)</p> <p>Chief Financial Officer (CFO) in collaboration with the ADMs responsible for regional operations and staff.</p>	<p>April 2011</p>



Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>and Recipient lens)</p> <ul style="list-style-type: none"> <li>• Development of an integrated Transfer payment training strategy that considers a phased implementation based on priority and risk needs.</li> <li>• Development and rollout of training materials, approaches (i.e.: blended learning, distance learning tools), national training calendar etc.</li> <li>• Pilot and QA materials and approaches</li> <li>• Deliver training and evaluate results</li> <li>• Implement ongoing ever greening of training plan and materials</li> </ul>		
<p>2. The CFO should ensure that the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate finalize a policy framework and departmental directive to address issues related to system change management and ownership.</p>	<p>Finalize development of directive for the submission and management of change requests based on ITIL methodology.</p> <p>Policy framework and communications plan to be developed upon completion of transfer of FNITP business support model from CIO to CAMMB.</p>	<p>Chief Information Officer (CIO) and Director General (DG), Corporate Accounting and Material Management Branch (CAMMB)</p>	<p>December 2010</p> <p>April 2011</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<ul style="list-style-type: none"> <li>• The communication plan will be developed with support from CFO branch communications officer.</li> <li>• Establish a governance structure with national representation for the implementation of policy framework based on a system critical perspective that focuses on People, Processes and Internal</li> </ul> <p>Systems ownership and roles and responsibilities are addressed by means of an approved RACI matrix which forms part of action #1 above.</p>		<p>June 2012</p> <p>March 2011</p>
<p>3. The CFO should implement the requirement to finalize MOUs in the cases where more than one department or other levels of government are signing the funding agreements with First Nations. The MOUs should clearly indicate how notifications of payment withholdings will be communicated from departments or other levels of</p>	<p>1) CAMMB will coordinate with Planning and Resource Management Branch the review of the processes related to interdepartmental transfers to ensure MOUs are reflective of requirements as prescribed by the Treasury Board Policy on Interdepartmental Charging and Transfers Between Appropriations. More specifically, the review will</p>	<p>Director General (DG), Corporate Accounting and Material Management Branch (CAMMB)</p>	<p>April 2011</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>government providing funding to INAC and under what circumstances these payment withholdings will be executed.</p>	<p>focus on how notifications of payment withholdings should be executed.</p> <p>2) An inventory will be taken of current signed MOUs and work with the Program Financial Management Advisors and the Program Managers of the MOUs to determine the best strategy to ensure compliance with the Policy on Interdepartmental Charging and Transfers Between Appropriations. Examples of strategies to include: amendments to MOUs where feasible and practical; written agreement between departments on notification mechanisms for payment withholdings and the requirement of Finance officers of both departments confirming before cheque issuance.</p>		<p>April 2011</p>
<p>4. The CFO should lead a cross functional team responsible for assessing regional processing requirements and establishing a procedure to incorporate them into FNITP. The team should be comprised of members from the Transfer</p>	<p>Conduct a fit / gap analysis which will identify the sectors/Regions business requirements.</p> <p>Consultation and establishment of requirements prioritization and development of an implementation</p>	<p>Chief Information Officer (CIO) and Director General (DG), Corporate Accounting and Material Management Branch (CAMMB)</p>	<p>December 2011</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.</p>	<p>plan in a phased approach.</p>		
<p>5. The CFO should refine INAC's Financial Management Manual for Transfer Payments to include a clear definition of FAA sections 32, 34 and 33 controls. The definition should outline how the controls will be captured and represented in FNITP. System application controls should be modified to align with the refinements to the Financial Management Manual.</p>	<p>Review and update the FNITP system controls support the Management Control Framework, the Financial Administration Act (Sections 32 and 34) based on identified deficiencies and/or gaps, and update the Financial management Manual for Transfer Payment to include a clear definition of FAA Sections 32, 33, 34 controls.</p> <p>Develop a prioritization of change /enhancements required for FNITP. With implementation being based on availability of resources of the new support model.</p>	<p>Chief Information Officer (CIO) and Director General (DG), Corporate Accounting and Material Management Branch (CAMMB)</p>	<p>December 2011</p>
<p>6. The CFO should lead a cross functional team responsible for determining whether FNITP is meeting regional reporting needs. The team</p>	<p>Conduct a fit / gap analysis to identify the Sector/Regions' reporting requirements. The reporting requirements will be</p>	<p>Chief Information Officer (CIO) and Director General (DG), Corporate Accounting and</p>	<p>December 2011</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>should be comprised of members from the Transfer Payments Centre of Expertise and the Integrated Performance and Corporate Systems Directorate with input from regions and programs.</p>	<p>prioritized in consultation with the Sector and Regional stakeholders and taking into consideration the departmental initiative on Reduction of Reporting Burden. A plan will be developed to implement report development and/or enhancements in a phased approach, with ongoing review validation and updating.</p>	<p>Material Management Branch (CAMMB)</p>	