

Indian and Northern Affairs Canada

**AUDIT OF ON-RESERVE COMMUNITY
INFRASTRUCTURE**

**Chief Audit and Evaluation Executive
Audit and Evaluation Sector**

February 2011

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Executive Summary

Background

Funding provided by Indian and Northern Affairs Canada (INAC) to First Nation communities related to infrastructure is provided under a number of authorities and from a number of sources. On-reserve infrastructure is funded primarily through contributions made under the Capital Facilities and Maintenance (CFM) Program.

There are three categories of expenditures that are funded by the CFM Program: Major Capital; Minor Capital; and, Operations and Maintenance (O&M). Major Capital projects are defined by INAC Headquarters as funded acquisition, construction and/or major repair projects in excess of \$1.5 million. Minor Capital projects cover smaller infrastructure related construction, acquisition, renovation or repair projects, and on-reserve residential housing. O&M funding covers the operations and maintenance of community infrastructure assets.

An Audit of the CFM Program was completed in 2008 and included recommendations to strengthen the management control framework of the program, the management of major capital projects and the management of minor capital and O&M funding. In response to the audit, the department developed a number of documents, including the Management Control Framework, the Performance Management Strategy and a Risk Profile for the CFM Program. Implementation of related measures to strengthen management of the CFM Program was impeded by requirements to implement and administer Canada's Economic Action Plan (CEAP). A significant level of resources was expended at Headquarters and in Regions to address extensive CEAP project assessment and reporting requirements.

The Audit of On-reserve Community Infrastructure was included in the Departmental 2010-11 Internal Audit Plan.

Audit Objectives, Scope and Approach

The objective of the Audit of On-reserve Community Infrastructure was to provide assurance that governance, risk management and control frameworks are adequate and effective in ensuring that on-reserve community infrastructure funds are used for the intended purposes and that planned outcomes are achieved. At the national level, the audit assessed management practices and controls for providing governance and oversight over the funding of on-reserve community infrastructure activities. At the regional level, the audit assessed management and operational practices and controls

for the delivery of funding to First Nations in accordance with Headquarters policies and guidelines.

The scope of the audit covered the 2009/10 fiscal year and the 2010/11 fiscal year up to December 31, 2010 and included on-reserve community infrastructure funding activities provided by INAC through the CFM Program. Funding for on-reserve housing and funding from CEAP were not included in the scope of this audit because they have been subject to other recent audits in the department.

Audit work was conducted at Headquarters in Gatineau, Quebec and in the following regional offices: Alberta, Manitoba, Ontario and Quebec.

The audit was conducted in accordance with the *Standards for the Professional Practice of Internal Audit* and the Treasury Board *Policy on Internal Audit*.

Conclusion

Based on the results from this internal audit, the Audit and Evaluation Sector has concluded that although progress has been made, there remain gaps to provide assurance that governance, risk management and control frameworks are adequate to provide a reasonable expectation that funds for on-reserve community infrastructure are used for the intended purpose and that outcomes will be achieved. The management of major capital projects is adequate. However, significant gaps remain over the management of funding for minor capital and O&M.

Recommendations

The audit identified opportunities to strengthen management over on-reserve community infrastructure in the areas of performance information management, risk management, program management guidance, and program monitoring and compliance. The following recommendations addressed areas where these opportunities were identified.

1. Ensure that implementation of the Performance Measurement Strategy for the CFM Program is completed on a timely basis.
2. Ensure that:
 - the CFM Program Risk Profile Mitigation Plan is completed and implemented;
 - major capital project risk assessments are formalized and documented; and,
 - guidance for mitigating actions, specific to the management of infrastructure activities, stemming from the First Nation General Assessment process is

developed and communicated.

3. Ensure that the Management Control Framework is extended to the funding of minor capital and O&M and a comprehensive set of guidance documents supporting the Management Control Framework is completed as planned on a timely basis.
4. Ensure that a comprehensive monitoring and compliance regime, with consideration for conducting compliance audits, covering major capital projects and funding of minor capital and O&M is implemented. This should include a risk based methodology for selecting regions, First Nations and projects for review, as well as , the development of risk based criteria or best practices against which to assess regions and First Nations.

1.0 INTRODUCTION

1.1 Background

Funding provided by Indian and Northern Affairs Canada (INAC) to First Nation communities related to infrastructure is provided under a number of authorities and from a number of sources. Infrastructure is funded primarily through contributions made under the Capital Facilities and Maintenance (CFM) Program.

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 First Nation communities and support the commitment to assist First Nations 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 First Nations 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 assists First Nations to acquire, construct, operate and maintain needed 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. CFM Program assistance is provided to First Nations communities, Crown land or recognized First Nations' land. It does not address infrastructure that is built or acquired specifically for an economic development purpose (this authority rests with the Economic Development Program (EDP), with its own set of criteria).

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 and a number of Treasury Board and Cabinet decisions between 1989 and 2009.

There are three categories of expenditures that are funded by the CFM Program: Major Capital; Minor Capital; and, O&M. Major Capital projects are defined by INAC Headquarters as funded acquisition, construction and/or major repair projects in excess of \$1.5 million. Minor Capital projects cover smaller infrastructure related construction, acquisition, renovation or repair projects, and on reserve residential housing. O&M funding covers the operations and maintenance of community infrastructure assets.

Along with other programs, CFM Program funding for First Nations is governed by either one-year Comprehensive Funding Agreements or five-year Canada First Nations Funding Agreements, the latter of which provides First Nations with the authority and flexibility to reallocate funding among a number of program priorities. Funding of Major Capital is based on established project related processes and priority rankings, and project application/proposal assessments and approvals. Only department approved projects are funded. The funding of Minor Capital and O&M is generally formula driven and is provided to First Nations at intervals specified in funding agreements. Over and above this formula driven funding, INAC may also fund Minor Capital and possibly O&M projects on a proposal basis.

The total budget allocation for the CFM Program varies from year to year due to funding sources other than A-base funds that materialize or sunset over time. Planned spending for the 2010-2011 fiscal year is approximately \$1.2 billion comprising approximately \$700 million of annual A-base funds, with the remainder provided by targeted programs / initiatives including Canada's Economic Action Plan (CEAP), Building Canada Fund – Gas Tax Fund, the First Nations Water and Wastewater Action Plan (FNWWAP), The First Nations Infrastructure Fund (FNIF) and other minor funding sources. Planned spending for the 2011-2012 fiscal year is expected to be less than \$1 billion, mainly due to sun-setting of CEAP funding.

A capital planning or First Nation Infrastructure Investment Plan (FNIIP) process is in place at INAC. Regions work in collaboration with First Nations to establish and prioritize five-year capital plans according to the CFM Program's National Priority Ranking Framework. The highest priority is assigned to those projects which mitigate the most urgent health and safety risks. First Nation FNIIPs are rolled up by Region and then rolled up nationally.

Key INAC stakeholders involved in the delivery of on reserve infrastructure funding are:

- Headquarters Community Infrastructure Branch (CIB), Education and Social Development Programs and Partnerships Sector, which is responsible for developing and maintaining overall policy for the allocation of infrastructure related

resources to regions, as well as the development of national criteria, policies, procedures and directives for program delivery in all four outcome areas (water and wastewater, education, housing, and community infrastructure). The Branch is responsible for identifying and promoting innovative solutions and partnerships to improve infrastructure on reserve. It also develops Treasury Board Submissions, Memorandums to Cabinet and legislative proposals.

- Headquarters Operations and Planning Support Branch, Regional Operations Sector, which is responsible for providing oversight of regional offices to ensure compliance with general CFM Program policies and procedures. The Branch is responsible for implementing the policies, procedures and directives developed by CIB. It is responsible for developing reporting requirements and managing program data and performance measurement.
- INAC's Regional Offices, which are responsible for setting infrastructure investment priorities consistent with national criteria and methodology. Regional offices provide advice to First Nations regarding development and implementation of their capital plans, allocate funding to and approve capital funding arrangements with First Nations, manage capital funding arrangements in compliance with departmental policies and directives, monitor capital management activities undertaken by First Nations, and assess the capacity of First Nations to achieve the expected results.
- Department Operations Committee, which provides oversight for the CFM Program, including the FNIIP process. The committee has approval authority for all capital projects in excess of \$10M.

An Audit of the CFM Program was completed in 2008 and included recommendations to strengthen the management control framework of the program, the management of major capital projects and the management of minor capital and O&M funding. In response to the audit, the department developed a number of documents, including the Management Control Framework, the Performance Management Strategy and a Risk Profile for the CFM Program. Implementation of related measures to strengthen management of the CFM Program was impeded by requirements to implement and administer CEAP. A significant level of resources was expended at Headquarters and in Regions to address extensive CEAP project assessment and reporting requirements.

The Audit of On-reserve Community Infrastructure was included in the Departmental 2010-11 Internal Audit Plan.

1.2 Audit Objective

The objective of the Audit of On-Reserve Community Infrastructure was to provide assurance that governance, risk management and control frameworks are adequate and effective in ensuring that on-reserve community infrastructure funds are used for the intended purposes and that planned outcomes are achieved. At the national level, the audit assessed management practices and controls for providing governance and oversight over the funding of on-reserve community infrastructure activities. At the regional level, the audit assessed management and operational practices and controls for the delivery of funding to First Nations in accordance with Headquarters policies and guidelines.

1.3 Audit Scope

The following areas were assessed in the audit:

- Program Design and Governance;
- Program Implementation;
- Program Performance and Risk Management;
- Processes for Funding Allocation / Assessment / Approval;
- Processes for Funding Agreement Execution; and
- Processes for Payments, Monitoring and Reporting.

The scope of the audit covered the 2009/10 fiscal year and the 2010/11 fiscal year up to December 31, 2010 and included on-reserve community infrastructure funding activities provided by INAC through the CFM Program. Funding for on-reserve housing and funding from CEAP were not included in the scope of this audit because they have been subject to other recent audits in the department.

Audit work was conducted at Headquarters in Gatineau, Quebec and in the following regional offices: Alberta, Manitoba, Ontario and Quebec.

1.4 Audit Approach

The audit was conducted in accordance with the *Standards for the Professional Practice of Internal Audit* and the *Treasury Board Policy on Internal Audit*. These standards

require that the audit be planned and performed in such a way as to obtain reasonable assurance that audit objectives are achieved.

The schedule followed for the audit was as follows:

Planning Phase	January to March 2010
Conduct Phase	November 2010 to January 2011
Reporting Phase	January to February 2011

During the Planning Phase, risks related to the management of on reserve community infrastructure were identified and assessed. This Risk and Control Assessment was developed from information derived from:

- interviews with managers and staff at headquarters and in all regions;
- site visits to Ontario and Alberta Regions; and,
- review of relevant program documentation.

Information from the Planning Phase led to the confirmation of audit objectives and scope and the development of the Conduct Phase audit program, including audit criteria. These audit criteria, presented in Annex A to this report, were used in the Conduct Phase to address the audit objectives. These criteria were derived from the Risk and Control Assessment, taking the following sources into consideration:

- Treasury Board's *Policy and Directive on Transfer Payments, dated October 1, 2008*; and
- "Attributes of a Well-Managed Grant or Contribution Program" 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"*.

During the Conduct Phase, the following audit approaches were executed to address the audit criteria:

- Interviews with management and officers at Headquarters and in the four regions visited during the Conduct Phase;
- Detailed review and analysis of focused program documentation, including a sample of First Nation capital plans submitted to the Regions visited; and
- Detailed examination of a sample of eight infrastructure major capital project files for each Region visited.

1.5 Conclusion

Based on the results from this internal audit, the Audit and Evaluation Sector has concluded that although progress has been made, there remain gaps to provide assurance that governance, risk management and control frameworks are adequate to provide a reasonable expectation that funds for on-reserve community infrastructure are used for the intended purpose and that outcomes will be achieved. The management of major capital projects is adequate. However, significant gaps remain over the management of funding for minor capital and O&M.

The audit identified opportunities to strengthen management over on-reserve community infrastructure in the areas of performance information management, risk management, guidance, and program monitoring and compliance. The observations and recommendations that follow address areas where these opportunities were identified.

1.6 Statement of Assurance

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report.

The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the entity examined. The evidence was gathered in compliance with Treasury Board policy, directives and standards on internal audit, and the procedures used meet the professional standards of the Institute of Internal Auditors. The evidence gathered is sufficient to support the audit opinion expressed in this report.

2.0 OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

2.1 Performance Information Management

The Performance Measurement Strategy for the CFM Program Has Not Been Sufficiently Implemented to Demonstrate the Extent to Which Funding for Infrastructure Activities in First Nation Communities Achieves Expected Results.

INAC's 2009-10 Departmental Performance Report (DPR) identifies the following performance indicators related to on-reserve community infrastructure:

1. *Percentage of First Nation community infrastructure assets in compliance with generally accepted standards; and,*
2. *Percentage of First Nation communities with acceptable water and wastewater facility risk ratings.*

The DPR states that data is not available to measure performance related to the first indicator above.

The DPR reports the percentage of First Nation water or waste water systems ranked as low or medium risk. The identification of risk ratings of water and wastewater facilities is provided by regions. However, inspections of water and waste water systems have not been conducted for one or more years, with one exception, in the regions visited in anticipation of the National Water and Waste Water System Assessment that is almost complete. As a result, there is a risk of inaccuracy of data reported in the DPR related to the risk levels of water and waste water systems.

The 2008 Audit of the CFM Program included a recommendation to implement a performance management framework. The department has made significant progress by implementing the November 16, 2009 Performance Measurement Strategy document for the CFM Program. The strategy identifies the following Intermediate Outcomes in its Logic Model: "First Nation communities have a base of safe water and waste systems, education facilities infrastructure and community infrastructure that meets established standards". A number of performance indicators and related measurement strategies are also included in the strategy. In November, 2010, CIB has developed additional process documentation to assist in implementing the Key Performance Indicators included in the Performance Measurement Strategy.

The Performance Measurement Strategy identifies performance measurement challenges for the CFM Program, including:

- Targets or standards to be achieved have not been established for some performance indicators, such as community well being, First Nation capacity to undertake infrastructure activities, health and safety as well as most water related indicators; and,
- Some performance indicators are not currently able to be effectively measured due to insufficient measurement processes and/or systems. As described above, inspections of water and waste water systems have not been conducted recently in some regions to accurately report on system risk levels. ACRS Inspections, used as a source of information for some indicators, are not consistently up to date in some regions. In addition, ICMS is not being consistently used to track and report on performance information, resulting in the need to rely on “black books” and spreadsheets maintained in regions.

Requirements for monitoring and compliance processes related to performance information management will be addressed in Section 2.4.

The implementation of the Performance Measurement Strategy, including measurable performance indicators, targets for all performance indicators and accurate tracking and reporting of achievement against performance indicator targets would enhance the ability to demonstrate the achievement of expected outcomes for infrastructure activities in the department.

Recommendation

Senior Assistant Deputy Minister, Regional Operations Sector should ensure that implementation of the Performance Measurement Strategy for the CFM Program is completed on a timely basis.

2.2 Risk Management

First Nation and Project Level Risk Mitigation Strategies Specific to the Management of On-Reserve Infrastructure Have Not Been Sufficiently Implemented.

CFM Program Risk Management

The Treasury Board *Policy on Transfer Payments* (2008) requires that departments apply recipient-specific, risk based approaches to managing transfer payments. The Policy on Transfer Payments and Directive on Transfer Payments specify the need to ensure that the administrative requirements on recipients to ensure effective control, transparency and accountability are proportionate to factors including the risk profile of applicants and recipients. They further state that monitoring, reporting and auditing reflect program and recipient risks.

The 2008 Audit of the CFM program included a recommendation to implement a risk management framework. In response, the department developed the CFM Program Risk Profile document. This Risk Profile document identifies high-level risks that can impact on the achievement of key outcomes, the level of these risks, and the activities and outcomes being affected. The document discusses risk drivers, possible consequences and potential mitigation for each identified risk.

We found that although a 'Preliminary Mitigation Plan' is included as an Appendix to the Risk Profile document, the mitigation plan has not been completed. More specifically, the mitigation plan does not address the majority of identified risks and does not assign responsibility or timelines for implementation thereof.

The Management Control Framework for the CFM Program includes roles and responsibilities for regions to undertake due diligence for major capital projects to determine if adequate controls are in place to ensure identified risks are mitigated to appropriate levels. The 2009 Treasury Board Submission for the CFM Program stated that risk-based tools to assess project complexity, as well as management capacity, were in progress. CIB plans to implement the risk-based tools in conjunction with the updated Management Control Framework, which is targeted for completion in April 2011.

We found that regions employ different practices in identifying, documenting and managing risks related to specific capital projects. Regional practices varied from a formal project risk assessment tool to assist in the administration and oversight of funding for major capital projects, to a lack of risk assessment documentation on file.

Requirements for monitoring and compliance processes related to risk management will be addressed in Section 2.4.

The completion and implementation of the Risk Profile Mitigation Plan and the formalization of major capital project risk assessments would enhance accountability for

managing identified key risks; facilitate the formulation of oversight, monitoring and compliance review activities; and, result in a more effective and justifiable allocation of resources.

General Assessment of First Nations

The Directive on Transfer Payments includes the requirement to determine appropriate funding approaches for Aboriginal recipients based on an assessment of: the governance structure; management, financial and administrative capacity; management and financial control processes and procedures; accountability mechanisms; and, financial position.

The department has commenced the development and implementation of the General Assessment (GA) process of First Nation recipients. The GA process will assess First Nation capacity to manage funding and deliver on expected results related to a number of funded programs and activities, including capital infrastructure activities. The GA is designed primarily to identify and highlight risks that may impact the future performance of recipients in delivering on programs, activities, and requirements pursuant to funding agreements. The GA results would be predominantly used to determine appropriate funding mechanisms and the length of funding agreements and with First Nations in accordance with the Directive on Transfer Payments. Full implementation of the GA process is planned by end of fiscal year 2010-2011.

To date, tools including a GA Workbook and a 'draft' Users Guide have been developed to facilitate a risk profile of individual First Nation recipients. Management in the regions is aware of the GA process and requirements, and assessments in the regions are being conducted. However, we identified a need for further guidance to identify possible mitigating actions, over and above the implementation of appropriate funding mechanisms, to be undertaken for high risk areas, including those involving management of capital infrastructure activities. The draft GA Users Guide confirms the need for further clarification and implementation. Examples of mitigating actions specific to the management of capital infrastructure activities could include the extent of: monitoring and site visits conducted by regions to First Nations; financial and performance reporting submitted by First Nations to regions; and, due diligence exercised on project claims and supporting invoice documentation submitted by First Nations to regions.

Guidance for mitigating actions, specific to the management of capital infrastructure activities, stemming from the GA process would ensure that actions are commensurate to First Nation risks.

Recommendation

Senior Assistant Deputy Minister, Regional Operations Sector should ensure that:

- the CFM Profile Risk Profile Mitigation Plan is completed and implemented;
- major capital project risk assessments are formalized and documented; and,
- guidance for mitigating actions, specific to the management of capital infrastructure activities, stemming from the GA process is developed and communicated.

2.3 Program Management Guidance

There is Insufficient Guidance and Awareness Thereon for the Management of Infrastructure, Particularly for the Funding of Minor Capital and O&M Activities.

The 2008 Audit of the CFM Program included a recommendation to develop a comprehensive set of national guidelines to address all aspects of the management of the CFM Program. This audit noted that many regions had, to varying degrees, developed and implemented their own program guidelines / procedures which led to variances and inconsistencies among regions in the delivery of the CFM Program.

In response, the department developed and implemented the Major Capital Project Management Control Framework document. The 2009 Treasury Board Submission for the CFM Program acknowledged the intent for the Management Control Framework document to initially focus on major capital projects, and identified departmental plans for the full implementation of the Management Control Framework to include management of funding for minor capital and O&M.

The management of funding for minor capital and O&M has not been incorporated in the Management Control Framework to date. The existing Management Control Framework document provides guidance for the management of major capital projects, including the national capital planning process (FNIIP, CEAP funded projects and FNIF funded projects). The document includes major capital project funding approval authorities, project documentation requirements, and roles and responsibilities at Headquarters and in Regional Offices.

We found that the Management Control Framework is a high level guidance document that does not provide procedural guidance for the management of various aspects of infrastructure funding. A need was identified to develop a comprehensive set of

procedural documents with more detailed guidance to support the Management Control Framework. We note that there are examples of other guidance documentation that have been developed or are in the process of being developed by Headquarters. However this documentation does not cover all infrastructure related areas. Also, some of this documentation is dated or is in draft form.

We found a number of inconsistencies and gaps in regional practices in the following areas, related to the management of infrastructure, which may be indicative of the above need to develop and disseminate additional guidance.

- Management of Major Capital Projects. We found inconsistencies in the extent of file documentation supporting due diligence, management and oversight exercised for major capital projects in the following areas.
 - Technical Assessments. Some project files included a documented and detailed technical assessment of the proposed project, including the assessment against Levels of Service Standard, by a Technical Services Officer along with formal sign-off, while other files contained informal evidence of technical review.
 - Non-Construction Costs. Some project files contained evidence of challenge of contingency and/or administration costs built into project budgets, while other files contained little or no evidence of challenge.
 - Claims for Payment. Practices ranged from the review of detailed invoices and receipts submitted by First Nations for all expenditures, to the review of expenditure schedules with detailed invoices and receipts submitted upon request.

- Management of Funding for Minor Capital. We found Project Completion Certificates were generally signed by First Nations, which does not provide independent evidence of project completion in the absence of site visits or inspections. We also found inconsistencies in the extent of invoice and receipt documentation submitted by First Nations with claims for payments where minor capital funding was proposal based. Practices ranged from the review of detailed invoices and receipts for all expenditures to the review of expenditure schedules with detailed invoices and receipts submitted upon request.

- Management of Funding for O&M. We found that there is no assurance that First Nations are spending O&M funds for the purposes intended. There is no requirement for First Nations to account for the use of O&M funding. It is acknowledged that First Nations having five year Canada First Nations Funding Agreements have the authority and flexibility to relocate funding among a number of

program priorities. The department relies on ACRS inspections, described below, as an indirect indicator that O&M activities are being undertaken.

- Management of Asset Condition Reporting System Inspections. ACRS is a process by which regions undertake inspections of First Nation assets to update their existence and conditions on a three year rotational basis. ACRS reports, submitted by independent contractors to regions, include deficiencies ranked by level of severity, with health and safety being a primary concern. We found that there are a large number of outstanding deficiencies, importantly those classified as health and safety concerns, which are not being addressed by First Nations. We also found that regions do not have a systemic way of following up on the deficiencies and rely either on self reporting by First Nations or on the next cycle of ACRS inspections three years later to ascertain if the deficiencies were rectified. There are little or no consequences in place in cases where ACRS deficiencies are not being addressed by First Nations on a timely basis.
- Management of Circuit Rider Training Program. The CRTP is a capacity development program providing training and mentoring services to operators of First Nations drinking water systems and wastewater systems. Delivery agents for the program are Tribal Councils and Technical Service Organizations in the regions. Under the program, hands-on mentoring is delivered on-reserve by Circuit Rider Trainers to help First Nation operators operate, maintain, and monitor their drinking water and waste water systems. INAC is considering the expansion of the CRTP to other asset classes. Agreements with CRTP delivery agents include requirements for reporting on activities. We found that CRTP reporting requirements are very general, lacking in detail as to specific performance expectations of the delivery agents. CRTP reports submitted by delivery agents do not allow for an adequate assessment of their performance.

We note that the department is in the process of extending the Management Control Framework to funding for minor capital and O&M and for supporting the Management Control Framework with a comprehensive set of guidance documents.

Additional national guidance, including a comprehensive set of guidance documents supporting the Management Control Framework, would ensure a more consistent approach to the delivery of infrastructure activities in accordance with national requirements, and enhance the effectiveness of monitoring and compliance practices.

Recommendation

Senior Assistant Deputy Minister, Regional Operations Sector should ensure that the Management Control Framework is extended to the funding of minor capital and O&M and a comprehensive set of guidance documents supporting the Management Control Framework is completed as planned on a timely basis.

2.4 Program Monitoring and Compliance

There is Insufficient Monitoring and Compliance Review in Place for the Management of Infrastructure, Particularly for the Funding of Minor Capital and O&M Activities.

The 2008 Policy and Directive on Transfer Payments state that monitoring, reporting and auditing of recipients of contribution funding should reflect program and recipient risks. They also identify departmental responsibility to determine when recipient audits are necessary to complement other monitoring activities and develop and execute a risk-based recipient audit plan when required.

The 2008 Audit of the CFM program included recommendations to:

- implement an appropriate level of oversight and monitoring as part of a risk management framework;
- establish processes for the ongoing monitoring of regional practices by Headquarters for the management of major capital projects and for the management of funding of minor capital and O&M; and,
- consider implementation of risk based First Nation compliance audits.

As noted in Section 2.3 of this report, the Management Control Framework for the CFM Program initially focused on major capital projects. The document includes a monitoring requirement for Headquarters staff to conduct annual detailed file reviews in regions for a sample of major capital projects. The departmental plans for the full implementation of the Management Control Framework to include management of funding for minor capital and O&M. A comprehensive Management Control Framework would include requirements for monitoring and compliance reviews addressing management of funding for minor capital and O&M.

The existing Management Control Framework states that Headquarters will conduct on-site visits to two regions annually to review a five percent risk-based sample of major

capital projects. This review would focus on compliance with CFM Program Terms and Conditions, the Management Control Framework and file documentation standards.

Quarterly site visits to Regions, focusing primarily on CEAP projects, have been conducted by Headquarters pursuant to the Management Control Framework. These site visits included a review of major capital project processes at regional offices and a review of project progress for a sample of First Nations within regions. Site visit reports were prepared that included observations related to regional processes. We found that there were some inconsistencies in the extent to which major capital project file documentation is addressed among these reports.

We also found that:

- compliance audits of First Nation recipients related to the management of infrastructure have not been conducted to date; and
- monitoring activities at the regional level, including 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.

We found inconsistencies in regional practices in the following areas which may be indicative of the need to enhance monitoring and compliance reviews by Headquarters and/or regions.

- Roles and Responsibilities. We found inconsistencies in roles and responsibilities of Capital Officers and Technical Services Officers among regions, pertaining to the management and oversight of capital projects. In two regions visited, Capital Officers have the lead role in managing approved capital projects, with Technical Services Officers having a support and advisory role. In one region visited, Technical Services Officers have the lead role with Capital Officers having little role. In one region visited, capital project management is more formalized with both Capital and Technical Services Officers having key roles. The inconsistencies in roles and responsibilities may increase risk that service standards in the delivery of capital projects may be impaired.
- Information Management. Infrastructure related information is provided by First Nations on a self reporting basis pursuant to the Annual First Nation Reporting Guide. This information is entered into ICMS and is generally not subject to challenge by the department. There is a risk of impairment of data accuracy and integrity of information contained in ICMS.

- Capital Planning Process. We found that there are inconsistencies in capital planning processes in regions. In one region, a Regional Investment Management Board or equivalent is not in place to recommend regional FNIPs. In addition, we found inconsistencies in the content and format of First Nation FNIPs to regions. Some plans were provided using different forms, some were provided on spreadsheets, while others were in narrative form. Some plans were comprehensive documents providing project details. Other plans only identified expenditures by broad categories, and project details were not included that indicate priority ranking, whether they were major or minor in nature, or whether or not they arose from ACRS inspections. In some cases, planned expenditures were only shown for one year and not for all five years.
- Management of Major Capital Projects. As noted in Section 2.3 of this report, we found inconsistencies in the extent of file documentation supporting due diligence, management and oversight exercised for major capital projects in the following areas: technical assessments; non-construction costs; and, claims for payment. In addition, we found that the extent of implementation of the Management Control Framework varied among regions. Checklists in support of the work performed were not consistently found on file. In one region, there were two instances where agreements were not signed pursuant to the approval/authority matrix provided for in the Management Control Framework.
- Management of First Nation Infrastructure Fund Projects. Terms and conditions for the FNIF program include provisions that: require the incorporation of FNIF terms and conditions in agreements or in amendments to existing agreements with recipients; and identify a Province as an ineligible recipient. We found that agreements or amendments to agreements put in place to govern the funding for FNIF projects did not incorporate key FNIF terms and conditions including clauses defining the eligibility of expenditures and provisions for repayment of the contribution under certain circumstances as provided for by the FNIF terms and conditions. We also found one FNIF project approved for a provincial government, an ineligible recipient.
- Management of Funding for Minor Capital. As noted in Section 2.3 of this report, we found inconsistencies in the approval of First Nation Project Completion Certificates and inconsistencies in the extent of invoice and receipt documentation submitted by First Nations with claims for payments where minor capital funding was proposal based.

- Management of Asset Condition Reporting System Inspections. As noted in Section 2.3 of this report, we found that there is a high level of ACRS deficiencies in regions, importantly those affecting health and safety, which are not being addressed by First Nations on a timely basis. We also found that ACRS inspections are not consistently up to date in all regions.
- Management of Annual Water and Waste Water System Inspections. We found that inspections of water and waste water systems have not been conducted for one or more years, with one exception, in the regions visited in anticipation of the National Water and Waste Water System Assessment.
- Management of Circuit Rider Training Program. As noted in Section 2.3 of this report, we found that CRTP reports submitted by delivery agents do not allow for an adequate assessment of their performance.

A comprehensive risk based monitoring and compliance regime, with consideration for conducting compliance audits, covering major capital projects and funding of minor capital and O&M would ensure a more consistent approach to the delivery of infrastructure activities in accordance with national requirements, and decrease the risk that funds are not spent for the purposes intended. The monitoring and compliance regime should include a risk based methodology for selecting regions, First Nations and projects for review, and include the development of risk based criteria or best practices against which to assess regions and First Nations. We note that monitoring and compliance processes would have to reflect the ability for First Nations having Canada First Nations Funding Agreements to have authority and flexibility to reallocate funding among a number of program priorities.

Recommendation

Senior Assistant Deputy Minister, Regional Operations Sector should ensure that a comprehensive monitoring and compliance regime, with consideration for conducting compliance audits, covering major capital projects and funding of minor capital and O&M is implemented. This should include a risk based methodology for selecting regions, First Nations and projects for review, as well as , the development of risk based criteria or best practices against which to assess regions and First Nations.

APPENDIX A AUDIT CRITERIA

PROGRAM DESIGN AND GOVERNANCE

1. Infrastructure programs and activities are authorized and are aligned with departmental and program objectives and priorities
2. The program design of infrastructure programs and activities is effective in demonstrating achievement of program objectives
3. There is adequate governance and oversight over infrastructure programs and activities

PROGRAM IMPLEMENTATION

4. The basis for the allocation of funding for Major Capital, Minor Band Based Capital and O&M Expenditures is effective in demonstrating how infrastructure related objectives will be achieved
5. Funding for capital projects is aligned with national, regional and First Nation priorities
6. There is sufficient human resource capacity and capabilities to effectively deliver and manage infrastructure programs and activities
7. Guidance for the delivery and management of infrastructure programs and activities (including policies, procedures and training) are adequately developed and communicated and are aligned with key program authority documents
8. Information systems and processes track, accumulate and report infrastructure related information in a consistent, efficient, effective and timely manner for decision making purposes

PROGRAM PERFORMANCE AND RISK MANAGEMENT

9. A performance management framework (including the logic model, performance indicators and measurement strategy) is adequate in measuring and reporting on the achievement of objectives and results related to infrastructure programs and activities

10. A risk management framework is adequate in identifying, assessing and mitigating program risks related to infrastructure programs and activities

PROCESSES FOR FUNDING ALLOCATION / ASSESSMENT / APPROVAL

11. Infrastructure projects are undertaken pursuant to long term capital plans
12. Funding decisions for infrastructure projects are made in a fair and consistent manner
13. Adequate due diligence is exercised in the assessment of infrastructure projects
14. Infrastructure project approval decisions are executed by individuals with delegated authority in a timely manner

PROCESSES FOR FUNDING AGREEMENT EXECUTION

15. Appropriate due diligence is exercised in determining the duration of funding arrangements / agreements (one year vs. five year) with First Nations for Minor Capital and O&M expenditures.
16. Funding agreements are consistent with approved departmental templates and contain clauses to mitigate key program risks and to ensure compliance with Treasury Board, INAC and other policies and regulations
17. Funding agreements are signed by persons with delegated authority

PROCESSES FOR PAYMENTS, MONITORING AND REPORTING

18. Payments are made pursuant to Funding Agreements, and are based on need in accordance with the Treasury Board Policy on Transfer Payments
19. Payments are made by persons with delegated authority
20. Reporting on ACRS Inspections and on asset conditions is being done in an accurate or timely manner and is being followed up
21. Monitoring and recipient auditing practices specific to infrastructure programs and activities are adequate to ensure:
 - Funds are spent as intended
 - Risks are identified and managed
 - Reporting of activities and results is accurate
 - Compliance with Funding Agreement clauses

22. Financial and performance information related to infrastructure programs and activities is captured and reported in a timely, useful, accurate and complete manner
23. Financial and performance reports related to infrastructure programs and activities are communicated to Parliament, Treasury Board and to departmental senior management to demonstrate accountability of infrastructure funds and achievement of infrastructure related objectives

APPENDIX B LISTING OF ACRONYMS

ACRS	Asset Condition Reporting System
CEAP	Canada's Economic Action Plan
CFM	Capital Facilities and Maintenance Program
CIB	Community Infrastructure Branch
CRTP	Circuit Rider Training Program
DPR	Departmental Performance Report
EDP	Economic Development Program
FNIF	First Nations Infrastructure Fund
FNIP	First Nation Infrastructure Investment Plan
FNWWAP	First Nations Water and Wastewater Action Plan
GA	General Assessment
ICMS	Integrated Capital Management System
INAC	Indian and Northern Affairs Canada
O&M	Operations and Maintenance