

Aboriginal Affairs and Northern Development Canada

Internal Audit Report

**Audit of On-Reserve Infrastructure
(Excluding Water and Wastewater)**

Prepared by:

Audit and Assurance Services Branch

Project #: 14-12

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ACRONYMS

AANDC	Aboriginal Affairs and Northern Development Canada
CFMP	Capital Facilities and Maintenance Program
CIB	Community Infrastructure Branch
CRM	Cost Reference Manual
DAR	Design Application Request
FNIIP	First Nations Infrastructure Investment Plan
HQ	Headquarters
ICMS	Integrated Capital Management System
MCF	Management Control Framework
MMP	Maintenance Management Plan
O&M	Operations and Maintenance
PAR	Project Approval Request
PRAT	Project Risk Assessment Tool

EXECUTIVE SUMMARY

Background

The *Audit of On-Reserve Infrastructure (excluding Water and Wastewater)* was included in Aboriginal Affairs and Northern Development Canada's (AANDC) 2014-2015 to 2016-2017 Risk-Based Audit Plan, approved by the Deputy Minister on February 6, 2014. The audit was identified as a very high priority as funding for infrastructure projects constitutes a significant portion of the Department's expenditures, with \$1.16 billion in planned spending for the 2014-15 fiscal year.

In AANDC's Program Alignment Architecture, under the Strategic Outcome of the Land and Economy, is the Infrastructure and Capacity program, which includes the following sub-programs: water and wastewater (\$172M), education facilities (\$325M), housing (\$138M), other community infrastructure and activities (\$483M), renewable energy and energy efficiency (\$4M), and, emergency management assistance (\$38M)¹. Four of these sub-programs (i.e., water and wastewater, education facilities, housing, and other community infrastructure and activities) form the Capital Facilities and Maintenance (CFM) program. The CFM program is a high priority for the Department and the Federal Government. Contributions to eligible recipients under the CFM program provide financial assistance to plan, construct and/or acquire, operate, and maintain community capital facilities and services (infrastructure, including schools) and housing (residential) consistent with approved policies and standards. This assistance is provided to First Nations on reserves, as well as First Nations and other eligible recipients on Crown land or recognized Indian land.

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 funding is provided to First Nations for specific, proposal-driven construction, acquisition, renovation, or significant repair projects with a value exceeding \$1.5M. Minor capital funding is provided to First Nations for housing and for construction, acquisition, renovation, or significant repair projects with value below \$1.5M (minor capital funding can be either formula-driven² or proposal-driven). O&M funding is provided to First Nations for the maintenance and operation of existing on-reserve infrastructure assets.

The CFM program is overseen by the Department's Operations Committee, which ensures that senior management is kept informed and has a decision-making role in ensuring compliance with established national priorities and allocation of capital resources. The Operations Committee is responsible for the oversight and approval of operational program design and management approaches for the CFM program and serves as the National Investment Board,

¹ 2014-15 AANDC *Report on Plans and Priorities: 2014-15 Planned Spending*

² Established by using a formula that considers multiple variables such as: population, geographic remoteness, and actual costs of operating and maintenance of assets. Funds are allocated directly to the First Nation, giving them discretion on how they apply the funds to meet their infrastructure and housing needs.

providing a high level overview of the National First Nations Infrastructure Investment Plan (FNIIP) as well as providing strategic direction around the priorities for capital investments within the CFM program. The Operations Committee is also responsible for approving all major capital projects that are deemed high risk or are over \$10M, prior to financial sign off by the Senior Assistant Deputy Minister of Regional Operations. Regional offices are responsible for overseeing and governing major capital projects that are low and medium risk or under \$10M.

The CFM program is governed by the national capital planning process, which results in the creation of the National FNIIP. The National FNIIP is a five year plan, summarizing eight regional FNIIPs (one from each region, except the Northwest Territories and Nunavut) that are developed in collaboration with First Nation communities. The National FNIIP identifies specific investments per region, and identifies national trends in infrastructure investment and planned CFM program expenditures.

Audit Objective and Scope

The objective of the audit was to assess the adequacy and effectiveness of:

- governance processes over on-reserve infrastructure; and,
- risk management activities and internal controls designed to support the Department's achievement of on-reserve infrastructure objectives in an efficient manner.

The scope of the audit included an assessment of the adequacy and effectiveness of the management practices and controls in place to provide governance and oversight over resource allocation and funding decisions for on-reserve infrastructure as well as management practices and controls in place to support the delivery of funding to First Nations in accordance with departmental policies and guidelines.

The scope of the audit included the following sub-programs under the CFM program: education facilities, housing, and other community infrastructure and activities. The audit scope did not include an assessment of the water and wastewater sub-program as it will be subject to an audit within the next three years. Also excluded from the scope were the following two Infrastructure and Capacity sub-programs: Emergency Management Assistance (due to an audit scheduled within the next three years), and renewable energy and energy efficiency (due to it being determined as not high risk during the planning phase).

The scope of the audit covered the period April 1, 2012 to May 30, 2014 and included on-reserve infrastructure funding provided by AANDC through departmental funding. The scope included an assessment of the monitoring of O&M expenditures, minor capital funding, and an examination of a sample of on-reserve infrastructure minor and major capital projects less than \$10M. Projects greater than \$10M were excluded from the audit scope given that additional governance and controls are in place within Headquarters (HQ) for all major capital projects over \$10M. The scope included program processes and controls at HQ and regional program process and controls in the British Columbia, Saskatchewan, Ontario and Quebec regions.

Statement of Conformance

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

Observed Strengths

During the audit fieldwork, the audit team observed examples of how controls are properly designed and are being applied effectively by AANDC. This has resulted in several positive findings as follows:

- Governance oversight practices are used effectively by regional offices to oversee, review, challenge and approve projects in developing and implementing regional First Nations Infrastructure Investment Plans;
- The FNIIIP process is used effectively to validate proposed expenditures in First Nations Infrastructure Investment Plans against program criteria, and then to plan the allocation of available resources to the highest priorities. Regional FNIIIP capital projects are prioritized using the National Priority Ranking Framework to ensure departmental and First Nation priorities are met within a limited capital budget;
- Regional technical staff include several Professional Engineers who are knowledgeable and experienced in undertaking the necessary due diligence in validating and assessing First Nation capital project proposals; and,
- Reforms and pilot initiatives (i.e. minor capital reform and ACRS pilot project) have been implemented by the CFM program to correct observations found in previous audits relating to governance, program delivery and decision making, and the reporting of minor capital. These initiatives have started to be rolled out across specific regions.

Conclusion

Generally, the audit found that there is adequate and effective governance, risk management and internal controls in place to support the Department's achievement of on-reserve community infrastructure objectives. Opportunities for improvement were noted to strengthen management controls in the following areas: the CFM program Management Control Framework, project monitoring, funding methodology and the Integrated Capital Management System.

Recommendations

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

1. The Senior Assistant Deputy Minister of Regional Operations should clarify expectations and implement monitoring activities to ensure all Regions are adhering to requirements and responsibilities as described in the Capital Facilities and Maintenance program's Management Control Framework. Consideration should also be given to reviewing control practices to determine continued appropriateness and if any modifications are required.
2. The Senior Assistant Deputy Minister of Regional Operations should review the Project Risk Assessment Tool risk criteria to ensure risk identification definitions are clear and understood. Once completed, risk results should be reviewed for common acceptance and consistent application. Consideration should also be given to including the review of First Nation Maintenance Management Plans as part of capital project monitoring activities.
3. The Senior Assistant Deputy Minister of Regional Operations should review the minor capital and operations and maintenance (O&M) funding formula methodologies to identify areas that can be improved or streamlined. In addition, any modifications to the minor capital and O&M funding formulas should be implemented and compliance monitored.
4. The Senior Assistant Deputy Minister of Regional Operations should continue to seek feedback from Regions to prioritize and resolve identified Integrated Capital Management System (ICMS) issues, and identify and communicate to users an ICMS champion from within the ICMS team for ongoing regional and Headquarters support. Consideration should be given to re-examining Capital Facilities and Maintenance program business requirements and assessing the capabilities of alternative project management systems in the Department.

Management Response

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

1. INTRODUCTION AND CONTEXT

1.1. Background

The *Audit of On-Reserve Infrastructure (excluding Water and Wastewater)* was included in Aboriginal Affairs and Northern Development Canada's (AANDC) 2014-2015 to 2016-2017 Risk-Based Audit Plan, approved by the Deputy Minister on February 6, 2014. The audit was identified as a very high priority as funding for infrastructure projects constitutes a significant portion of the Department's expenditures, with \$1.16 billion in planned spending for the 2014-15 fiscal year.

In AANDC's Program Alignment Architecture, under the Strategic Outcome of the Land and Economy, is the Infrastructure and Capacity Program, which includes the following sub-programs: water and wastewater (\$172M), education facilities (\$325M), housing (\$138M), other community infrastructure and activities (\$483M), renewable energy and energy efficiency (\$4M), and, emergency management assistance (\$38M)³. Four of these sub-programs (i.e., water and wastewater, education facilities, housing, and other community infrastructure and activities) form the Capital Facilities and Maintenance (CFM) program. The CFM program is a high priority for the Department and the Federal Government. Contributions to eligible recipients under the CFM program provide financial assistance to plan, construct and/or acquire and operate and maintain community capital facilities and services (infrastructure, including schools) and housing (residential) consistent with approved policies and standards. This assistance is provided to First Nations on reserves, as well as First Nations and other eligible recipients on Crown land or recognized Indian land.

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 funding is provided to First Nations for specific, proposal-driven construction, acquisition, renovation, or significant repair projects with value exceeding \$1.5. Minor capital funding is provided to First Nations for housing and for construction, acquisition, renovation, or significant repair projects with value below \$1.5M (minor capital funding can be either formula-driven⁴ or proposal-driven). O&M funding is provided to First Nations for the maintenance and operation of existing on-reserve infrastructure assets.

The CFM program is overseen by the Department's Operations Committee, which ensures that senior management is kept informed and has a decision-making role in ensuring compliance with established national priorities and allocation of capital resources. The Operations Committee is responsible for the oversight and approval of operational program design and management approaches for the CFM program and serves as the National Investment Board,

³ 2014-15 AANDC *Report on Plans and Priorities: 2014-15 Planned Spending*

⁴ Established by using a formula that considers multiple variables such as: population, geographic remoteness, and actual costs of operating and maintenance of assets. Funds are allocated directly to the First Nation, giving them discretion on how they apply the funds to meet their infrastructure and housing needs.

providing a high level overview of the National First Nations Infrastructure Investment Plan (FNIIP) as well as providing strategic direction around the priorities for capital investments within the CFM program. The Operations Committee is also responsible for approving all major capital projects that are deemed high risk, or are over \$10M prior to financial sign off by the Senior Assistant Deputy Minister of Regional Operations. Regional offices are responsible for overseeing and governing major capital projects that are low and medium risk or under \$10M.

The CFM program is governed by the national capital planning process, which results in the creation of the national FNIIP. Regional FNIIPs are developed in collaboration with First Nation communities whereby proposed expenditures in First Nations Infrastructure Investment Plans are validated against program criteria and available resources are allocated to the highest priorities. The regional FNIIPs present regional data and analysis of planned major capital, minor capital, and operations and maintenance investments per community per asset category over a five-year period. Regional FNIIP capital projects are prioritized using the National Priority Ranking Framework.

The National FNIIP is a five year plan, summarizing eight regional FNIIPs (one from each region except Northwest Territories and Nunavut) that are developed in collaboration with First Nation communities. The National FNIIP identifies specific investments per region, and identifies national trends in infrastructure investment and CFM program expenditures. The National FNIIP is published on the departmental website.

The CFM program Management Control Framework (MCF) is used to provide guidance to regional and Headquarters staff in the management of the CFM program. The MCF is one of many documents AANDC has created to assist in the delivery of the program. The MCF is divided into distinct program components, such as annual national capital planning process, roles and responsibilities, water and wastewater, and schools. Annexes provide reference material and more detailed operating instructions relating to key instructions found within the main body of the MCF. The MCF is subject to periodic revisions which are approved by the Operations Committee. Version 3 of the MCF was in effect at the time of this audit.

2. AUDIT OBJECTIVE AND SCOPE

2.1 *Audit Objective*

The objective of the audit was to assess the adequacy and effectiveness of:

- governance processes over on-reserve infrastructure; and,
- risk management activities and internal controls designed to support the Department's achievement of on-reserve infrastructure objectives in an efficient manner.

2.2 Audit Scope

The scope of the audit included an assessment of the adequacy and effectiveness of the management practices and controls in place to provide governance and oversight over resource allocation and funding decisions for on-reserve infrastructure as well as management practices and controls in place to support the delivery of funding to First Nations in accordance with departmental policies and guidelines.

The audit scope included the following sub-programs under the CFM program: education facilities, housing, and other community infrastructure and activities. The audit scope did not include an assessment of the water and wastewater sub-program as it will be subject to an audit in the next three years. Also excluded from the scope were the following two Infrastructure and Capacity sub-programs: Emergency Management Assistance (due to an audit scheduled in the next three years), and renewable energy and energy efficiency (due to it being determined as not high risk during the planning phase).

The scope of the audit covered the period April 1, 2012 to May 30, 2014 and included on-reserve infrastructure funding provided by AANDC through departmental funding. The scope included the monitoring of O&M expenditures, minor capital funding, and an examination of a sample of on-reserve infrastructure minor and major capital projects less than \$10M. Projects greater than \$10M were excluded from the audit scope given that additional governance and controls are in place within Headquarters (HQ) for all major capital projects over \$10M.

The scope included program processes and controls at HQ and regional program processes and controls in the British Columbia, Saskatchewan, Ontario and Quebec regions.

3. APPROACH AND METHODOLOGY

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

The principal audit techniques used included:

- interviews with Community Infrastructure Branch management at HQ and in the four regional offices visited;
- review of relevant documentation related to the CFM program MCF, including:
 - Policy guidance and operational procedures;
 - Terms of Reference, meeting minutes and records of decisions for relevant regional governance and oversight committees or working groups; and,
- examination of a sample of 32 proposal-based minor capital projects (<\$1.5M) and 29 proposal-based major capital projects (>\$1.5M but <\$10M) in the four regional offices visited to examine records management and review and approval practices.

The audit criteria developed for this audit are included in Appendix A.

4. CONCLUSION

Generally, the audit found that there is adequate and effective governance, risk management and internal controls in place to support the Department's achievement of on-reserve community infrastructure objectives. Opportunities for improvement were noted to strengthen management controls in the following areas: the CFM program Management Control Framework, project monitoring, funding methodology and the Integrated Capital Management System.

5. FINDINGS AND RECOMMENDATIONS

Based on a combination of the evidence gathered through interviews, the examination of documentation and systems and analysis, each audit criterion was assessed by the audit team and a conclusion for each audit criterion was determined. Where a significant difference between the audit criterion and the observed practice was found, the risk of the gap was evaluated and used to develop a conclusion and to document recommendations for improvement.

Observations below include both management practices considered to be adequate as well as those requiring improvement. Recommendations for corrective actions accompany areas identified for improvement.

5.1 *Capital Facilities and Maintenance Program Management Control Framework*

The CFM program Management Control Framework (MCF) is used to provide guidance to regional and HQ staff in the management of the CFM program. The objective of the MCF is to provide guidance and build consistency in program management practices across Regions. The MCF is one of many documents that AANDC has created to assist in the delivery of the program. The MCF is divided into distinct program components, such as the annual national capital planning process, roles and responsibilities, water and wastewater, and schools. Annexes provide reference material and more detailed operating instructions relating to key steps found within the main body of the MCF. The MCF is subject to periodic revisions, which are approved by the Operations Committee. Version 3 of the MCF was in effect at the time of the audit and management informed the audit team that Version 4 is in the drafting process.

The audit team examined and assessed management practices against those described in the MCF and noted instances where the MCF was not being implemented as expected. The Design Application Request (DAR) form is expected to be used at the project design phase and the Project Approval Request (PAR) is to be used at subsequent milestone stages of a project (e.g. feasibility, construction). These forms include specific summary information such as project description, possible risks, estimated project cost and cash flows, and, as per the MCF, they are expected to be used by CFM program staff to document the rationale and justification for project funding, as well as necessary approvals. Through the PAR, regional offices are expected to

conduct the necessary due diligence to ensure that a First Nation community has sufficient capacity and tools to undertake its major capital project and that adequate controls are in place to ensure identified risks are mitigated to appropriate levels. In one of the four Regions visited, the DAR and the PAR are not being used and instead, previous versions of the control documents are being used to evidence regional due diligence, review and approval. In order for an MCF to be considered an acceptable MCF, control expectations need to be applicable, understood, and enforced. By not using the required control templates in the MCF, it is possible that MCF expectations are not clearly understood, or the MCF is not considered relevant with regional business and operational needs.

As per the MCF, regional offices are responsible for ensuring risk management practices are used and are expected to use the Project Risk Assessment Tool to identify overall risk ratings for a given capital project in a First Nation community and to adjust program controls and oversight accordingly to ensure the proper mitigation strategies are put in place. The audit found that the Project Risk Assessment Tool, however, is not used in one Region to assess project risk and consequently develop and implement risk mitigating activities. In this Region, active project monitoring is performed on all projects, regardless of risk-level.

The audit also noted the following discrepancies with how the MCF is being applied at HQ and in Regions visited:

- As per the MCF, as part of the national capital planning process, the Community Infrastructure Branch (CIB) is expected to annually review a sample of project files for low, medium and high risk major capital projects in all regions. Project file reviews are expected to focus on compliance with the MCF, the program terms and conditions, and file requirements for the specific project. The audit found that the CIB is not performing these project file monitoring activities as required by the MCF.
- From April to October every year, each First Nation community creates its own five-year community infrastructure investment plan, which indicates the infrastructure projects that the community would like to initiate over the next five years, according to its own comprehensive community planning and infrastructure needs. These plans or any modifications can be submitted to AANDC any time between April and October 15. Over this period, AANDC officers refine the Region's Infrastructure Investment Plan. As per the MCF, October 15 is the established deadline for First Nations to submit their infrastructure investment plans to the responsible AANDC regional office. The audit found that one Region did not always enforce the October 15 deadline. Not enforcing the deadline could cause delays in the process for the Region to develop its plan and also makes it difficult for the Region to be assured they have all the necessary information to assess proposed projects against the National Priority Ranking Framework. In order for an MCF to be considered acceptable, control expectations need to be appropriate, understood, and enforced. Similar to above, it is possible that MCF expectations are not clearly understood, or the MCF is not considered relevant to regional business and operational needs.

- The list of ranked proposed projects forms the Region's draft Infrastructure Investment Plan for the next fiscal year. Per the MCF, regional plans should include approximately 10% additional major capital projects (based on total project costs) to account for project delays outside of AANDC's control and additional funds that may become available later in the fiscal year. The audit found that one Region "over-programs" and initiates planned projects for approximately 32% in excess of their allocated budget, which is more than the allowable 10% as per the MCF. This practice creates potential unfairness or inequity to other Regions who are following the 10% planning expectation. Conversely, this practice may also indicate an opportunity to reassess the expectation of 10% for planning purposes, or may indicate a leading practice in that this Region is less likely to lapse funds. There may be a potential opportunity to share lessons learned and experiences with other Regions.

When control expectation requirements do not align with current business requirements or are not clearly understood, adhered to, or periodically monitored, there is increased risk that controls will not be adequate or implemented as intended.

Recommendation:

1. The Senior Assistant Deputy Minister of Regional Operations should clarify expectations and implement monitoring activities to ensure all Regions are adhering to requirements and responsibilities as described in the Capital Facilities and Maintenance program's Management Control Framework. Consideration should also be given to reviewing control practices to determine continued appropriateness and if any modifications are required.

5.2 Monitoring

Regional offices are responsible for managing risks associated with major capital projects that are low or medium risk and under \$10M. Regions are expected to use the CFM program Project Risk Assessment Tool (PRAT) for each capital project. With the CFM program PRAT, regional offices can identify overall risk ratings for a given capital project in a First Nation community and adjust program controls and oversight accordingly to ensure the proper mitigation strategies are put in place. All high risk projects and those greater than \$10M are approved by the Senior Assistant Deputy Minister of Regional Operations based on the recommendation by the Department's Operations Committee.

The PRAT was introduced in November 2012 in response to a previous internal audit and is designed to assist First Nations in the management of major capital projects by anticipating potential project issues and proactively monitoring and mitigating specific elements that may delay or postpone a project. Generally speaking, the higher the project risks, as determined by the PRAT, the more additional departmental review and oversight will be triggered. Once a project risk score is determined via the PRAT, the score is also used to determine the type of contribution approach that may be used (i.e. set, fixed or flexible) and the required approvals process.

The PRAT includes a risk mitigation tab which outlines suggested mitigation measures and when completed, the risk mitigation tab is considered the project's risk mitigation strategy or plan. If any of the project's risk elements received a medium to high risk rating, then a mitigation strategy (to be implemented by the funding recipient) will be required to resolve project implementation issues. The project risk mitigation plan should outline mitigation strategies for all medium to high risk elements that have been identified in the risk assessment. There is no requirement to include mitigation strategies for those elements identified as low risk.

The risk assessment criteria in the PRAT, which are used to calculate overall project risk, are defined (i.e. project complexity, consultant capacity, project remoteness) but the scoring of these criteria is left to the discretion of regional staff and the weightings can be modified by each Region. The audit found that there is no periodic challenge/review of project risk scores to ensure consistency in how risk criteria are interpreted and applied. The audit noted that a high number of project risk scores in the files samples were assessed as "low", which if assessed incorrectly, could result in an insufficient level of monitoring being performed. In addition, the risk criteria were reported by Regions to be difficult to apply across various asset types. The audit found that results of the PRAT have not been reassessed or recalibrated by the CFM program since its introduction in 2012 to ensure risk score results are reasonable.

The audit also found that version 3 of the MCF currently focuses specifically on the management of major capital projects and does not cover all parts of the CFM program, including minor capital, and operations and maintenance (O&M). Specifically, the MCF does not provide sufficient guidance regarding minor capital project monitoring activities, such as site-visits, and does not provide sufficient guidance to help program staff oversee minor capital projects or O&M expenditures. The recent *Audit of the Management Control Framework for Grants and Contributions 2013-14* had similar findings with respect to the CFM program MCF.

In regard to monitoring the use of infrastructure O&M funding, a Maintenance Management Plan (MMP) is completed by each First Nation. The MMP formalizes the planning, scheduling, documentation and reporting of preventative maintenance activities, and provides a method of recording unscheduled or corrective maintenance activities. With the exception of water & wastewater assets (out of scope for this audit), for high risk asset types (e.g. schools, housing), the audit found that there is no requirement for the MMP to be validated or reviewed by program staff. In the likelihood that future capital infrastructure budgets remain constrained, the maintenance of existing assets will become increasingly important as the average age of the asset base increases. The use of the MMP helps to reduce and prevent unplanned corrective maintenance.

Without adequate and periodic review and oversight of project monitoring risk assessment practices, there is increased risk that project risks will not be identified and mitigated appropriately. The lack of adequate management, oversight and monitoring of how O&M funding is used to maintain existing assets increases the risk that insufficient O&M activities are being carried out by First Nations.

Recommendation:

2. The Senior Assistant Deputy Minister of Regional Operations should review the Project Risk Assessment Tool risk criteria to ensure risk identification definitions are clear and understood. Once completed, risk results should be reviewed for common acceptance and consistent application. Consideration should also be given to including the review of First Nation Maintenance Management Plans as part of capital project monitoring activities.

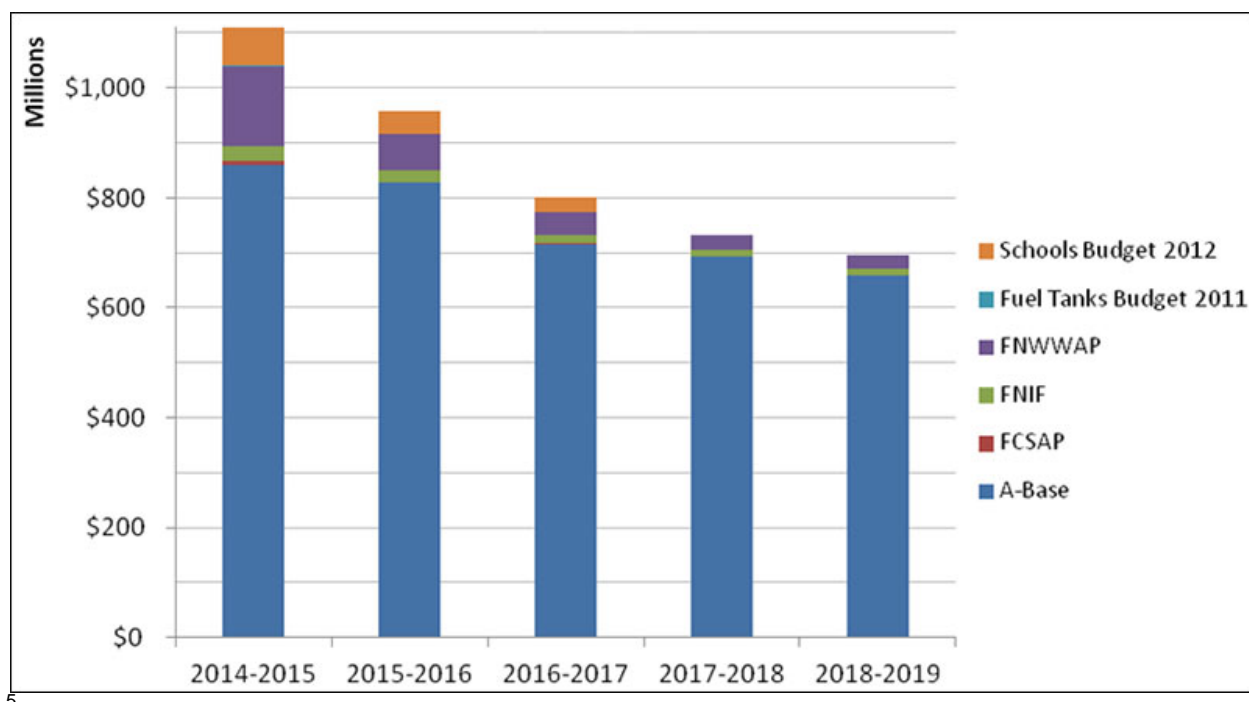
5.3 Funding Methodology

The Capital Facilities and Maintenance (CFM) program funding examined in this audit does not include targeted funding for capital infrastructure, such as: funding for schools announced Budget 2012; funding for fuel tanks announced in Budget 2011; First Nations Infrastructure Fund; Federal Contaminated Sites Action Plan; and, Education Infrastructure Fund.

It is allocated by HQ to the regions based on an allocation methodology, whereby funds for the delivery of programs and services are transferred to regions on a formula basis as 'core budget', also known as A-base funding. This core budget includes funding for AANDC basic programming services to First Nations, such as education, social services, and on-reserve infrastructure. From the core budget funds, CFM program funding for minor capital and O&M expenditures is then allocated on a formula basis by each region to First Nations. The available funding for regions to fund proposal-based minor and major capital projects is determined by subtracting the formula-based O&M and minor capital funding from the remaining regional core budget (i.e., what remains after all basic programming services have been allocated). Regions use the National Priority Ranking Framework to prioritize proposal-based capital projects.

In recent years, core budget infrastructure funds have been used to cover funding shortfalls in other core programs (i.e. education and social programs, including income assistance and child and family services) to ensure that the Department meets its mandatory annual requirements. The transfer of funds at the beginning of the year from the core CFM program funding is offset by in-year reallocations, as funds become available. Reallocations from core infrastructure program funding (excludes targeted funding) reduced by any amounts reallocated back in and by any new, approved targeted funding amounted to approximately \$131M and \$142M in fiscal years 2012-13 and 2013-14 respectively.

While certain asset types have received increased investment through limited and targeted government initiatives (e.g. funding for schools announced Budget 2012; funding for fuel tanks announced in Budget 2011; First Nations Infrastructure Fund; Federal Contaminated Sites Action Plan; and, Education Infrastructure Fund), many capital funding requirements identified by First Nations remain unfunded. A national breakdown of departmental infrastructure spending by funding source is presented in the graph, which follows.



5

Source: 2014-15 First Nations Infrastructure Investment Plan

Note: This table does not include the \$155 million over 10 years announced from Budget 2013 from the new Building Canada Fund, to be delivered through AANDC's First Nation Infrastructure Fund. These funds are centrally managed and had not been allocated to regions when this plan was prepared on April 1, 2014. The table also does not include funding of \$500 million through the Education Infrastructure Fund, approved in November 2014 or the \$200 million for the renewal of Strong Schools, Successful Students initiative, announced in Budget 2015. It is important to note that amounts included in this graph for targeted funding do not necessarily align with what was announced as these amounts represent planned investments. This graph also shows targeted investments beyond their planned expiration year. This can be explained by the fact that projects started under a targeted initiative being partly funded with departmental A-base funding in later years can still be attributed to the targeted funds until their completion.

Given the increasing cost of construction on reserve and the growth rate of the First Nations population, the risk increases that the funding allocated for infrastructure assets such as roads and housing, required to sustain community economic development, will not address all needs.

The audit found that the funding formula used by regions to allocate CFM program O&M and minor capital funding to First Nations have not been modified in recent years to reflect alignment with First Nation and program priorities. Program management noted that they intend to review the funding formulas.

With regard to minor capital, the audit noted instances where the prescribed funding methodology was applied differently from region to region. Over time, regions have developed differing management regimes for how the funding formula is applied and some regions have not always complied with the funding prescribed by the formula. Furthermore, the audit found

⁵ FNWWAP: First Nations Water and Wastewater Action Plan; FNIF: First Nations Infrastructure Fund; FCSAP: Federal Contaminated Sites Action Plan; A-Base: refers to a source of funding for a government department, accessed through parliamentary votes.

that there is no process in place to periodically review the variables used in the minor capital funding methodology to ensure continued relevance.

The formula used for funding O&M expenditures is based on asset type/category definitions as described in the Cost Reference Manual (CRM). The CRM is a unique tool that enables the user to develop preliminary cost estimates for remote and difficult construction environments typically encountered in First Nations and Northern communities. The CRM provides a method of developing preliminary estimates for both capital costs and O&M expenditures. An engineering firm, on behalf of the CFM program, conducted a review in 2012 to update and streamline the CRM as an input to ongoing discussions on improving asset management, but the audit found that limited action has been taken by the Department to implement suggested modifications and recommendations from the review.

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

Recommendation:

3. The Senior Assistant Deputy Minister of Regional Operations should review the minor capital and operations and maintenance (O&M) funding formula methodologies to identify areas that can be improved or streamlined. In addition, any modifications to the minor capital and O&M funding formulas should be implemented and compliance monitored.

5.4 Integrated Capital Management System

The Integrated Capital Management System (ICMS) is the data management tool used by the CFM program to inventory capital assets on reserve, calculate O&M funding for those assets (based on the requirements of the CRM), track capital projects and funding, and store inspection results related to the operation and maintenance of those assets. Although CIB manages the ICMS tool and may access the data from within ICMS for reporting and policy development purposes, regions are responsible for data entry, validation, and management. CIB is also responsible for providing appropriate training to regions in the use of ICMS.

The national planning process is broken down into two separate processes. The first process is the development of the FNIIP, which results in the creation of a list of all potential projects including estimated investment amounts. The second process is project tracking, which involves the approval and tracking of each individual project. Project tracking includes monitoring the ongoing status of projects and the approvals of funding that will result in a funding agreement and obligations for a given project. ICMS is designed to support both processes.

The ICMS Project Tracking module (ICMS v.6.5.0 Release), which constitutes the FNIIP and project tracking functionality, was launched in November 2013. The tracking functionality in ICMS is intended to be used primarily for tracking project information on High Risk projects or projects above \$10M. The Project Tracking module is in a state of transition and HQ has

established a process to fix and address changes. There is a change/incident management process in place which allows regions to report ICMS system issues.

At regional site visits, interviewees expressed having difficulty in using ICMS due to the fact that ICMS has not always met their business requirements or adequately supported program delivery and regional operations. For example, ICMS is currently not suited to accommodate uploading large volumes of data (e.g. Regional FNIIP) at one time. The system times out and as a result, only portions of the file are uploaded. Interviewees also noted that this makes it difficult to re-upload the file because it results in duplication and data integrity errors. Regions are currently preparing their FNIIPs in Excel spreadsheets which are then uploaded into ICMS. Regional program staff also use separate tracking logs/spreadsheets for capturing and managing the regional FNIIP. Users interviewed have been reluctant to migrate fully to ICMS until issues are resolved.

It was noted that program management at HQ is aware of the above issues and have implemented a change management process and is working through resolving identified issues. HQ has mandated that all regions use ICMS as the sole source of preparing their investment plans which are submitted to HQ for the National FNIIP rollup, starting in 2015-2016.

In addition, due to the recent re-organization at HQ, an ICMS champion from within the ICMS team, to provide support to regions and HQ, and to ensure that users are properly making use of the system, had not yet been identified, at the time of the audit. Ongoing training and support on ICMS is necessary to ensure it is used appropriately as the data management tool for the CFM program.

If end user business requirements are not satisfied in an efficient and timely manner, or there is insufficient ongoing training, there is increased risk that ICMS will not be used effectively and efficiently as the CFM program data management tool.

Recommendation:

4. The Senior Assistant Deputy Minister of Regional Operations should continue to seek feedback from regions to prioritize and resolve identified Integrated Capital Management System (ICMS) issues, and identify and communicate to users an ICMS champion from within the ICMS team for ongoing regional and Headquarters support. Consideration should be given to re-examining Capital Facilities and Maintenance program business requirements and assessing capabilities of alternative project management systems in the Department.

6. MANAGEMENT ACTION PLAN

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Senior Assistant Deputy Minister of Regional Operations should clarify expectations and implement monitoring activities to ensure all Regions are adhering to requirements and responsibilities as described in the Capital Facilities and Maintenance program's Management Control Framework. Consideration should also be given to reviewing control practices to determine continued appropriateness and if any modifications are required.</p>	<p>Control practices are being reviewed as part of work that is currently underway to revise the Capital Facilities and Maintenance program's (CFMP) Management Control Framework (MCF). The findings that were the basis for this recommendation (the use of Design Approval Requests/Project Approval Requests (DAR/PAR), Project Risk Tool, timelines of regional First Nation Infrastructure Investment Plan submissions, etc.) are related to project approval steps. A revised MCF in Q1 2015-16 will be in time for the next cycle of project proposals.</p> <p>The next version of the MCF will contain a Compliance Regime: it will clarify expectations and establish requirements and responsibilities for monitoring regional compliance with the MCF. CIB will then resume the compliance monitoring activities, as per the revised MCF.</p>	<p>Senior ADM, Regional Operations</p>	<p>Q1 2015-16 - approval of revised MCF; Q4 2015-16 - Compliance Regime implemented</p>

<p>2. The Senior Assistant Deputy Minister of Regional Operations should review the Project Risk Assessment Tool risk criteria to ensure risk identification definitions are clear and understood. Once completed, risk results should be reviewed for common acceptance and consistent application. Consideration should also be given to including the review of First Nation Maintenance Management Plans as part of capital project monitoring activities.</p>	<p>a.) The Major Capital Project Risk Assessment Tool, and its guidance notes and definitions, is being improved as part of MCF revisions as described under item #1.</p> <p>b.) A generic Maintenance Management Plans (MMP) Guide and Template for Drinking Water and Wastewater systems has been developed and a similar product for buildings is under development. The Asset Condition Reporting System (ACRS) process will be used to monitor implementation of MMPs.</p>	<p>Senior ADM, Regional Operations</p>	<p>a.) Q1 2015-16 - Incorporate the updated Risk Assessment Tool into the MCF.</p> <p>b.) Q2 2015-16 - Implement new MMP Guide and Template for buildings.</p>
<p>3. The Senior Assistant Deputy Minister of Regional Operations should review the minor capital and operations and maintenance (O&M) funding formula methodologies to identify areas that can be improved or streamlined. In addition, any modifications to the minor capital and O&M funding formulas should be implemented and compliance monitored.</p>	<p>The O&M and minor capital reform pilot project in the region of Ontario has now been successfully implemented and is currently being implemented in other regions across the country. Next steps of reforming funding formula methodologies involve, starting in 2015-16, AANDC requiring First Nations to identify O&M funds for each AANDC-funded asset in their First Nation Infrastructure Investment Plan (FNIIP).</p> <p>Data from the annual FNIIPs will help refine funding-formulae for O&M and minor capital activities (formulae-based activities). Opportunities to leverage information that will be made available through the implementation of the <i>First Nations Financial Transparency Act</i> will also be explored over the coming year to assist in enhancing program management</p>	<p>Senior ADM, Regional Operations</p>	<p>Q4 -2014-2015 - FNIIP to include FNs requests for formulae-based funding.</p> <p>Q1 -2015-16 - Begin monitoring formulae-based proposals submitted in FNIIP.</p> <p>Q4 2015-16 - Opportunities to leverage the new</p>

	and delivery.		Act have been identified.
4. The Senior Assistant Deputy Minister of Regional Operations should continue to seek feedback from Regions to prioritize and resolve identified ICMS issues, and identify and communicate to users an ICMS champion from within the ICMS team for ongoing regional and HQ support. Consideration should be given to re-examining CFM program business requirements and assessing the capabilities of alternative project management systems in the Department.	<p>This item will be addressed as part of the upcoming ICMS change management and regional user teleconference call in March 2015.</p> <p>In the regional ICMS user teleconference, feedback will be sought from HQ and regions to identify, prioritize, and resolve ICMS-related issues.</p> <p>As well, as part of the annual work plan prioritization exercise which will take place in March 2015, we will re-examine all outstanding business requirements for planning of the subsequent years' release schedules. Part of the assessment will include consideration as to whether any of the requirements could be addressed using alternate departmental systems</p> <p>Finally, the HQ ICMS Project Manager, who is the ICMS Champion, will also ensure that better awareness and communication is channeled to the regions with regards to ongoing technical support. We will also conduct a regional feedback / response survey, in Q4 of 2015-2016, to gauge the quality and awareness of the availability of technical support provided to the regions and make adjustments to the level of support, if necessary.</p>	Senior ADM, Regional Operations	<p>Next ICMS Change Management Prioritization Exercise and Release:</p> <p>Q4 of 2014-2015</p> <p>Regional feedback on ICMS technical support:</p> <p>Q4 of 2015-2016</p>

Appendix A: Audit Criteria

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

Audit Criteria	Sub-Criteria
1. There is adequate governance and oversight over major and minor capital proposal-based infrastructure funding allocation decisions.	<p>1.1. Governance practices support the adequate monitoring and oversight of initial and in-year funding allocations for major and minor capital proposal-based projects.</p> <p>1.2. Allocation for proposal-based projects is adequately documented, clearly communicated and applied consistently across Regions.</p>
2. Allocation of funding to Regions for formula-based minor-capital and O&M expenditures follows a funding that is periodically reviewed, aligned with First Nations priorities / reference levels and takes into consideration qualitative criteria about the recipient.	<p>2.1. Funding used to allocate formula-based, minor capital and O&M funding to Regions is aligned with First Nations priorities / reference levels and is periodically reviewed.</p> <p>2.2. Funding methodology used to allocate formula-based minor capital and O&M funding to Regions takes into consideration qualitative criteria about recipient, such as their competency and capacity.</p>
3. The FNIIP planning process ensures that accurate, complete FN community plans are received in a timely manner, validated by Region Offices, compiled into a regional plan, captured in ICMS, and approved. The FNIIP planning process also ensures that resources are adequately aligned in an effective manner to support the achievement of AANDC's on-reserve infrastructure objectives.	<p>3.1. FNIIP plans received from First Nations communities are accurate, complete and timely.</p> <p>3.2. FNIIP plans are validated by Regional Offices, compiled into a single regional plan, captured into ICMS and approved by regional management.</p> <p>3.3. FNIIP planning process ensures that resources are adequately aligned in an effective manner to support the achievement of AANDC's on-reserve infrastructure objectives.</p>
4. Effective governance activities support decisions over FNIIP capital funding and O&M expenditures and funding decisions for infrastructure projects are made in a fair and consistent manner.	<p>4.1. Effective governance activities support decisions over FNIIP capital funding and O&M expenditures.</p> <p>4.2. Funding decisions for infrastructure projects are made in a fair and consistent manner.</p>
5. There is sufficient human resource capacity and capabilities to ensure adequate due diligence is exercised in the initial assessment of infrastructure projects, and project approval decisions are executed in a timely	<p>5.1. Adequate due diligence is exercised in the initial assessment of infrastructure projects.</p> <p>5.2. Infrastructure project approval decisions are executed by individuals with delegated authority in a timely manner.</p> <p>5.3. There is sufficient human resource capacity and</p>

manner by individuals with delegated authority.	capabilities to effectively deliver and manage on-reserve infrastructure programs and activities.
<p>6. Monitoring practices specific to infrastructure programs and activities are adequate to ensure:</p> <ul style="list-style-type: none"> a) Funds are spent as intended b) Risks are identified and managed c) Timely reporting of activities and management follow-up d) Compliance with Funding Agreements 	<p>6.1. Monitoring practices specific to infrastructure programs and activities are adequate to ensure that funds are spent as intended.</p> <p>6.2. Monitoring practices specific to infrastructure programs and activities are adequate to ensure that risks are identified and managed.</p> <p>6.3. Monitoring practices specific to infrastructure programs and activities are adequate to ensure timely reporting of activities and management follow-up.</p> <p>6.4. Monitoring practices specific to infrastructure programs and activities are adequate to ensure compliance with funding agreements.</p>
<p>7. Information systems in place to support the delivery of on-reserve infrastructure programming ensure that data captured is complete, accurate, timely, can be properly compared, and support the tracking, accumulation and reporting of information in a consistent, efficient, effective and timely manner for decision making purposes.</p>	<p>7.1. Regions use the ICMS system per the CFMP CFMP'S MCF guidelines, which ensure data can be properly compared and information input into the system is complete, accurate, and valid.</p> <p>7.2. Information systems and processes track, accumulate and report infrastructure related information in a consistent, efficient, effective and timely manner for decision making purposes.</p>
<p>8. Management actions designed to address previous audit findings have been designed, implemented and assessed to ensure the effectively address identified weaknesses.</p>	<p>8.1. Pilot program initiatives are adequately designed to address previous audit findings, and feedback is considered before revisions are rolled out to other Regions.</p> <p>8.2. A performance management framework (including performance indicators, measurement and reporting) is adequate in measuring and reporting on the achievement of objectives and results related to on-reserve infrastructure programs and activities.</p>