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Canada

Final Audit Report

Audit of the Departmental Investment Planning Process

June 20, 2012

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Executive summary

The focus of this audit was the departmental investment planning process. Investment planning is the function of allocating and reallocating limited resources to new and existing assets and acquired services that are essential to program delivery. Overall, Health Canada has made good progress with investment planning. The first Plan was approved by Treasury Board ministers without condition in March 2012. The Investment Plan provides details on Health Canada's five-year investment horizon for approximately \$2 billion in assets and acquired services.

The audit was conducted in accordance with the Treasury Board *Policy on Internal Audit* and the *International Standards for the Professional Practices of Internal Auditing*. Sufficient and appropriate procedures were performed and evidence gathered to support the audit conclusion.

Health Canada has designed a sound management control framework that has positioned the Department well for investment planning. Following the first planning exercise the Chief Financial Officer Branch did conduct a lessons learned exercise which led to several improvements. The audit highlights a few additional areas where measures can be taken to further enhance the investment planning process.

The departmental *Investment Planning Framework* includes governance elements such as guiding principles, oversight committees, framework documents, roles and responsibilities. Senior management is actively engaged in selecting the departmental investment portfolio and has taken positive steps to advance the practice of investment planning. There are some inconsistencies in the governance documentation and the Department will benefit from reviewing.

The *Investment Planning Framework* has been designed primarily for project investments and implementation has begun. As a next step, the Investment Planning Framework should include a process for the non-project investments which represents 91 percent of the Health Canada investment portfolio. Updating the framework will put the Department in better compliance with Treasury Board of Canada Secretariat expectations.

The investment portfolio is aligned with risks from the *Corporate Risk Profile*. The Department has developed a risk-based project management process whereby projects are approved by committees based on the materiality and level of risks. A communication strategy was drafted to manage the transition to the new practice of investment planning and it is intended to be rolled out. The Department is integrating investment planning with the departmental operational planning process through the Integrated Planning and Performance Reporting System. This integration has commenced in the 2012-2013 planning cycle. There has been progress and the audit recommends a few areas for greater integration at the working level.

There are other recommended improvements to the Investment Planning Framework such as a review of investment areas for life-cycle management, costing, building capacity and

developing performance indicators for process and governance. Lastly, the Chief Financial Officer Branch should review whether to include the Department's intellectual property in the Investment Plan. If it is to be included, the Chief Financial Officer Branch should work with the other branches to identify the best means to present this information.

Management agrees with the four recommendations and has provided an action plan which will further strengthen the investment planning process.

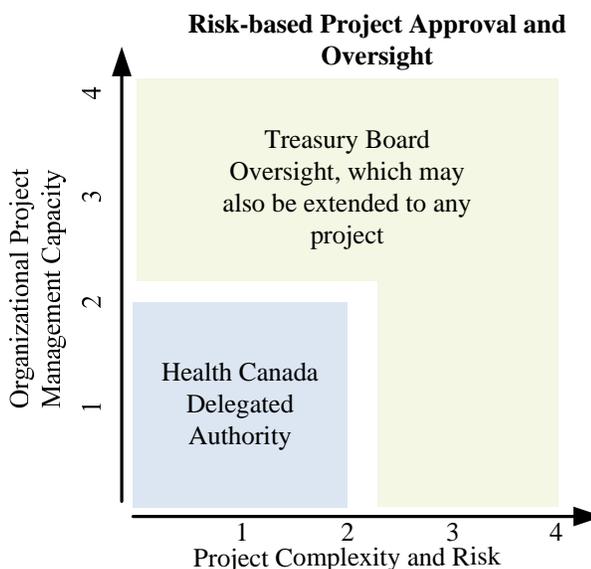
A - Introduction

1. Background

In June 2007, the Government of Canada approved a suite of policies for investment planning and represents a significant change in how government expects departments and agencies to plan investments. According to the *Policy on Investment Planning – Assets and Acquired Services*, investment planning includes all assets that are tangible and intangible and that have a future life beyond one year, whether they are crown-owned, leased or accessed through other arrangements. Investment planning also includes acquired services that are obtained through formal arrangements such as contracts, memorandum of understanding and letters of agreement, to support the Department in achieving specific outcomes. Investments are the use of resources with the expectation of a future return such as an increase in output, income or assets, as well as the acquisition of knowledge or capacity. Investments can be in projects (activities within specific time, cost and performance parameters) or non-projects (ongoing operations and maintenance). The investments are to be funded from existing resources.

Examples of Potential Investments		
	ASSETS	ACQUIRED SERVICES
PROJECT (for example, systems development)	Tangible hardware Intangible software	Information technology professional services for software development
NON-PROJECT	Tangible office furniture Intangible intellectual property	Professional services for nursing

The new *Policy on the Management of Projects* delegates project authority to departments, commensurate with the project management capacity of the Department relative to the level of project risks. Health Canada has an organizational capacity of 2 on a scale of 4. At level 2, departments are considered to have a tactical project management capacity, which includes successful delivery of projects, adjusting operations and meeting planned objectives. According to Treasury Board policy, projects with costs exceeding \$1 million require a Project Complexity and Risk Assessment. For Health Canada, projects that obtain a score above 2 require Treasury Board oversight;



however the Board can choose to review any project information for approval even if it is within departmental authority.

Given the complexity around the investment planning expectations, the Treasury Board proposed a four-year phase-in implementation. Health Canada was designated as a Phase II department. Since 2010-2011, good progress was made which strategically positioned the Department for investment planning and led to the approval of the Investment Plan by Treasury Board ministers without conditions in March 2012. Health Canada's Five-Year Investment Plan (2011-2012 to 2015-2016) includes planned expenditures of approximately \$2 billion, whereas Health Canada's previous Long Term Capital Plan (2008-2009 to 2012-2013) included \$155 million in planned expenditures.

2. Audit objective

The objective of the audit is to assess the design of the management control framework under development to support the departmental investment planning process.

3. Scope and approach

The audit examined the design of Health Canada's Investment Planning Framework, which was undergoing changes through the course of the audit, for compliance with the *Policy on Investment Planning – Assets and Acquired Services* and the *Policy on the Management of Projects*, including project and non-project investments. The examination period was from April 1, 2010 to March 31, 2012. The investment planning process is summarized in Appendix C. The audit scope excluded project execution, as the departmental project management framework is being implemented. The audit criteria outlined in Appendix A were derived from the Office of the Comptroller General Internal Audit Sector's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors* (March 2011), Treasury Board *Policy Framework for the management of Assets and Acquired Services* and related policies, standards and guides. The audit was carried out within the National Capital Region. Methodologies included: review of documentation, policies, standards, guidelines and frameworks; mapping exercise; interviews with senior management and investment planning officials; and analysis.

The audit was undertaken by the Audit and Accountability Bureau in accordance with Health Canada's 2011-2012 annual update of its *2009-2010 to 2011-2012 Multi-Year Risk-Based Audit Plan* presented at the June 2011 Departmental Audit Committee meeting.

4. Statement of assurance

In the professional judgment of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

B - Findings, recommendations and management responses

1. Governance

1.1 Strategic direction

Audit criterion: *The Department has defined a strategy to implement the Policy on Investment Planning – Assets and Acquired Services and the Policy on the Management of Projects.*

The objective of the Treasury Board *Policy on Investment Planning – Assets and Acquired Services* is to support value-for-money and sound stewardship through effective investment planning. Investment planning allocates resources in a diligent and rational manner, considers the areas of greatest risk, supports departmental priorities and maintains the existing asset base while considering opportunities for new investments. Investment plans are to be tabled before the Treasury Board and deputy heads are expected to establish and maintain investment planning processes. Effective management includes developing a departmental investment plan, exercising oversight of the implementation of the investment decisions and ensuring appropriate, ongoing measurement of investment performance.

The objective of the *Policy on the Management of Projects* is to ensure that the appropriate systems, processes and controls for managing projects are in place, at a departmental, horizontal or government-wide level.

It is important for departments to define and communicate the strategic direction for investment planning in order to continue progressing with sustainability and to maintain compliance with the policy requirements.

Health Canada developed and conveyed its strategic direction through the Investment Plan, in a section entitled “The Path Forward.” It includes guiding principles to implement enterprise investment planning, as well as an overview of activities already underway and required improvements. While this was not a requirement of the policy, it is a good management practice and will help to advance the practice of investment planning. To make progress with further implementation, the Department should put these actions into a plan with deliverables, target dates and responsibility leads to track progress and to clarify deliverables. (see recommendation 1)

Health Canada’s **guiding principles** for investment planning

- Integrated, enterprise approach that maintains a fully-costed, multi-year strategic view of investments in assets, acquired services and projects.
- Consistency with the Department’s mandate, aligns with government priorities, enables program outcomes, minimizes risk and stresses value for money.
- Life-cycle management of assets.
- Seeking out opportunities for collaboration and partnerships, and the use of common approaches and best practices.
- Well-communicated, transparent and integrated system of management frameworks for assets, projects and acquired services.

1.2 Investment framework

Audit criterion: *The Department has in place an approved investment planning framework.*

Deputy heads are responsible for implementing an effective management framework for assets and acquired services, including departmental procedures, processes and systems, based on principles of stewardship and value for money.

The Department does have an approved Investment Planning Framework. The framework includes: a reporting framework; project management guides, templates; and a guide and template specific to Project Complexity and Risk Assessments. The Investment Planning Framework is focused primarily on project investments and includes a description of project management governance, definitions, information management practices, performance management and a description of key roles and responsibilities. Some elements of the Framework were modified and presented at the Budget Day in February 2012, including an updated governance model, project delegation process and a gating process. These updates should be made in the Investment Planning Framework to support management in the upcoming planning cycle.

As mentioned, the investment planning process has been designed to support an enterprise approach. Interviews indicate that while some stakeholders recognized a standardized enterprise approach for investment planning, others thought there was some flexibility in how branches would conduct investment planning. More clarity around the enterprise approach could be documented in the Framework.

Through document review and interviews, the audit concluded that branches understood the departmental requirements to identify, cost and select investments. However branch officials did not always understand how to complete the process. In support of the implementation of the approach to investment planning, the framework should provide more detail on roles and responsibilities at the branch level. While prioritization criteria were included in the Investment Planning Framework, some new criteria were introduced during the current round of planning and should be updated in the framework

The recommendation below includes a few areas where the Investment Planning Framework should be updated. Some of these observations are discussed further in the report.

Recommendation 1

It is recommended that the Chief Financial Officer update the Investment Planning Framework to: update roles and responsibilities; formalize a planning strategy for moving forward; identify priority areas and costing for non-project investments; strengthen integration of investment planning with operational planning; and clarify the life-cycle management process for all assets.

Management response

Management agrees with the recommendation.

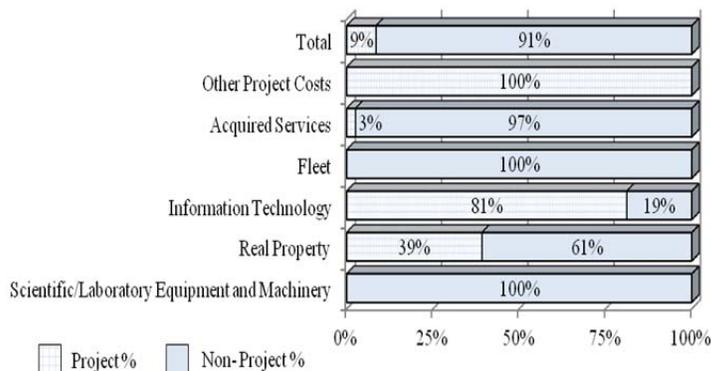
The updates to the Investment Planning Framework are consistent with the Department's forward agenda for investment planning.

Regarding linkages with non-project investments or ongoing acquisition of assets and services into the Investment Planning Framework, the Chief Financial Officer Branch will review the scope of expenditures to be included in the Investment Plan and will work with relevant branches to determine priority areas in non-project investment.

Non-project - Assets and acquired services

Departments must now systematically address their investments in assets and acquired services. Acquired services are formal arrangements that Health Canada has with outside parties to support the achievement of the Department's outcomes. The Department plans to invest \$1.6 billion in non-project acquired services and \$124 million in non-project assets over five years. Investment in assets and acquired services are largely routine, ongoing acquisition activities. The Department has standard management processes and structures for assets and acquired services, however they represent 91 percent of the total investment plan and they have not yet been integrated into the Investment Planning Framework.

Investment planning could be strengthened by reflecting in the Framework: the role of existing committees governing assets and acquired services; costing of non-project investments; and processes for managing non-project investments in assets and acquired services. (see recommendation 1)



1.3 Oversight committees

Audit criterion: *Effective oversight bodies are established to govern the Investment Planning Framework and portfolio.*

Health Canada has established a governance structure which provides for senior management oversight on investment planning, according to Treasury Board policy requirement. The **Executive Committee** approves the investment plan and allocates/reallocates resources. The Executive Committee is supported by two committees. The first is the **Assistant Deputy Minister Investment Planning Governance Committee**. This Committee reviews the

investment plan and projects for alignment with business directions. It provides oversight and recommendations to the Executive Committee and ensures projects are consistent with strategic directions, Treasury Board and Health Canada policies. The Committee is composed of select branch assistant deputy ministers and is co-chaired by the Chief Financial Officer and the Assistant Deputy Minister, Corporate Services Branch.

The second is the **Director General Investment Planning Advisory Committee** which is a forum for consultation on all investment planning issues, processes, projects and activities. It ensures consistency with strategic direction and alignment with policies. Committee members are also responsible for communicating investment planning decisions within branches. The Committee is comprised of representatives from all branches and it is co-chaired by the Director General, Departmental Resources Management Directorate, and the Executive Director, Information Management Services Directorate.

Governance documents were developed while the structure and process for investment planning have been going through changes for necessary streamlining and improvements. For example, the Executive Committee-Finance, Evaluation and Accountability was utilized to develop the first Health Canada Investment Plan. However, committees of assistant deputy ministers and director generals for Investment Planning have replaced the roles of Executive Committee-Finance, Evaluation and Accountability. In addition, according to the project delegation approval matrix, the exclusive responsibility for the oversight of projects under \$250 000 is with sponsoring branches, whereas terms of reference states that the Director General Committee plays a role in those projects. According to the terms of reference, the Assistant Deputy Minister Committee has a role in the implementation of independent project review recommendations and that role is absent from the Investment Planning Framework. Below is a table which depicts the current delegation matrix as of Spring 2012. Further, as the practice of investment planning has evolved, there have been changes to the project approval delegation matrix to increase the level of oversight at various project gates. As a next step, Investment Planning Framework documents should be reviewed to align with the delegation matrix. (see recommendation 1)

As mentioned, non-project investments at Health Canada are largely routine, ongoing acquisition activities involving assets and acquired services. Existing committees, which have mandates that pertain to non-project investments such as acquired services and real property, should be integrated in the Investment Planning Framework. As well, since the terms of reference for both the directors general and assistant deputy ministers committees on Investment Planning currently outline an oversight role for “all investments,” there could be an expanded role for non-project investments. (see recommendation 1)

Project approval delegation matrix

	TIER	5	4	3	2	1
	PCRA SCORE	Not required	Less than or equal to 2	Less than or equal to 2	Less than or equal to 2	Greater than 2
	PROJECT COST	Under \$250 K	\$250 K – \$500 K	\$500 K – \$1 M	Over \$1 M	Over \$1 M
PROJECT PHASE	Idea generation	Sponsoring Branch	Executive Committee	Executive Committee	Executive Committee	Executive Committee
	Project initiation	Sponsoring Branch	Assistant Deputy Minister Investment Planning Governance Committee	Executive Committee	Executive Committee	Treasury Board
	Project planning	Sponsoring Branch	Assistant Deputy Minister Investment Planning Governance Committee	Assistant Deputy Minister Investment Planning Governance Committee	Assistant Deputy Minister Investment Planning Governance Committee	Treasury Board
	Project execution	Not applicable	Not applicable	Not applicable	Assistant Deputy Minister Investment Planning Governance Committee	Assistant Deputy Minister Investment Planning Governance Committee
	Project closeout	Not applicable	Not applicable	Not applicable	Sponsoring Branch	Sponsoring Branch

1.4 Roles and responsibilities

Audit criterion: Roles and responsibilities are documented and understood by stakeholders.

The **Deputy Minister** is responsible for the effective management of the investment planning function within the Department. The Deputy Minister has planning and reporting responsibilities under the *Policy on Investment Planning - Assets and Acquired Services* which include: reflecting investments in the *Report on Plans and Priorities* and the *Departmental Performance Report* to provide information to parliamentarians on key departmental initiatives; to provide the Minister with investment planning advice annually; and finally, to submit the Investment Plan to the Treasury Board of Canada Secretariat every three years. If requested by the Secretariat, the Plan is to be submitted to Treasury Board ministers for approval. The Investment Planning Framework includes those responsibilities with the exception of the annual provision of investment planning advice to the Minister and

submission of the Investment Plan to Treasury Board Secretariat every three years. (see recommendation 1)

The **Chief Financial Officer** provides leadership in the preparation of accountability reporting, including the Investment Plan.

Assistant deputy ministers are accountable for investment planning projects and activities in their respective branches. As well, they are responsible to ensure their branches are actively involved in all departmental planning and reporting functions and to work in close collaboration with those areas leading departmental planning and reporting activities.

Project leads (business owner) manage projects, including change management, transitioning to new business processes, communications, and preparing project status updates and reviews.

Project managers are responsible for achieving defined project objectives within the costs, time, resources allocated as per the Project Charter, and to fulfill the requirements of the Investment Planning Framework.

Senior management's roles and responsibilities were generally well understood by stakeholders. However, interviews noted a need for more clarity and consistency in roles and responsibilities for project leads and project managers. The Chief Financial Officer Branch indicates that an update is underway for the various planning and guidance documents, such as the Investment Planning and Reporting Framework (IPRF), the Project Management Guide, the Integrated Operational Planning and Reporting Framework, and the Cost Policy.

A key role is missing from the Health Canada Investment Planning Framework regarding the "duty to inform". The Treasury Board *Policy on Investment Planning – Assets and Acquired Services* requires each department to inform its key government stakeholders of planned investments in order to enhance coordination across the Government of Canada. Health Canada is developing a protocol for communication with the Treasury Board of Canada Secretariat. The responsibilities outlined in the protocol will fulfill its duty to inform vis-à-vis the Secretariat however the duty to inform other important stakeholders like common service providers and key federal partners should also be included to clarify dependencies and to allow for potential economies of scale. As Health Canada moves forward, the Investment Planning Framework should reflect the "duty to inform" all stakeholders. (see recommendation 1)

2. Risk management

2.1 Investment risks

Audit criterion: Management identifies, assesses and responds to Investment Planning Framework risks.

Investment planning is a risk-based activity as it represents the allocation of limited resources to the areas of strategic importance. Risk management practices for the Investment Planning

Framework can apply at two levels. First, the *Corporate Risk Profile* is key to prioritize and align investments. Second, it is mandatory to provide a level of oversight on project management processes that is commensurate with risk. This principle is endorsed in the Government of Canada *Standard for Project Complexity and Risk* which requires an assessment of project complexity and risk for all projects with a total cost greater than \$1 million.

Corporate risks

Investment planning helps achieve corporate priorities and mitigate risk for the Department. For example, Health Canada has planned for \$165 million of acquired nursing services from 2011 to 2016. This investment responds to the highest ranking departmental risk related to the delivery of primary health care services in remote and isolated First Nations communities, which is challenged by a nursing shortage.

Health Canada publishes an annual *Corporate Risk Profile* with analytical data about the current and future trends, opportunities, challenges and risks. The Investment Planning Framework documents how the *Corporate Risk Profile* helps determine departmental priorities and investments. Linkage to corporate risks is used to prioritize projects and is appropriately highlighted in the Investment Plan.

Project management

The Department developed a risk-based project management process which includes varying levels of oversight by investment planning governance bodies commensurate with the financial value, complexity and risk level of each project.

One important project deliverable is the Project Complexity and Risk Assessment for which there is a departmental template and guide. At Health Canada, for projects over \$250 000, a risk assessment is completed during the project initiation phase and updated during the project planning phase. The template is comprised of 64 questions on topics such as project budget, alignment with strategic outcomes, stakeholder impact, procurement risks, human resources and business risks. The risk assessment generates a weighted average score to indicate the classification of complexity from one to four. The score will determine the level of oversight required for the project.

Following a review and analysis of documentation and interviews, the audit found that management identifies, assesses and responds to corporate and project risks.

2.2 Change management

Audit criterion: *The Department has a change management strategy in place to implement its Investment Planning Framework.*

It is an industry best practice to have a change management strategy to facilitate major transformation within an organization. Investment planning represented a significant culture change, moving towards an enterprise and more transparent allocation of limited resources amongst branches. Resistance to change was identified as an investment planning risk by

Health Canada and a number of activities were outlined to mitigate the risk. The Department has benefited from the implementation of investment planning insofar as it has brought investment decisions at the most senior levels of the organization. As a next step, more change efforts should be directed to working levels of the organization.

At the end of the first investment planning cycle, a lessons learned exercise was conducted and a report was produced based on consultations with participating directors general and assistant deputy ministers. A project plan for the enterprise investment planning exercise and a preliminary communication strategy were also developed. However, knowing the investment planning process was quickly evolving, it was also determined that implementing the communication strategy was of a lower priority than completing the first departmental Investment Plan for Treasury Board approval.

A comprehensive change management and communication strategy, as an instrument to support investment planning, should now be considered as a priority. The draft investment planning communication strategy includes many elements of change management (like emails from senior management, information hosted on the Health Canada intranet, on-line training and information sessions) and a list of key stakeholders. The draft communication strategy can serve as the basis for change management and would be strengthened by performing a needs analysis of different groups to tailor communication products to different audiences. The Chief Financial Officer Branch intends on rolling out its communication strategy.

3. Internal controls

3.1 Planning integration

***Audit criterion:** Investment planning is integrated with the Departmental Integrated Operational Planning Process and processes specific to investment areas.*

Investment planning brings horizontal planning, oversight, reporting and authority for existing spending in assets and acquired services. Integration amongst the various organizational planning processes is key to improving overall efficiency and effectiveness.

At Health Canada, integration of investment planning should occur in three areas. First, between the departmental frameworks which outline planning and reporting deliverables. Second, integration should occur within the operational planning process and the investment planning process. Third, there are investment areas, such as information technology or real property, which should be integrated into the investment planning process.

Framework integration

There are two departmental frameworks which outline the integration of investment planning and operational planning: the *Health Canada Integrated Planning and Reporting Framework* which is the main framework and outlines the Departmental Integrated Operational Planning Process; and the *Health Canada Investment Planning and Reporting Framework* which is specific to investment planning and describes a transitional governance structure, the *Policy*

on *Investment Planning - Assets and Acquired Services*, departmental roles and responsibilities for investment planning.

The *Health Canada Investment Planning and Reporting Framework* makes explicit links to the *Report on Plans and Priorities* and the *Departmental Performance Report* and it outlines the responsibility for the annual refresh of the Investment Plan. However, the *Health Canada Integrated Planning and Reporting Framework* does not list the Investment Plan as an output of the integrated operational planning process.

Integration with operational planning

Integration is defined as strategic planning occurring at the same time as other functional planning like investment planning, human resources and information technology. This enables branch managers and planners to assess the impacts of investments on planned activities and enabler functions. Integration was also defined as a single approach to capturing all planning information through the Integrated Planning and Performance Reporting System (IPPRS).

In 2012-2013, the IPPRS was used to plan acquisitions in all asset categories and acquired services over \$10,000. Branches were also asked to submit proposals for projects in the automated system. This was the first time that investment planning was integrated into the operational planning process.

While there was a definitive effort and progress, there were a number of gaps in integration, including last minute requests for additional information outside of the automated system and for revised information as a result of quality control. Instructions could have been clearer and more consistent in an effort to reduce duplicate information requests. Interviews with stakeholders revealed uncertainty regarding the process to submit investment proposals.

Integration with investment areas

The Department grouped all acquired services into investment areas. Additionally, capital assets valued over \$10,000 were grouped into the investment areas of: Scientific or Laboratory Equipment and Machinery, Real Property, Information Technology and Fleet. Capital assets are the only type of asset included in the design of the Investment Planning Framework. According to Treasury Board Accounting Standards, capital assets exclude intangible assets such as intellectual property. However, the *Policy on Investment Planning – Assets and Acquired Services* states that both tangible and intangible assets that have a future life beyond one year should be included in investment plans.

In 2009 the Office of the Auditor General tabled the *Audit of Intellectual Property*, and estimated that Health Canada had approximately \$36 million of intellectual property assets generated externally through acquired services. As a result, in May 2011, the Department developed and implemented an intellectual property policy. The objective of the policy included the recognition of Health Canada's intellectual property as a Crown asset for the benefit of Canadians. Intellectual property is material when compared to capital asset investment areas identified in the Investment Plan, such as Fleet which is valued at \$10

million. However, intellectual property as an investment area was omitted from the design of the Investment Planning Framework and subsequently, the Department's Investment Plan.

Some investment areas which were included in the investment portfolio have existing standard operating procedures, corporate service policies and frameworks that pre-date investment planning. Investment area standard operating procedures include departmental policies in the areas of Real Property, Acquired Services, Material Management and Fleet, as well as annual verification exercises for fleet and capital assets. It is important to integrate investment planning with existing practices in investment areas to avoid duplication and increase efficiency of departmental planning processes.

There are varying levels of integration of these investment areas with the investment planning process. For project management, the Investment Planning Framework builds on existing practices in Information Technology and Real Property. Recent departmental policies in Fleet and Real Property contain references to investment planning. The Investment Planning Framework makes reference to fleet acquisitions, however without mentioning maintenance and disposal, which are important aspects of a life-cycle management approach. Standard operating procedures which include all aspects of life-cycle management tend to lead to better management of assets and accurate projections of whole-of-life costs for investment planning. Management would benefit from an assessment of all investment area standard operating procedures to determine if full life-cycle management is in place to support sound investment planning. For example, the Investment Plan already contains a commitment to improving data collection and planning for acquired services, and it may be required to bring similar improvements to the standard operating procedures for other investment areas.

Health Canada has made significant efforts and progress to integrate operational and investment planning and senior management remains committed to pursue full integration. There are a few areas where integration can be further strengthened such as aligning the departmental planning frameworks, within the operational planning process, and by pursuing full life-cycle management. (see recommendation 1) The Department will also benefit from investigating the investment area related to intellectual property.

Recommendation 2

It is recommended that the Chief Financial Officer determine the need to include intellectual property in the Investment Plan.

Management response

Management agrees with the recommendation.

Management will consult to ascertain the need and value for inclusion of Health Canada's intellectual property as an asset in the Investment Plan.

If determined that inclusion would be beneficial, a meaningful approach for displaying the asset information and/or managing the asset will be identified.

3.2 Investment processes

Audit Criterion: *Formal processes have been designed to support sound investment planning and delivery.*

It is expected that the departmental investment planning process for assets and acquired services includes the identification, costing and selection of project and non-project investments.

Managing project investments

Sound project management is basic to providing value for money in program delivery. Effective executive-level discipline and internal control require projects to be structured to allow accountable officials to assess project performance against planned goals and expectations at all stages. According to the Treasury Board *Policy on the Management of Projects*, the Deputy Head is accountable for project expenditures and outcomes. Two elements are critical to achieve efficient and effective project management result: dividing the project delivery process into a series of manageable phases; and making funding implications fully visible to senior management at logical, predetermined checkpoints or gates.

The Health Canada Investment Planning Framework is comprised of a project management guide, templates and process flow diagrams. The framework outlines project phases, gate approval authorities and deliverables in a clear way. There is a three stage gating process and a five stage gating process for projects based on risk and costs. While the requirements for senior management are clear, there is an opportunity to improve information on the detailed steps to be taken at various gates within branches. For example, a risk registry is a deliverable required for completion at gate 4 yet it is unclear whether the project manager is expected to complete it or have it approved.

Project phase: a period of time during which a grouping of activities is performed and deliverables are approved. Traditionally, projects have been divided into: conception, planning and design, execution and closing. Collectively, project phases represent the project life cycle.

Project gate: is a key decision and control point that occurs before the next project phase begins. Senior management gatekeepers can determine whether and how to proceed and project gates open or close the path leading to a subsequent project phase. Gates provide an opportunity to assess the quality of work to date and to alter the course of the project or take remedial actions as necessary.

Another important project management step is for branches to complete a Project Complexity and Risk Assessment. The results of the assessment, in part, determine the gating process to be followed for a project. The assessment is completed by the branch project sponsor and is to be reviewed by a subject matter expert or a core project team member within the Branch. Following this review, the Departmental Project Management Office reviews and challenges the branch self-assessment. The sponsoring branch's Assistant Deputy Minister reviews it prior to the assessment being tabled before the investment planning governance bodies. Approved assessments are then submitted to the Treasury Board of Canada Secretariat. The Secretariat retains discretion to review.

While there are controls in place to minimize the potential bias in the self-assessment scoring process, it would be beneficial for the Departmental Project Management Office to seek a role beyond advising and reviewing for completeness. (see recommendation 3)

3.3 Investment costs

***Audit criterion:** There are systems and tools in place to determine investment costs.*

The Chief Financial Officer Branch developed two types of tools to determine investment costs. First, there are systems used to determine investment costs and keep financial system records. Second, there is an Investment Planning Framework as well as departmental policies on asset management and costing to clarify investment planning expectations. As a result, costs are presented by project and non-project investments in Health Canada's Five-Year Investment Plan (2011-2012 to 2015-2016) as well as by investment areas.

Investment planning systems

Investment costs are determined using the Integrated Planning and Performance Reporting System (IPPRS), the financial system - SAP as well as the Contract Requisition and Reporting System (CRRS). Branch officials manually enter financial planning information including investment costs into IPPRS, which aggregates information. SAP is Health Canada's financial system of record and it is widely used across the Government of Canada as an enterprise resource planning software. SAP provides approved budgetary allocation to the Assistant Deputy Minister and Director General levels. The CRRS links contract financial information from SAP, and the documentation and approval needed for each contract. Information in the CRRS is used to meet archival regulations and reporting requirements, as well as to facilitate the planning and auditing of contracts.

According to investment planning stakeholders, it remains difficult to integrate SAP, the IPPRS and the CRRS given different vendors. Consequently, manual interventions are required to reconcile planning information in the IPPRS to budget allocation and expenditure information processed solely through SAP. For example, some branches are using internal order numbers to compare actual expenditures in SAP to forecasts in the IPPRS for variance tracking. However this practice is inconsistent across the Department.

The Department would benefit from considering other information technology solutions that improve interoperability of various systems. This approach would integrate investment

planning data with budgetary and expenditure data while eliminating the need for manual interventions. In response to the March 2012 Audit of the Departmental Integrated Operational Planning Process, the Chief Financial Officer Branch is developing a comprehensive “roadmap” for an integrated financial management and planning information technology solution. Subsequent to the completion of that audit, the IPPRS also experienced unresolved scalability issues due to increasing number of departmental users. Since the Department has chosen to integrate investment planning with the operational planning process, the system requirements of investment planning should be considered in the greater context of operational planning. As a result, it would be beneficial to seek an information technology solution to address reporting, scalability and integration issues.

The Chief Financial Officer Branch reports that system enhancements will be identified in a Roadmap document that will present a “way forward” for a departmental integrated planning solution that meets the information needs of senior management. This work is expected to be completed by Spring 2014.

Investment costing tools

There is a Health Canada *Costing Policy* with guidance on costing approaches that can be applied for several purposes including investment decisions. Health Canada published an *Asset Management Policy Framework* which describes accounting instructions and encourages costing using the life cycle management approach. There is also a project management costing template to capture salary, operations and maintenance and capital expenses.

The Investment Planning Framework excludes discussions of non-project costing and references to Health Canada’s asset management and costing policies. The Department would gain from closer attention to non-project investments by developing additional means and tools to better capture and report on non-project costs of the investment portfolio. (see recommendation 1)

Investment cost reporting

According to the Treasury Board *Policy on Investment Planning – Assets and Acquired Services*, departments are expected to present project costs in a summary table and Health Canada has met this requirement. Departments are also encouraged to choose a way of classifying non-project costs—for example by investment class or program activities—that best reflects the nature of their operations. Health Canada presents its investment portfolio by projects or non-projects—ongoing operations and maintenance.

Overview of Health Canada investments 2011-2012 – 2015-2016 (in \$000)

	Capital Assets				Acquired Services	Other Project Costs**	Total
	Scientific/ Laboratory Equipment and Machinery	Real Property	Information Technology	Fleet			
Projects	-	37,287	43,323	-	44,047*	43,614	168,271
Non-projects	46,067	57,811	10,037	10,000	1,685,800	N/A	1,809,715
Total	46,067	95,098	53,360	10,000	1,729,847	43,614	1,977,986

* Acquired services project costs are for Information Technology and Real Property projects.

** Includes salary, employee benefit programs and other operations and maintenance.

*** Shaded cell represents investment expenditures which require more departmental oversight.

An overview of investments in the table above presents information technology (IT) costs of \$53 million (\$43 million in project plus \$10 million in non-project spending). However, the departmental project list in the Investment Plan includes an additional \$85 million of information technology project costs. This brings the total investments in Information Technology from \$53 million to \$138 million. The discrepancy could be due to the fact that some information technology costs are included under acquired services (\$44 million) and other projects (\$44 million). While cost breakdown information was available for IT projects, it was unclear for other investment areas such as Real Property projects. It would be beneficial to present acquired services and other project costs by investment area. (see recommendation 1)

3.4 Capacity for investment planning

***Audit Criterion:** The Department has appropriate capacity for investment planning and to support effective project management within branches.*

The Government of Canada expects departments to have the people in place to complete the Investment Plan within reference levels. In addition, departments are expected to implement the *Policy on the Management of Projects* which advocates improved government-wide project management practices. Capacity is understood as supporting the delivery of projects within branches and having dedicated departmental resources to manage the Investment Planning Framework.

The Department has recognized the need to strengthen project management by deeming it a high level investment planning risk in Health Canada's Treasury Board Submission on Investment Planning. The risk was related to a gap in enabling tools, which were to be integrated in department-wide processes to support investment planning and project management.

Interviews with senior management stakeholders outlined the need to develop a small central unit to manage the Investment Plan and to support project management. A project management office is the organizational entity established to assist project managers in implementing project management principles, practice methodologies, tools and techniques.

The Project Management Office is a support function and is not responsible for project execution. Its main objective is implementing effective project management practices throughout the Department – like a center of expertise.

Recently, a departmental project management office was created within the Chief Financial Officer Branch. The Investment Planning and Management of Projects Division is to be the focal point for investment planning, while the Project Management Office is intended to support project managers and teams to deliver projects. According to interviews, the role of the Project Management Office is unclear to some stakeholders. As the Department pursues the development of the unit, there will be an opportunity to clearly communicate its mandate to investment planning stakeholders. However, the Investment Planning Framework now includes tools and templates, which guide project managers to determine capacity requirements for projects. As a next step, these tools and templates will have to be supported with training.

Recommendation 3

It is recommended that the Chief Financial Officer's Portfolio Project Management Office communicate its mandate and provide appropriate guidance and training to increase the project management capacity in the Department.

Management response

Management agrees with the recommendation.

The Office has been established and the proposed roles are being performed.

The Investment Planning Framework now includes tools and templates, which guide project managers to determine capacity requirements for projects. Tools and templates will be supported with training.

3.5 Performance management

Audit criterion: Senior management identifies investment performance measures, monitors performance and adjusts as required.

Health Canada has a *Performance Measurement Framework* with: performance indicators to assess progress towards the achievement of strategic outcomes and intended results of the Program Activity Architecture; the data sources from reporting; the frequency with which the data will be collected; and the targets each program plans to achieve within a specified time. The need to develop additional performance indicators outside of the *Performance Measurement Framework* is also recognized.

There is a corporate monthly dashboard that communicates some investment planning specific performance information. It contains funding pressures for each branch, the

progression of the Information Technology Application Reduction Initiative, historical trend in Information Technology Costs and Real Property leasing costs. The dashboard also displays the project status, cost, schedule, scope and risks for all projects included in the Investment Plan. The Department has also identified the following performance indicators in the Investment Plan to measure investment performance:

Performance Indicators	Coverage of		
	Non-Project Investments	Project Investments	Effectiveness of Process or Governance
Percentage of projects implemented as planned, on time and completed within budget.		✓	
Variance between the annual investment plan and actual expenditures.	✓	✓	
Percentage of projects with PCRA's exceeding the Department's assessed project management capacity.	✓	✓	
Number of significant changes identified and communicated to Treasury Board Secretariat that trigger an update of the Investment Plan before the scheduled three-year renewal period.	✓	✓	
Percentage of assets that have exceeded their life expectancy based on a life-cycle approach.	✓	✓	
Savings realized as a result of consolidated procurement and contracting activities.	✓	✓	

The indicators focus on project and non-project investments without considerations for measuring the effectiveness of the investment planning process or governance. The responsiveness of budget allocation after investment approval is an example of such a measure. Furthermore, the indicators exclude information on targets or tolerance levels associated with these indicators. Finally, the linkage of performance indicators to the investment planning path forward identified by senior management is unclear. For example, one of the improvements recognized by management is related to the provision of flexibility at the enterprise level for budget allocations and reallocations to meet corporate priorities. This improvement would require an indicator to capture the responsiveness of budget allocation/reallocations to corporate priorities.

The identification of investment planning performance indicators is a positive step towards the Department's ability to assess investment performance. Currently, the indicators being tracked by senior management are project costs, schedule and risks. The Department would further gain by re-examining indicators and developing new ones to measure and monitor the effectiveness of the investment planning process, including path forward improvements.

Recommendation 4

It is recommended that the Chief Financial Officer develop performance indicators and targets to measure and monitor investment planning improvements and the effectiveness of the investment planning process.

Management response

Management agrees with the recommendation.

The Chief Financial Officer Branch will develop performance indicators and targets to measure and monitor investment planning improvements and the effectiveness of the investment planning process.

These will be included in the Investment Planning Framework.

3.6 Lessons learned

***Audit criterion:** There is a feedback mechanism in place to inform processes and future investment planning processes.*

Following the Department's initial investment planning cycle, a lessons-learned exercise was conducted. The objectives were to identify areas of strength, opportunities for improvement and to make recommendations for updating future processes. A formalized action plan to address the recommendations from the exercise was excluded from the process. As a result, only two of the four recommendations have been fully addressed in the design of the Investment Planning Framework.

Lessons Learned Recommendation	Addressed in Design of Investment Planning Framework?
1. Integration of Investment Planning with Departmental Integrated Operational Planning Process.	In development. See section 3.1 on planning integration.
2. Risk mitigation and project management disciplines to be applied where appropriate and at appropriate level of complexity.	Full. See section 2 on risk management.
3. A clear and effective project oversight mechanism.	Full. See section 1.3 on oversight bodies.
4. A small central unit for management of the Investment Plan and support to project management.	In development. See section 3.4 on capacity.

The results of the first investment planning lessons learned exercise were well received by stakeholders and the Department would gain from sustaining the learning momentum. This can be achieved by soliciting annual feedback from stakeholders and learning from it to continuously refine its approach to investment planning. Furthermore, the Departmental Integrated Operational Planning Process includes a similar annual lessons learned exercise.

As the Department pursues the integration of investment planning with the Departmental Integrated Operational Planning Process, investment planning lessons should be completed as a part of the operational planning process.

C - Conclusion

The first Health Canada Investment Plan was approved in March 2012 and in that short period of time the Department has developed an Investment Planning Framework. Having completed its second cycle of investment planning, the Department is in a position to further advance the framework.

A governance structure is in place for investment planning. Senior management is engaged in the selection of the investment portfolio and the management of the Investment Planning Framework. Governance will be further strengthened by formalizing the investment planning strategy and including more oversight of non-project investments.

There are considerable efforts to use risk management practices in investment planning. The investment portfolio is aligned with corporate risks and the Department has taken a risk-based approach to manage projects. Resistance to change was identified as a risk for investment planning however the tone from the top has been supportive and senior management has been well engaged in investment planning. Going forward, there is a draft internal communication strategy which can be implemented to support the branches at the working-level.

In addition, the Department has also made significant progress in establishing internal controls thereby positioning it to have an investment portfolio which aligns with organizational objectives. This includes integrating investment planning with operational planning, processes for project investments, a number of standard systems to cost investments, building the capacity for investment planning centrally and within branches as well as managing performance and holding a lessons learned exercise.

Given the level of effort and senior management attention, it is evident that the investment planning process will continue to evolve and Health Canada will continue to have an investment portfolio to support its many programs. The recommendations from the audit report are made to further strengthen a well-designed investment planning process.

Appendix A – Audit criteria

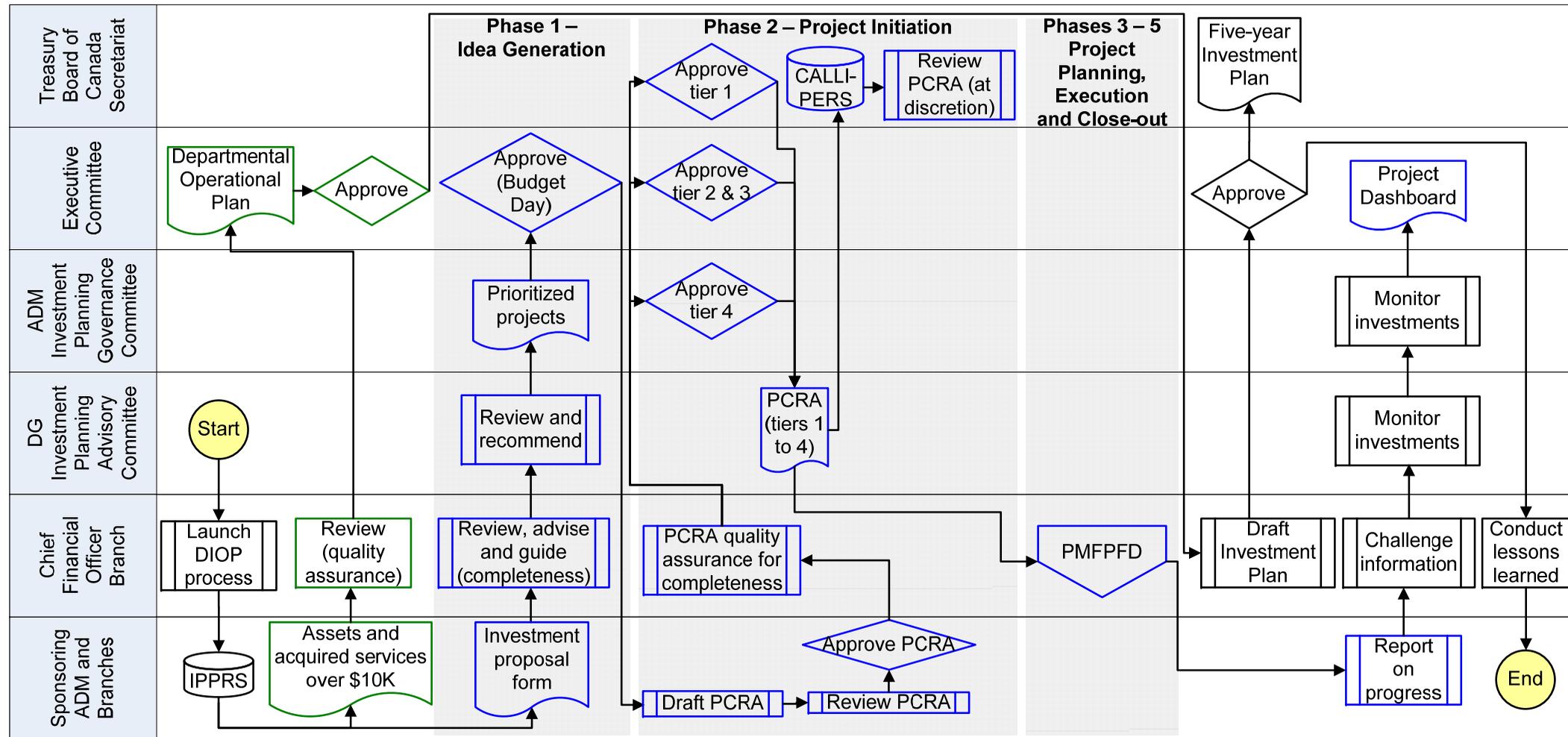
Audit of the Departmental Investment Planning Process	
Criteria Title	Audit Criteria
Line of Enquiry 1: Governance	
1.1 Strategic direction	The Department has defined a strategy to implement the <i>Policy on Investment Planning – Assets and Acquired Services</i> and <i>Policy on the Management of Projects</i> .
1.2 Investment framework	The Department has in place an approved Investment Planning Framework.
1.3 Oversight committees	Effective oversight bodies are established to govern the Investment Planning Framework and portfolio.
1.4 Roles and responsibilities	Roles and responsibilities are documented and understood by stakeholders.
Line of Enquiry 2: Risk Management	
2.1 Investment risks	Management identifies, assesses and responds to Investment Planning Framework risks.
2.2 Change management	The Department has a change management strategy in place to implement its Investment Planning Framework.
Line of Enquiry 3: Internal Control	
3.1 Planning integration	Investment planning is integrated with the Departmental Integrated Operational Planning Process and processes specific to investment areas.
3.2 Investment processes	Formal processes have been designed to support sound investment planning and delivery.
3.3 Investment costs	There are systems and tools in place to determine investment costs.
3.4 Capacity	The Department has appropriate capacity for investment planning and to support effective project management within branches.
3.5 Performance management	Senior management identifies investment performance measures, monitors performance and adjusts as required.
3.6 Lessons learned	There is a feedback mechanism in place to inform processes and future investment planning processes.

Appendix B – Scorecard

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Strategic direction	NMiI	Clarify, deliver and include the investment planning strategy in the Investment Planning Framework.	1
1.2 Investment framework	NMoI	Investment Planning Framework has inconsistencies, is less thorough for non-project investments (Assets and Acquired Services).	1
1.3 Oversight committees	NMiI	Good committee structure however oversight of non-projects missing and mandates between committees could be more consistent.	1
1.4 Roles and responsibilities	NMoI	Roles and responsibilities are defined; however greater consistency in documentation is required. Some DM planning roles are missing from the framework.	1
Risk Management			
2.1 Investment risks	S	Corporate and project risks are addressed.	
2.2 Change management	NMiI	Implement the communication strategy and strengthen by performing a needs analysis of different groups.	
Internal Controls			
3.1 Planning integration	NMoI	Add investment planning to departmental planning framework and pursue integration with operational planning. There is an opportunity to include intellectual property in the investment portfolio and integrate investment areas.	1 and 2
3.2 Investment processes	NMoI	Excludes non-project investments and would benefit from a description of working-level roles.	1
3.3 Investment costs	NMiI	A number of systems are used to cost and tools are required for non-projects. Reporting on costs can be improved.	1
3.4 Capacity	NI	Departmental (Branch specific) project management capacity will need to be further developed.	3
3.5 Performance management	NMoI	The performance of project and non-project investments is managed. Performance indicators are not linked to the strategy and do not measure process and governance.	4
3.6 Lessons learned	S	A lessons learned exercise was held; future lessons learned can be integrated with operational planning.	

S	NMiI	NMoI	NI	U	Ukn
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Appendix C – Health Canada Annual Investment Planning Process Design



LEGEND		Tier		PCRA	Value (\$)	ADM:
	Documented Process		1	> 2	> 1M	Assistant Deputy Minister
			2	≤ 2	> 1M	Director General
			3	≤ 2	> 500K < 1M	Departmental Integrated Operational Planning
			4	≤ 2	> 250K < 500K	IPPRS: Integrated Planning and Performance Reporting System
	Project investments		5*	NA	< 250K	PMFPPD: Project Management Framework Process Flow Diagrams
	Non-project investments					PCRA: Project Complexity and Risk Assessment
	All investments					* Tier 5 projects are managed within branches and are not represented in this map.