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Final Audit Report

Audit of the Economic Action Plan Governance and Planning

March 2014

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Executive summary

The focus of the audit was on the governance and planning for Health Canada's transformation initiatives included in the *Economic Action Plan*. The goal of the plan is to support the Government of Canada's return to a balanced federal budget by 2014-15. In order to reach a balanced budget, 67 federal government organizations examined direct program spending to identify proposals for reductions in operating, grant and contribution, and capital expenditures, while maintaining the integrity of essential services. By 2014-15, Health Canada is expected to contribute savings of \$198 million (6.4 percent of the budget), including reductions of approximately 1,039 positions.

The objective of the audit was to assess the effectiveness of the management controls related to governance, planning, risk management and internal controls to support the implementation of the initiatives committed to in the *Economic Action Plan*. 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 effectively governed and planned for the development of a 3-year *Economic Action Plan* that is to renew business processes through the implementation of 28 cost-reduction and efficiency improvement initiatives. In the first year of the plan, the Department successfully managed within its reduced spending allocations. Within a short timeframe, Branch leads developed and began implementing program and internal service efficiencies. The plans were robust and reflected internal and external dependencies; risk analysis; roll-out strategies; implementation timelines; as well as completion of tracking forms. Further, there was an overarching Departmental plan and approach for internal and external communications, human resources and work force management. The audit found effective internal controls for financial and human resource management. For example, costs associated with *Work Force Adjustment* are tracked and controlled through a devoted internal order in the departmental financial system and monitoring has been integrated into the monthly variance reporting process to provide continuing control over the Full Time Equivalents targets. The Departmental dashboard was modified to include the *Economic Action Plan* initiative. Additional monitoring information is provided which highlights for senior management key information on progress against targets.

Overall, Health Canada has robust and effective management controls related to governance, planning, risk management and internal controls to support the implementation of the initiatives committed to in the *Economic Action Plan* and notes that the Department is progressing well towards full implementation. Given the magnitude of the strategic operating review exercise, the Department will benefit by including in the project management approach a lessons learned.

A - Introduction

1. Background

A key pillar of the Government of Canada's *2007 Expenditure Management System* is strategic reviews. These reviews support a more rigorous results-based approach to managing taxpayer dollars responsibly and delivering effective and efficient programs that can best meet the priorities of Canadians. An important element of the system is the regular review of the direct program spending by every department and agency on a four-year cycle, referred to as the Strategic Review Process. Strategic review results are announced through the annual budget.

In 2011, a comprehensive one-year strategic operating review process, across 67 federal government organizations, was launched. The results of the review form the basis for the *Budget 2012: Economic Action Plan*. The goal of the *Economic Action Plan* is to support the return to a balanced federal budget by 2014-15. In order to reach a balanced budget, each federal government organization examined direct program spending in order to identify proposals for reductions while maintaining the integrity of essential services. Across the federal government the review was guided by experts from outside government and examined \$75 billion of direct program spending as appropriated by Parliament. All departments and agencies were requested to attain budget cost savings between five to ten percent. Organizations examined expenditures using the following criteria:

- **Operating efficiency**—to what extent are results being achieved efficiently? Can this activity be delivered at a lower cost or in a more effective way?
- **Internal services**—are internal services (for example, human resources management, financial management, and communications) as efficient as possible? Can improvements be made to reduce any overlap and duplication?
- **Effectiveness**—to what extent is this program, activity or service achieving the expected results for which it was designed?
- **Affordability**—is the program, activity or service a priority, and is it affordable during a period of fiscal restraint?
- **Relevance and need**—to what extent is there still a need for this program, activity or service?
- **Federal role**—to what extent is this program, activity or service consistent with the federal government's roles and responsibilities?
- **Organizational role**—would greater efficiencies be achieved if another department or agency, a government services provider, or the private sector delivered the program, activity or service?

By using these criteria, organizations were able to identify a number of opportunities to achieve greater efficiencies in operations, as well as opportunities to re-focus business processes and service delivery platforms. Expenditure reduction proposals were submitted by

Ministers, on behalf of their departments and agencies, for assessment by the Strategic Operating Review Committee.

In March 2012 the Government of Canada tabled its *Budget 2012: Economic Action Plan*. Once implemented, the *Economic Action Plan* is expected to achieve ongoing savings of \$5.2 billion or 6.9 per cent of the \$75 billion of direct program spending. Deputy Heads of the Health Portfolio, including Health Canada and the Public Health Agency of Canada submitted a portfolio funding submission for the *Economic Action Plan*, consisting of the Departments cost savings proposals including staff reductions. Health Canada's savings is \$198 million, including approximately 1,039 positions by 2014-15 (see Appendix C). Planned savings for fiscal 2012-2013 were accomplished.

Table 1: Health Canada *Economic Action Plan* Planned Savings (in 000)

Savings by Functional Area	Planned Savings (in 000s)		
	2012-13	2013-14	2014-15 & Ongoing
Organizational Restructuring	11,534	37,341	39,501
Streamlining Policy, Planning, and Administrative Capacity	4,926	20,639	35,856
Streamlining Laboratory, Science & Research Activities	693	3,232	9,067
Administrative & Operational Efficiencies	14,302	20,619	24,007
Total - Administrative Efficiencies and Rationalization of Structures and Functions			\$ 108,431
Total - Shared Services			\$ 17,862
Reductions to Pan-Canadian Health Organizations	2,000	7,337	11,270
FNIHB Non-Service Delivery Program Reductions	27,029	27,322	27,498
Other Grants and Contributions Program Reductions	8,955	8,955	19,705
Total - Grants and Contributions			\$ 58,473
Total - Streamlining Regulatory Operations and Administration			\$ 12,829
Total - Health Canada	\$ 74,197	\$ 138,515	\$ 197,595

Source: Health Canada – *Economic Action Plan 2012*, Quarterly Reporting 2012-13

To implement staff reductions, Health Canada used the Government of Canada's *Work Force Adjustment* directive, a procedure which allows deputy heads to identify services of indeterminate employees no longer required beyond a specified date because of: a lack of work; the discontinuance of a function; the relocation of an employee who does not wish to relocate; or an alternative delivery initiative. For some it meant that their position was being eliminated and that they would be subject to Work Force Adjustment; or it meant that the overall number of positions was being reduced and employees would be subject to a Selection for Retention and Lay-off Process (SERLO). Staff not retained as a result of a

SERLO would be subject to Work Force Adjustment. Employees who were not given a guarantee of a reasonable job offer (also known as opting employees) were eligible for alternation. Through the Alternation Program, opting employees could secure an alternate position where they can use their skill sets and continue their careers in the public service, while facilitating the departure of non-impacted employees ready to leave the public service.

2. Audit objective

The objective of the audit was to assess the effectiveness of the management controls related to governance, planning, risk management and internal controls to support the implementation of the initiatives committed to in the Health Canada *Economic Action Plan*.

3. Audit scope

This audit focused on Health Canada's governance and accountability, risk management and internal controls to support the implementation of the 2012 *Economic Action Plan* cost reduction initiatives that occurred in fiscal years 2011-12 and 2012-13. The audit included the 28 initiatives related to programs, grants and contributions and Health Canada and the Public Health Agency of Canada shared internal services. The audit did not examine the Work Force Adjustment activity.

4. Audit approach

The audit methodologies included: interviews; sampling of cost saving proposals; review of committee records of decisions; human resource plans; financial plans; communication strategies; and an analysis of documentation (including the Report on Plans and Priorities, Departmental Performance Reports, Estimates Part I and II, Operational Plan), policies, processes, guidelines and frameworks. The audit was conducted in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Audit*. The audit criteria, outlined in Appendix A, were derived from the Office of the Comptroller General – Core Controls.

5. Statement of conformance

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

B - Findings, recommendations and management responses

1. Governance and accountability

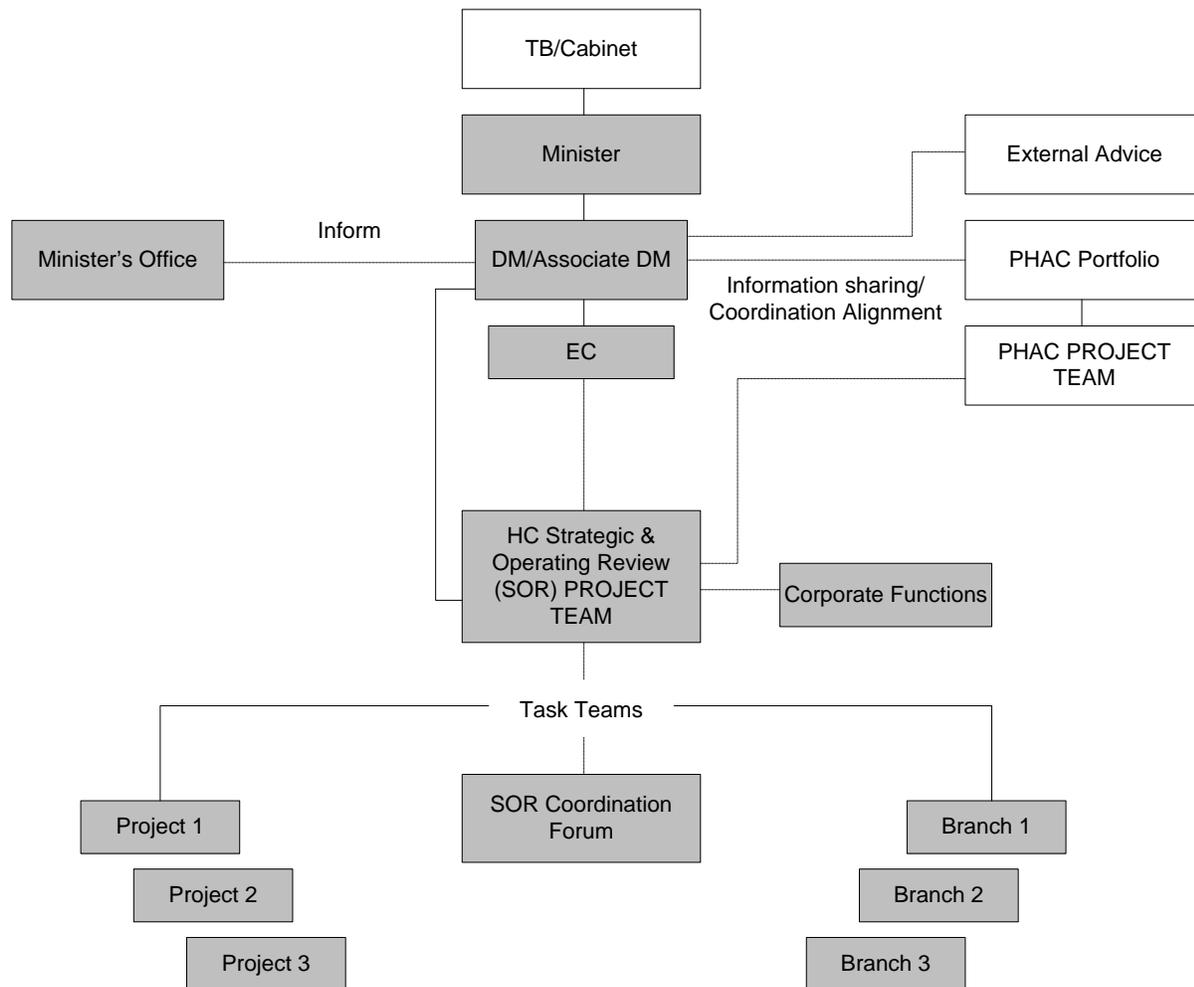
1.1 Oversight

***Audit criterion:** Appropriate oversight is in place to support the implementation of the Economic Action Plan.*

Strategic review results are published in the government's budget and the information related to these decisions is also incorporated into documents such as *Reports on Plans and Priorities* and *Departmental Performance Reports*. To meet Parliament's expectations, departments and agencies must be able to demonstrate the results. Performance can best be achieved by holding senior management accountable for the decisions taken and by maintaining broad spans of internal controls.

Health Canada implemented a governance framework to support effective oversight of the planning, communication, and monitoring for the *Economic Action Plan* transformations resulting in budgetary reductions. The framework includes the Executive Committee, the Strategic Operating Review Project Team (Project Team), and Corporate Functions which include the Sub-Committee on Work Force Management, Work Force Management Centre of Expertise, Joint Work Force Adjustment Working Group the Shared Services Steering Committee and Branch Executive Committees (see Governance Diagram).

Governance Diagram



Health Canada’s **Executive Committee** was fully engaged in setting the strategic direction and for overseeing the development and implementation of the *Economic Action Plan*. Agendas and records of decision indicate that initiatives continue to be routinely discussed.

The **Strategic Operating Review Project Team (Project Team)** was led by a Director General and included a mix of team skills which complemented the tasks required to be completed. From a governance perspective, the team reported directly to the Executive Committee providing advice and guidance which lead to the development of the plan. They also performed a coordination function with representatives from each Branch to exchange information, monitor progress and ensure consistent engagement across the Department. In addition, the Project Team coordinated the portfolio-wide *Economic Action Plan* initiatives to ensure a consistent approach to planning and implementation, respecting the Public Health Agency of Canada and Health Canada accountability for achieving savings as well as Branch

accountability for human resource and communications planning. The Project Team, while not existing as a dedicated function at present, reconvenes as needed to coordinate monitoring, reporting or other activities for senior management.

The **Sub-Committee on Work Force Management** was created for the *Economic Action Plan* to advise the Executive Committee on specific policy and work force management strategies. This included recommending the criteria, internal policies and guiding principles/rules in support of work force management decisions. They were also responsible to ensure that issues and challenges related to these activities were managed consistently and appropriately across the department. The Sub-Committee was supported by the Work Force Management Centre of Expertise.

The **Shared Services Steering Committee** was created to guide the shared services initiative between Health Canada and the Public Health Agency of Canada, which was intended to generate savings of \$24 million on an ongoing basis by consolidating internal administrative operations. The committee included an Assistant Deputy Minister's Committee and a Branch Integration Committee which was a horizontal direction setting, advisory and oversight body. During implementation, the **Partnership Executive Committee** was formed and includes Assistant Deputy Ministers and senior management. This committee is responsible for overseeing the workings of the *Shared Services Partnership Framework Agreement* and serves as a forum for information sharing, financial reporting, consultation and decision making. It reviews investment proposals and decides on the allocation and re-allocation of resources.

The **Branch Executive Committees** deals with ongoing *Economic Action Plan* initiatives within their control after the budgetary decisions were taken, now that initiatives are part of ongoing branch business. They report to the Executive Committee and the various other committees as required.

Committee agendas, records of decisions and meeting minutes were analyzed in respect of the *Economic Action Plan* governance and planning. The committees in question met with the frequency required and all committees had Terms of Reference that outlined roles and responsibilities. It is clear from the audit work conducted that the Department benefited from the governance provided during the strategic operating review exercise leading to development and ongoing implementation of the *Economic Action Plan*.

1.2 Roles and responsibilities

Audit criterion: *Clear roles and responsibilities exist to support the implementation of the Economic Action Plan.*

Across government, deputy heads are accountable for ensuring the quality of the strategic review and for identifying readily available alternative options/proposals. To support an efficient and effective strategic review and implementation of its results, roles and responsibilities between departmental officials need to be clear.

The **Deputy Minister**, supported by the Associate Deputy Minister, set the tone and strategic direction for the department to establish a 3-year *Economic Action Plan* that would renew and transform business processes through the effective implementation of cost-reduction and efficiency improvement initiatives. To accomplish the development of the 3-year plan, the Deputy Minister established an *Economic Action Plan* Project Team (Project Team) which provided leadership and support for achieving *Economic Action Plan* objectives. The Project Team reported directly to the Deputy Minister and provided strategic advice for the plan and continues to support the implementation reconvening as required.

The **Assistant Deputy Ministers**, equivalents, Chief Audit Executive and Director General Evaluation were required to put forth proposals for the *Economic Action Plan*. Each branch facilitated this process distinctly through the direction of the senior management cadre. In addition the Assistant Deputy Ministers and others participated or chaired many *Economic Action Plan* related committees. For example the Assistant Deputy Minister, Corporate Services Branch and Acting Assistant Deputy Minister, Strategic Policy Branch were co-chairs of the sub-committee on work force management.

The **Project Team** was led by a Director General and had members from a variety of functions such as financial analysts and policy analysts and program areas across the department. From May 2011 to September 2012, the Project Team worked directly with Branches to provide overall departmental coordination to secure a consistent approach for planning and eventual implementation. The Project Team became a virtual team in September 2012 and comes together as required. Those departmental officials accountable for the governance and planning of the *Economic Action Plan* initiatives in support of their implementation were provided clear direction from the deputy head.

Project Team Mandate

- Lead planning and coordination of activities
- Central point of contact for Branches, designated leads, and other parts of the Health Portfolio
- Liaise with central agencies
- Perform strategic analysis and a challenge function
- Ensure sound analysis of estimated savings, risks and feasibility of each initiative
- Provided policy cohesion and consistency across horizontal issues
- Lead development of some horizontal initiatives
- Feed into Executive Committee review and decision-making processes
- Lead the drafting of the funding agreement

2. Risk management

2.1 Risk management

Audit criterion: *Risks related to implementation of the plan are identified, assessed and have mitigating strategies.*

Risk management is recognized as a core element of effective public administration. The effective management of risk contributes to improved decision-making, better allocation of resources and, ultimately, better results for Canadians. Effective risk management practice

equips federal government organizations to respond proactively to change and uncertainty by using risk-based approaches and information to enable more effective decision-making throughout an organization.

The *Economic Action Plan* risks were identified and addressed through risk mitigation plans in a number of documents, including: the funding agreement for the *Economic Action Plan*; *Economic Action Plan* Initiative Implementation Updates; 2013-2016 Human Resources Strategic Plan; the Departmental Operational Plan; and the Corporate Risk Profile.

The *Economic Action Plan* proposals specified an impact assessment based on reductions of five and ten percent and initiatives included an assessment of risks in regard to the implementation of the initiatives. Implementation plan reporting templates included a section to detail risks associated with each initiative (in that, risk to implementation) and associated mitigating strategies. Once the plans were government approved, Branch and corporate risks were reassessed or updated.

The *Economic Action Plan* risks have been incorporated in the *2011-12 Corporate Risk Profile*. Further, it was observed that Branch Risk Registers for 2012-13 addressed *Economic Action Plan* risks. For example, the Shared Service Partnership risks are reported on cost savings proposals, and branch risk registers, outlining internal service related risks. The Department and Branches had mechanisms in place to track the status of the specific *Economic Action Plan* risks and their associated mitigation strategies.

3. Internal controls

3.1 Planning process

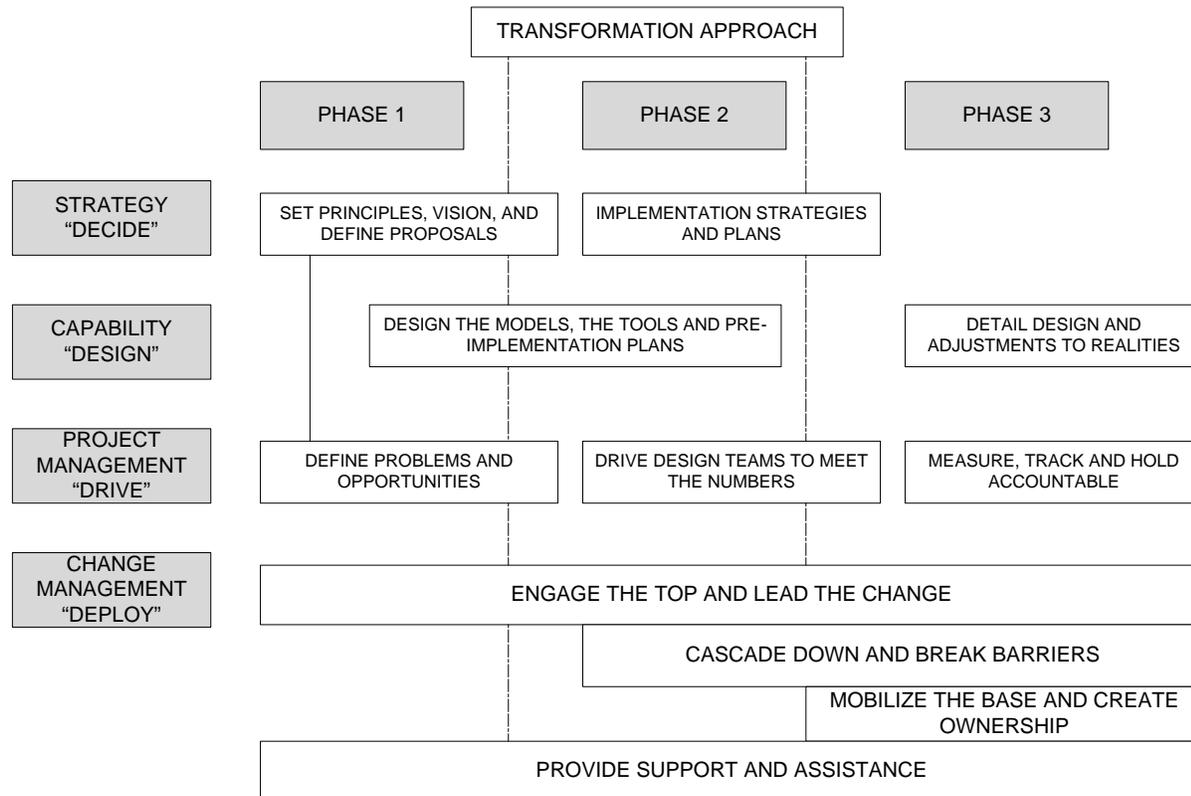
Audit criterion: *The Department has an effective planning process to develop the Economic Action Plan.*

Strategic reviews are one means of progressing a department's or agencies public agenda as well as ensuring the business is in line with the appropriate strategic outcomes. It is the process by which the strategy that drives the business plan is reviewed every four years. Effective planning for a strategic review re-establishes the priorities for an organization and identifies the resources required to maximize the probability of achieving those priorities.

A strategic review has three key processes: gather performance information to identify trends; use this information to identify reasons for variations in performance in order to create a range of options; and lastly, evaluate the options and pick those which offer the best way forward.

Health Canada used a three phased approach to develop the *Economic Action Plan 2012*. During the first phase, principles, vision and defining proposals were established. Phase two involved implementation strategies and plans, and phase three detailed design and adjustments.

Transformation Approach



Adapted from: Comprehensive Strategy-Based Transformation Approach, Booz Allen Hamilton

The Department identified the key elements of its approach to find savings, they included: improving organizational effectiveness; achieving operating efficiencies; implementing portfolio internal services through a Shared Services Partnership; streamlining regional operations; streamlining the delivery of grants and contributions; improving business processes; consolidating operations; streamlining strategic policy work and streamlining; and re-focusing research and laboratory work and space. All the proposed plans were approved by senior management.

The Project Management Team developed a strategy for information management given the vast amounts of information that was to be accumulated and analyzed. The team engaged the departmental IM expertise for guidance on organization of the shared drive and creation of official corporate record paper files. In an attempt to limit access to classified documents, they were sometimes stored electronically on personal computer drives or on restricted access shared drives that were "hidden." The Department did use password protection however the passwords could have been stronger. Another option could have been to have used encrypted USB keys by the Project Management Team and the Branches. Given the corporate nature of

the files, the Project Team should consider developing a plan for the appropriate handling of the files as part of the project closure.

3.2 Cost reduction initiatives

***Audit criterion:** Project managers have project plans (including objectives, targets and deliverables) in support of Economic Action Plan implementation.*

In order to fully implement the *Economic Action Plan* by 2014-15, Assistant Deputy Ministers and branch project managers require implementation strategies that demonstrate objectives, cost savings, timelines and final deliverables.

The audit reviewed all the twenty-eight project plans and conducted interviews with the branch coordinators or project leads from each of the program Branches. It was found that there was a consistent approach across branches for project planning. This is due to the fact that the Project Team created and provided detailed guidance to the Branches for the interpretation and completion of the corporate project-level planning/reporting tools. As such, each branch used the tools to reflect project plans that included: a financial component; projections of anticipated regional and branch impacts; internal and external dependencies; risk analysis; roll-out plans and strategies; implementation timelines; as well as tracking forms. The tools also tracked any project deviations from the original proposal. Further, it was observed that the Human Resource work force management guidance provided to the Branches was significant and comprehensive, given the salary savings associated with the submission and the need to approach work force management in a consistent manner.

A project management approach was used to develop these tools and templates, and also included a process for updating the initiatives status using a score card approach. The Project Team and Chief Financial Officer Branch synthesized information from the project-level tool and presented information in a branch-level dashboard including forecasted cost-pressures resulting from Work Force Adjustment or other minor project delays.

At the macro level, cost reduction initiatives are grouped under four categories; Internal Transformations; Grants and Contributions; Streamlining Regulatory Operations and Administration; and Shared Services.

Internal transformations (\$108 M) are expected to generate ongoing savings by simplifying and streamlining internal operations across all branches. Documentation analyzed demonstrates that through eleven initiatives plus one joint initiative, the First Nations and Inuit Health Branch is progressing towards \$74 million in savings being achieved through a significant downsizing and restructuring of headquarters; a reduction of program activities not directly contributing to health service delivery and a streamlining of administrative processes, policies and grants and contributions (for example, centralizing Non-Insured Health Benefits dental claims processing. As well, documentation analyzed from the Regions and Programs Bureau shows that it has restructured its regional operations and has

consolidated two regions to a Prairie region and has repatriated corporate services to the corporate branches.

Grants and contributions (\$58M) simplification of administrative processes resulted in funding being concentrated in two branches, one within the Strategic Policy Branch and the other in the First Nations and Inuit Health Branch. As well, funding continues to be aligned in areas that have continued relevance to Canadians; the priorities of the department; and in areas that have the most potential for success. As of April 2013, First Nations and Inuit Health Branch reported that there are delays in the completion of the training plan for the implementation of the new grants and contributions business processes. Interviews and a review of the documentation noted that Branch planning documentation related to the target date has been modified to indicate completion for April 2014.

The **Shared Services (\$17.9M)** had the largest savings of the three common proposals. It required an *Order-in-Council* that was passed under the *Public Service Rearrangement and Transfer of Duties Act* to transfer employees involved in service delivery from Health Canada to the Public Health Agency of Canada and vice versa effective June 30, 2012. In relation to modernization and reduction of back office costs, Health Canada and the Public Health Agency of Canada

Shared Services Mandate
▪ Access to information and Privacy
▪ Accommodations
▪ Communications
▪ Emergency Management
▪ Evaluation
▪ Financial Operations
▪ Human Resources
▪ Information Management and Information Technology
▪ International Affairs
▪ Internal Audit
▪ Material Management
▪ Real Properties and Security

adopted a shared services model, eliminating duplication and overlap between the respective organizations through the consolidation of internal services and the standardization of policies and processes. This resulted in “one back office” supporting two organizations to drive efficiencies and standardization. Interviews and a review of the documentation showed that as of April 2013, the majority of Communications and Public Affairs Branch’s activities were on track and target dates remain intact. Corporate Services Branch planning documentation shows that the Human Resource policy alignment/standardization has a modified target date extending into 2014. All other functions are complete.

Regulatory operations and administration (\$12.8M) will be streamlined in the three regulatory branches (Health Products and Food Branch, Healthy Environments and Consumer Safety Branch and Pest Management Regulatory Agency). Research has been refocused on priority areas as well as restructure some regulatory and policy operations in keeping with red tape reduction efforts. The Health Products and Food Branch have made operational efficiencies through changing the existing legislation and regulations. Healthy Environments and Consumer Safety Branch planning documentation reviewed shows new regulations being implemented in April 2014, regarding medical marihuana. The Pest Management Regulatory Agency provided its project plan that shows efficiencies to be gained in its review process through enhanced international collaboration and is on track.

Economic Action Plan initiatives with ongoing implementation include those dependent on regulatory changes (for example, reform of the Marihuana Medical Access Program) and third-parties (for example, the closure of the Environmental Health laboratory facility is linked to retrofit on an existing Health Canada facility being completed). Health Canada reports that it has fully met its savings for 2012-13.

Through the review of project plans and the conduct of interviews with the project leads from each of the program Branches it can be concluded that there are project plans (including objectives, targets and deliverables) which are being implemented in support of the *Economic Action Plan*.

3.3 Financial and human resources controls

Audit criterion: *Economic Action Plan commitments are integrated into departmental processes and procedures.*

To secure implementation of the plan, it is important that established departmental processes and procedures are used, and in some instances enhanced, to provide for the appropriate span of internal controls. In the approach taken by Health Canada, Assistant Deputy Ministers are accountable and responsible to deliver both the financial and the non-financial commitments for their respective Branches however they are supported by the Chief Financial Officer Branch and the Corporate Services Branch. These two branches have existing internal controls which have been used and in some instances enhanced to integrate the initiatives into departmental processes for the purposes of securing timely implementation.

One key financial control that was used at the outset was the removal of the funding at the beginning of the fiscal year by the Chief Financial Officer Branch. The audit found that program funding was eliminated at the beginning of the 2012-13 and 2013-14 fiscal year as per the initiatives schedule and found no discrepancies. The Branches received funding at the reduced reference levels for the program activity specified by each initiative. The specific programs within each Branch then further developed the necessary budget control to the specific areas of responsibility covered by each of the initiatives.

In addition to this control, the Chief Financial Officer Branch and Corporate Services Branch presented a standard approach to establish a baseline for Full Time Equivalents and salary expenditures with associated system tools and approaches to facilitate monitoring and reporting and to provide multi-year forecasting. The baseline chosen was based on the amounts reported in the Estimate documents. This approach was approved by Executive Committee in March of 2013.

The Chief Financial Officer Branch now monitors Full Time Equivalents utilization with the Monthly Variance Report. Departmental financial system tools will continue to be used to track Full Time Equivalents levels on a monthly basis.

Banking Days and Budget Day are two other internal control mechanisms that are used to monitor and make decisions. They are timed with the Monthly Variance Report cycle. The

departmental operational planning process became the vehicle for branches to review authorized Full Time Equivalents and salaries and proposed changes are considered quarterly on Budget Days. The areas under control are:

- the Full Time Equivalents count which controls staffing growth;
- salary usage controls which keep expenditures within authorized budgets or targets;
- forecasting trends on Full Time Equivalents and salaries for 2012-2016 which provide for multi-year monitoring;
- appropriation and revenue-based Full Time Equivalents and salary information are being split to provide clarity for human resources planning; and
- Full Time Equivalents and salaries will be monitored quarterly for the first three quarters of a fiscal year and monthly for the last quarter.

In order to track and report on costs related to the *Economic Action Plan* initiatives, a new Internal Order was established in Health Canada's financial system. Costs being tracked and reported were operating costs, maintenance costs and Work Force Adjustment costs. For example, this included salary related costs for executive and other employees affected by Work Force Adjustment and associated operating costs such as travel, retraining, counselling and relocation costs. Treasury Board of Canada Secretariat requires all departments to report quarterly upon Work Force Adjustment costs according to the nature of the expenditure. Corporate Services Branch and the Chief Financial Officer's Branch worked jointly to coordinate this task.

Branch/Regional senior financial officers (BSFO/RSFO) will continue to be required to sign off on Staffing Action Requests to attest that funds are available. Human Resources continue to monitor end state organizational charts and produce quarterly reports. Further, the Chief Financial Officer Branch and Human Resources continue to work together on data analysis.

Thus, the internal controls in place including the reduction in program funding, the monitoring of Full Time Equivalents utilization with the Monthly Variance Report by the Chief Financial Officer Branch, the tracking of initiative costs through an Internal Order, the use of Banking and Budget Days and the Departmental Dashboard to monitor and report on the status of initiatives, and the incorporation of initiative commitments into Performance Management Agreements, substantiate that established departmental processes and procedures are used and, in some instances, enhanced to provide for the appropriate span of internal controls.

3.4 Communication

Audit criterion: There is an effective communication plan related to the departmental actions and resources

The provision of timely, accurate, clear, objective and complete information in both official languages can assist in the effective implementation of change initiatives. Treasury Board Secretariat guidance on project management notes that "communicating the right information

to the right stakeholders will directly affect a team's ability to manage stakeholder and organizational expectations, resolve issues, and render and implement decisions.”

Internal Communications

Internal communications and the Project Team worked jointly to support the Deputy Minister, the branches and the internal services providers to prepare and inform staff of the Department's changes and transformation resulting from the *Economic Action Plan*.

A detailed internal communications strategy was created with respect to the *Economic Action Plan*. The communications plans included objectives, approach, target audience, timelines etc. Internal communication plans for information to employees was done at all level with plans for specific communication through emails, town halls, intranet postings. Communication roles and responsibilities were established for the management levels of the organization, from middle management up to the Deputy Minister. In addition to the plans, each proposal included a risk assessment regarding communication as well as a strategy for both internal and external communications as well as communication timelines.

The Deputy Minister held a Department wide webcast after the Government of Canada tabled its Budget (*Economic Action Plan 2012*) in order to present the implications for Health Canada. This announcement communicated Health Canada's expenditure reductions and the process of adjustment and identifying opportunities for affected employees. Following the Deputy Minister's announcement, each Branch held their own meetings with staff to provide specific information on how the cost reduction initiatives would affect their branch and directorate.

Working with Human Resources, Internal Communications prepared the work force management products to ensure consistency. In addition, the Project Team performed a secretariat function to the Assistant Deputy Minister Work Force Management sub-committee which reviewed and provided feedback on work force management products prior to provision to Executive Committee. These work force management tools, guides and strategies and on line references were developed to provide support for managers and employees. Following the Deputy Minister's announcement, information was made available and communicated to Health Canada staff through dedicated web pages on the Departmental Intranet site. Information was also communicated by email and in person. Internal Communications created the Work Force Adjustment intranet site.

The Director General, Human Resources was responsible for staff emails and training guides. This included the development of work force management guides for managers and human resources personnel, the development of processes and tools, and a hotline. Training was developed for managers and employees.

Internal Communications Mandate

Deputy Minister: speeches, all staff video conference, town halls.

Branches: internal communications plans, Assistant Deputy Ministers messaging, speaking notes and town halls.

Human Resources/ Communications: Director General Human Resources updates, intranet site, manager's toolkit to support employee notifications, notification letters.

A sample of cost reduction initiatives was reviewed and demonstrated appropriate internal communications with plans for on-going communication to staff with respect to the implementation of the *Economic Action Plan* including resources available for employees that were affected. There were plans for communication strategies for the varying phases of the plan. Internal communications were well planned and executed with specific time lines identified. Separate internal strategy was created for both pre-budget and post budget communications. Strategy included guiding principles as: accountability for results, fairness, respect and timeliness.

External Communications

The Department serves a diverse population and therefore requires plans for communication with external stakeholders concerning the *Economic Action Plan*. This includes: Aboriginal health organizations and pan-Canadian health organizations. Each of the proposals had a section for external communication which included risks.

The detailed external communications plan covers each Branch, identifying the external stakeholders, and the date and type of contact to be made. Communication plans were well documented within the implementation plans. There were plans to solicit feedback from various external stakeholders as required. This included the provision for status updates to indicate stakeholder comments and mechanisms to take into account feedback received. The Department also monitored feedback from various media such as newspapers, radio and television.

The audit found evidence that the Department did provide timely, accurate, clear, objective and complete information in both official languages through internal and external communication plans designed to inform and assist during the strategic operating review leading to the development and ongoing implementation of the *Economic Action Plan* initiatives.

3.5 Monitoring and reporting

Audit criterion: *The department has mechanisms in place to monitor and report on Economic Action Plan initiatives*

The Government Policy on the *Management of Projects* notes that Deputy Heads are responsible for the monitoring and reporting on the projects and ensuring that a control and oversight regime is in place.

All *Economic Action Plan* initiatives have implementation plan updates that are documented and include sections on monitoring and reporting on progress. The Branches reported plans to the Project Team which performed a challenge and review function. In December 2011 the *Implementation Plan Overview* was presented to Executive Committee. Detailed and summary initiative reporting was conducted in June and September 2012 and again in April and November 2013. As mentioned, the cost savings amounts are monitored with the Monthly Variance Report and monitoring of the Full Time Equivalents utilization is done through the Management Variance Report on a monthly basis and there are targets set for

2013-14 and 2014-15. Amendments to departmental plans including the Departmental Operational Plan have been completed as a result of the *Economic Action Plan* initiatives.

To further support monitoring of the *Economic Action Plan* the **Departmental Dashboard** was amended to monitor and track the progress of Full Time Equivalents targets. In March 2013, the Chief Financial Officer Branch tabled at Executive Committee, the results of the historical analysis and received approval in principle for the Full Time Equivalents targets subject to an affordability analysis. The Departmental dashboard shows each Branch's performance against targets, with an emphasis of staying within a five percent range of the approved Full Time Equivalents targets. Banking/Budget days are used to monitor, report, and make decisions and initiatives.

In addition, Human Resources Services Directorate monitors organizational charts and produces quarterly reports. The Chief Financial Officer Branch has noted that most branches have historically transferred Operations and Maintenance funds to Salary in order to cover salary shortfalls and that this may not be an affordable option beyond 2014-15 if the Department is to stay within its post *Economic Action Plan* 2012 targets. However, Adherence to the Full Time Equivalents management framework and targets is reflected in the Performance Management Agreements for Branch executives. The current wording in the performance agreement is: *to renew and transform business processes through the effective implementation of cost-reduction and efficiency improvement initiatives as identified in Deficit Reduction Action Plan (DRAP) and other government-wide or departmental initiatives, in keeping with the Government's commitment to return to balanced budgets in 2015.*

The Project Team became a virtual team in September 2012 and provided its last update to Executive Committee at that time. A "watch list" was maintained of projects of high importance to the Department. However, as required the Project Team has reconvened to support senior management. A status update was provided in April 2013 and in November 2013, the Chief Financial Officer Branch led a "pulse check" exercise to provide a summary of activities in order to identify any potential issues which should be presented to the Department's Executive Committee. At the time of the audit, the 2013-14 "watch list" was not yet updated for audit reporting purposes.

Annually, it is expected that the Chief Financial Officer Branch will continue to use the Departmental Performance Report to demonstrate performance against the commitments made in the *Economic Action Plan* indicating formal closure to Parliament by 2014-15. However, internally there is no formal project closure mechanism included in the project management approach. As such, it would be beneficial for the Project Team to re-convene and conduct a lessons learned exercise. This should be done to collect and analyze feedback on what has occurred during a project that may be beneficial to the organization and others in the future. It allows those involved to discuss successes, unintended outcomes and what, in retrospect, might have been better handled if done differently. Within the lessons learned exercise it would be important to document a strategy to secure better compliance with security practices.

In conclusion, there are effective mechanisms in place to monitor and report on *Economic Action Plan* Initiatives, however, a formal project closure would be appropriate given the magnitude and significance of the initiative, taking into account lessons learned that could be applied to future projects of this nature and scope.

Recommendation 1

It is recommended that the Project Team conduct a formal project closure including a lessons learned.

Management response

Management agrees with the recommendation.

The Project Team will formally close the project by: convening key stakeholders involved in the department's *Economic Action Plan* for a "lessons learned" exercise; documenting the lessons learned in short report for senior management; and, ensuring that files pertaining to the project are appropriately stored, per departmental IM procedures.

C - Conclusion

In order to meet its *Economic Action Plan* commitment savings of \$198 million and approximately 1,039 Full Time Equivalents positions by 2014-15, the Department had to identify opportunities to achieve greater efficiencies in operations and opportunities to re-focus business processes and service delivery platforms.

Health Canada examined direct program spending to identify proposals for reductions in operating, grants and contributions, and capital expenditures, while maintaining the integrity of essential services. It identified twenty eight initiatives to accomplish the desired savings.

The audit found that there was an extensive governance framework for the *Economic Action Plan* with clear roles and responsibilities. Implementation plans for program and internal service transformation including shared services reflected consideration of internal and external dependencies, risk analysis, roll-out plans and strategies, implementation timelines, as well as tracking forms. The *Economic Action Plan* commitments are integrated into departmental processes and procedures.

A detailed communications strategy was created with respect to the *Economic Action Plan*, including information for staff and training guides and there was also a plan for communicating with external stakeholders. There were appropriate monitoring plans and reporting mechanisms, providing senior management with key information on progress against targets.

A monitoring process was established to ensure that Full Time Equivalents targets were respected and the financial expenditures are being monitored via the monthly variance reporting. The Departmental Dashboard was modified and is currently used to monitor and track *Economic Action Plan* results. Given the magnitude of the strategic operating review exercise, the Department will benefit by strengthening the project management approach to include a lessons learned.

The overall finding for the audit is that Health Canada has robust and effective management controls related to governance, planning, risk management and internal controls to support the implementation of the initiatives committed to in the *Economic Action Plan* and notes that the Department is progressing well towards full implementation.

Appendix A –Lines of enquiry and audit criteria

Lines of enquiry and audit criteria - Audit of the <i>Economic Action Plan</i> Governance and Planning	
<i>Line of Enquiry 1: Governance and Accountability</i>	
1.1 Oversight	Appropriate oversight is in place to support the implementation of the <i>Economic Action Plan</i> .
1.2 Roles and responsibilities	Clear roles and responsibilities exist to support the implementation of the <i>Economic Action Plan</i> .
<i>Line of Enquiry 2: Risk Management</i>	
2.1 Risk management	Risks related to implementation of the plan are identified, assessed and have mitigating strategies.
<i>Line of Enquiry 3: Internal Controls</i>	
3.1 Planning process	The Department has an effective planning process to develop the <i>Economic Action Plan</i> .
3.2 Cost reduction initiatives	Project managers have project plans (including objectives, targets and deliverables) in support of <i>Economic Action Plan</i> implementation.
3.3 Financial and human resources controls	<i>Economic Action Plan</i> commitments are integrated into departmental processes and procedures.
3.4 Communication	There is an effective communication plan related to the departmental actions and resources.
3.5 Monitoring and reporting	The Department has mechanisms in place to monitor and report on <i>Economic Action Plan</i> initiatives.

Appendix B - Scorecard

Scorecard – Economic Action Plan			
Governance and Planning			
Criterion	Rating	Conclusion	Rec #
Governance and Accountability			
1.1 Oversight	S	Appropriate oversight is in place to support the implementation of the <i>Economic Action Plan</i> .	
1.2 Roles and responsibilities	S	There are clear roles and responsibilities to support the implementation of the <i>Economic Action Plan</i> .	
Risk Management			
2.1 Risk management	S	Risks related to the <i>Economic Action Plan</i> implementations are identified, assessed and have mitigating strategies.	
Internal Controls			
3.1 Planning process	S	Overall there was a rigorous planning process to develop the <i>Economic Action Plan</i> .	
3.2 Financial and human resources controls	S	There are project plans (including objectives, targets and deliverables) in support of <i>Economic Action Plan</i> implementation.	
3.3 Cost reduction initiatives	S	<i>Economic Action Plan</i> commitments are integrated into departmental processes and procedures.	
3.4 Communication	S	There was an extensive communication plan related to the Department's actions for external resources and communication plans and resources for employees.	
3.5 Monitoring and reporting	NMI	There are mechanisms in place to monitor and report on Economic Plan Initiatives. The project management approach can be further enhanced to include a project closure step including conducting a lessons learned.	1

S	NMI	NMO	NI	U	UKN
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured