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Health Agency of Canada

Santé Canada et l'Agence
de la santé publique du Canada

Final Report

Audit of Shared Accountability in Interdepartmental Service Arrangements

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Canada¹

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Executive summary

Internal service agreements involve one department providing service to another, making it possible to pool resources, standardize processes and gain better value for money. There are a number of agreements for internal services involving Health Canada (the Department), the Public Health Agency of Canada (the Agency) and other departments, such as information technology services, business applications, real property and security management, information management services, procurement and acquisition and linguistic services. In fiscal year 2013-14, the total estimated value of agreements exceeded \$155 million.

The objective of the audit was to assess the management control framework for establishing and managing interdepartmental service arrangements (ISA) for the provision of shared services at the Department and the Agency. The audit focused on the significant arrangements that were operational by March 31, 2014. 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. Sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion.

Part I - Shared Services Partnership Agreement

The most recent and innovative internal services delivery agreement is the Shared Services Partnership between the Department and the Agency. In 2012, through an Order in Council, the agreement set out the framework for the delivery of corporate administrative services and certain other program functions. The agreement is unique in that it is the first time that two federal organizations have both contributed resources to a single service arrangement designed to operate equally in support of both organizations. As a result, the agreement has generated approximately \$24 million annually in reduced overhead costs.

Over the last two years, both organizations have been working jointly towards achieving the benefits of the new partnership. More specifically, both organizations have established and implemented the agreement with an accountability structure; however, the operating effectiveness of the governance has been challenging. As such, the audit recommends that the Head of the Partnership Executive Committee (PEC) Secretariat develop and implement an action plan, approved by PEC, to strengthen governance. The audit also recommends that the Assistant Deputy Minister of the Corporate Services Branch, the Assistant Deputy Minister of the Communications and Public Affairs Branch and the Chief Financial Officers from both the Department and the Agency set out approved key service standards, performance measures and a regular monitoring and reporting regime, including the frequency of performance reporting, for their branch's shared services covered by the agreement. This work would contribute to greater transparency and clear client expectations and accountabilities regarding the service offerings and service delivery.

Part II – Other Internal Service Agreements

The audit also reviewed two other materially significant service agreements within the health portfolio: a fee-for-service agreement between the Department and the National Research Council for the delivery of library and information services (\$2.6 million) and a cost-sharing agreement between the Agency and the Canadian Food Inspection Agency for shared common

services at the Canadian Science Centre for Human and Animal Health (\$4.8 million). The audit found that the governance and accountability structures are defined and appropriately managed. Having tools and guidance for developing and managing ISAs is important. In this regard, the Portfolio's intranet site offers templates for the development of memoranda of agreement, memoranda of understanding and interdepartmental letters of agreement. While the templates are useful, it would be important to keep them current and to include on the site links to the Treasury Board of Canada Secretariat guidelines.

The audit noted that the agreement between the Department and the National Research Council for library services contains a detailed list of services and associated service standards, while the agreement between the Agency and the Canadian Food Inspection Agency includes a list of key common services but does not set out-service standards. The audit recommends that key services standards and performance reporting be established for the Agency's agreement. Further, the Department and the Agency would benefit from documenting the frequency of performance reporting in each of the two agreements.

Management agrees with the five recommendations and has provided an action plan that will strengthen the management control framework for establishing and managing ISAs.

A - Introduction

1. Background

In recent years, departments and agencies have undertaken efforts to streamline, consolidate and increase efficiency. They have done so, in part, through interdepartmental service arrangements (ISA). ISAs are a type of service relationship that occurs when one department provides a service to another. These arrangements allow for pooling of effort and resources across departments and agencies to standardize processes and gain better value for money. Typically, the arrangements can be on a fee-for-service basis (client-provider relationship) or can involve two or more departments pooling resources to jointly create and/or deliver a service or project.

ISAs for internal services can include various services such as human resources management, financial management, information management, information technology, communications, real property, material, acquisition and internal support.

The Treasury Board (TB) policy instruments that provide guidance in this area include the following:

- *Directive on Internal Support Services*: The objective of this directive is to ensure that ISAs for the provision of internal support services authorized by section 29.2 of the *Financial Administration Act* (FAA) are managed with integrity, transparency, accountability and in a manner that is sensitive to risks.
- *Guideline on Services Agreements - An Overview*: This guideline provides program and service managers and executives with an overview of the key concepts and steps in establishing service agreements.
- *Guideline on Service Agreements - Essential Elements*: This guideline provides advice, guidance, practical examples and templates for individuals charged with developing a service agreement or reviewing a service agreement drafted by the other party in an evolving service relationship.
- *Guide to Costing*: This guide was developed to advance stewardship, accountability and value-for-money across the Government of Canada. Based on generally accepted management accounting principles, it presents a detailed, logical approach to be used for all costing exercises.
- *Guideline on Service Standards*: This guideline provides general guidance on the use of service standards across the Government of Canada. It is intended to be used by service employees and managers responsible for efficient and effective service delivery. It also outlines common concepts and best practices for successfully developing and managing service standards for both internal and external services to citizens and business.

There are a number of ISAs for internal services involving Health Canada (the Department) and the Public Health Agency of Canada (the Agency) and other Government of Canada departments, such as information technology services, business applications, real property and security management, information management services, procurement and acquisition and linguistic services. The total estimated value of ISAs in the Department and Agency for fiscal

year 2013-14 exceeds \$155 million, and the individual value of ISAs range from \$1,000 to \$79.5 million (see [Appendix C](#)).

Shared Services Partnership

The most significant arrangement is the Framework Agreement between the Department and the Agency regarding the Shared Services Partnership (SSP). On June 29, 2012, the Department and the Agency entered into an agreement for the provision of internal services. This agreement is unique in the sense that both parties contribute resources in support of the two organizations. At the centre of this agreement is the desire to reduce the overhead costs of internal services by consolidating “back-office” activities.

A funding model was created to support the SSP, based on an Order in Council issued in fiscal year 2012-13. Under this agreement, the Department transferred \$14.8 million to the Agency for its share of internal services for audit, evaluation, emergency management and international affairs for fiscal year 2013-14. Similarly, the Agency transferred \$64.7 million to the Department for its share of internal services related to corporate services (human resources, security, facilities management, information management, information technology, access to information and privacy program), communications, financial operations and material management. The annual savings to the Department and the Agency amounted to \$24 million for the period from fiscal year 2012-13 to fiscal year 2014-15. The breakdown of the fee structure for this agreement is outlined in [Appendix B](#).

Other key ISAs

Two other significant arrangements were included in the audit scope. Health Canada has a service arrangement with the National Research Council (NRC) for the delivery of library and information services in support of the federal health policy development and regulatory activity. Under this agreement, the NRC provides, on a fee-for-service basis, library services to employees of the Department. The client, the Department, maintains key expertise and expenditure control for library services. The total cost to the Department for this service in fiscal year 2013-14 was \$2.6 million.

Since 1996, the Canadian Food Inspection Agency (CFIA) and the Public Health Agency of Canada have had a relationship for shared common services at the Canadian Science Centre for Human and Animal Health. Under this arrangement, both the Agency and CFIA are the co-custodians of the Centre, whereby CFIA occupies 30% of the laboratory and the Agency, 70%. Under this arrangement, costs are shared between the two organizations, with CFIA paying 35% of the costs and the Agency, 65%. CFIA paid a flat rate of \$4.8 million for common internal services for the period from April 1, 2013 to March 31, 2014.

2. Audit objective

The objective of this audit was to assess the management control framework for establishing and managing interdepartmental service arrangements for the provision of shared services at the Department and the Agency.

3. Audit scope

The audit focused on the management control framework in place to establish and manage interdepartmental service arrangements for the fiscal year ending March 31, 2014. More specifically, the audit focused on significant arrangements that were operational on March 31, 2014.

The scope of the audit excluded both federal government enterprise solutions and common services specifically identified through legislation (for example, the *Department of Public Works and Government Services Act*, including IT services subsequently transferred to Shared Services Canada) or policy (TB's *Common Services Policy*). Although many interdepartmental arrangements pertain to common services, they were partly addressed in the Horizontal Internal Audit of Compliance with the *Common Services Policy* performed by the Office of the Comptroller General (OCG) in 2010.

The significance of the ISAs was based on the materiality of the arrangements identified during the audit planning phase. In the context of this audit, the materiality analysis was based on a threshold of \$2 million, which corresponds to approximately 1.3%¹ of the identified population as of June 24, 2014 (see summary in [Appendix C](#)).

As a result, the audit examined three ISAs that represent approximately 56% of the investments made through ISAs as of June 24, 2014:

- The Framework Agreement between Health Canada and the Public Health Agency of Canada regarding the SSP;
- The Memorandum of Understanding between the Canadian Food Inspection Agency and the Public Health Agency of Canada related to the provision of key common services at the Canadian Science Centre for Human and Animal Health; and
- The Service Agreement between the National Research Council of Canada and Health Canada for the shared delivery of library and information services.

The Office of Audit and Evaluation's participation in the SSP Framework Agreement has been deemed out of scope for this audit, in order to maintain its independence.

4. Audit approach

The audit methodology included, but was not be limited to, the identification of significant ISAs, a review of the governance and relevant frameworks, departmental policies, directives and guidelines, various testing, analysis and inquiry and the examination of evidence supporting governance, risk management and internal controls. In particular, the audit included interviews with key Department and Agency staff responsible for the development and implementation of ISAs, as well as an analysis in keeping with TBS directives and guidelines.

¹ Materiality can be determined according to TB Accounting Standard 2.2 within a range of 0.5% - 2% of expenses (total ISAs identified in the planning phase in the context of this audit).

This audit was conducted concurrently with the Office of the Comptroller General's Horizontal Audit of Shared Accountability in ISAs, which involved selected large and small departments and agencies. The objective of the OCG's audit was to assess whether departments have implemented a control framework for establishing and managing ISAs for the provision of internal services. The audit criteria were developed using the *TB Directive on Internal Support Services*, the *Guideline on Service Agreements – An Overview*, the *Guideline on Service Agreements – Essential Elements*, the *Guide to Costing* and the *Guideline for Service Standards*.

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

Part I – Shared Services Partnership Framework Agreement

1. Governance

1.1 Governance structure

***Audit criterion:** There is an accountability structure in place for managing interdepartmental service arrangements.*

Governance plays an integral role in developing, implementing and managing a successful service relationship. A governance structure with the proper complement of members at the appropriate level from both the provider and recipient departments will foster a sound oversight function. Governance should reflect the complexity of the arrangement, the capacity of the parties to participate and the need for the involvement of specific individuals or organizations.

Governance mechanisms established by the Framework Agreement between Health Canada (the Department) and the Public Health Agency of Canada (the Agency) regarding the Shared Services Partnership (SSP) is intended to ensure reasonable access to services by both parties; provide forums for planning, information-sharing, resource allocation, decision-making and harmonizing; and allow both parties to consider and decide on in-year adjustments to corporate services priorities and associated resources to respond to changing circumstances and emerging requirements.

The senior decision-making body set up under the agreement is the Partnership Executive Committee (PEC), which is co-chaired by the Deputy Minister of Health Canada and the President of the Public Health Agency of Canada. Membership includes the Assistant Deputy Minister (ADM) of the Corporate Services Branch, the ADM of the Communications and Public Affairs Branch, the two Chief Financial Officers (CFO) and an equal representation of branch heads from the program areas of the two organizations. PEC is supported by a number of working committees, including the PEC Internal Services Committee (PEC-IS), the International Affairs Working Committee, the Emergency Preparedness Working Committee and the Financial Operations Co-Management Table (see [Appendix A](#)). In some cases, there are sub-committees to the working committees (for example, the Health Partnership Privacy Committee). Branch functional leads in the Department and the Agency providing services under the SSP are accountable to both deputies. Lastly, a secretariat, supporting both PEC and PEC-IS, falls under the Corporate Services Branch.

The deputy heads retained their own CFO to fulfill the CFO functions and specifically to provide advice and support on matters pertaining to financial and resource planning, analysis and reporting, risk assessment and risk management and corporate planning and reporting (the ADM, Strategic Policy, Planning and International Affairs Branch at the Agency is responsible for this function). In carrying out their duties in support of their respective deputies, each CFO is supported by the Financial Operations Directorate in the SSP.

PEC-IS is the most significant working committee supporting PEC, both in terms of the number of functions (human resources, security, facilities management, information management, information technology and access to information and privacy program) and the base funding for the cost of services (60% of the 2013-14 base funding for the cost of the services covered by the agreement). Although PEC-IS's mandate calls for approving or endorsing internal service plans, priorities and investments, few items were presented to PEC-IS for decision-making. Further, it is not clear how the flow of approvals and information occurs between PEC-IS, PEC and the Department's and the Agency's Executive Committees (EC).

The audit conducted interviews and examined the terms of reference, agendas and records of decision. It noted that while the committees are established, some are not operating as intended. During the July 2014 PEC meeting, PEC members recognized the need to strengthen the committee's role in integrated planning and noted the need to establish standard agendas and reporting mechanisms. An independent advisor was subsequently engaged to review the current governance structure. The advisor's report identified a number of opportunities to strengthen the governance such as a more strategically focused PEC, a stronger secretariat and better communication and information-sharing among the partners.

In conclusion, the audit found that there is a documented accountability structure in place for the SSP Framework Agreement. However, additional clarity regarding the mandate of PEC and its working committees in relation to corporate governance of both the Department and the Agency would facilitate more effective decision-making.

Recommendation I.1

It is recommended that the Head of the Partnership Executive Committee (PEC) Secretariat develop and implement an action plan, approved by PEC, to strengthen overall partnership governance.

Management response

Management agrees with the recommendation.

A review of PEC and its governance was undertaken in Q4 2014-15. Based on the recommendations of the review, the PEC Secretariat will develop a plan to implement the recommendations.

1.2 Roles and responsibilities

Audit criterion: *The Department and the Agency have defined and communicated roles and responsibilities for interdepartmental service arrangements.*

Clearly defined roles and responsibilities are an essential element for effectively achieving the objectives of an interdepartmental service arrangement.

The roles and responsibilities of the Deputy Heads, the Chief Financial Officers (CFOs) and PEC and its working committees are outlined in the agreement and in the terms of reference.

Accountability for services provided under the Framework Agreement is at the functional level and follows the established Department and Agency management and reporting structures.

Roles and responsibilities are defined and communicated in the Framework Agreement and various terms of reference. However, additional clarity regarding the mandate of the committees in relation to the corporate governance of both the Department and the Agency would facilitate more effective decision-making (see [Recommendation I.1](#)).

1.3 Guidance and tools

Audit criterion: *The Department and the Agency utilize tools, including guidance documents (policies, directives or guides), and provide internal support to enable the development of interdepartmental service arrangements.*

Treasury Board (TB) has developed policy instruments that provide guidance on internal services and service arrangements. The Treasury Board of Canada Secretariat's (TBS) Guideline on Service Agreements - Essential Elements provides advice, guidance, practical examples and templates for developing a service agreement. Departments are required to provide employees with the necessary tools and guidance, as well as functional oversight, for developing ISAs.

The development of the agreement was led by senior executives from both the Department and the Agency, utilizing guidance and tools to support the development of the agreement.

2. Risk management

2.1 Risk management

Audit criterion: *Transition and financial risks related to the Shared Services Partnership are identified, assessed and mitigated by the Department and the Agency.*

Effective risk management practice equips federal government organizations, so that they can respond proactively to change and uncertainty by using risk-based approaches and information, thus enabling more effective decision-making throughout an organization. For a large initiative such as the SSP, it was expected that management would identify overall implementation and financial risks, that the risks would be assessed for likelihood of occurrence and magnitude of impact and that a roll-up of the functional risks would be conducted to form a complete partnership risk analysis.

The SSP transition and financial risks were identified and addressed through a number of documents, including the Framework Agreement, the Project Charter and branch operational plans. The Project Charter identified several risks related to implementation: senior management commitment; project scale and tight timelines; staff recognition; and project closure. The audit also examined the 2014-15 Health Canada Operational Plan and the 2014-15 Public Health Agency Operational Plan and notes that each of the functional areas reported on their shared service role, resources to be allocated and associated risks related to delivery.

In the lead-up to the implementation of the SSP, the Department and Agency had in place a senior management team to design and develop the partnership and transition roadmap. The roadmap cited stages of development and implementation over the initial two years, through a consolidation and harmonization process. Risk management approaches were adopted and external expertise was contracted to assist with the initiative.

In addition, presentations were also made to both the Department and Agency Executive Committees. The risks identified were primarily related to transition (leadership, capacity and acquiring new technologies). Further, financial situation reports were presented to PEC on a quarterly basis and no significant financial risks were identified.

In conclusion, the Department and the Agency managed the transition and the initial financial risks related to the Shared Services Partnership. Continuous risk management and oversight will be important towards sustaining the services offered by the agreement (see [Recommendation I.1](#)).

3. Internal controls

3.1 Interdepartmental service arrangement structure

***Audit criterion:** The Department and the Agency have determined the type of interdepartmental service agreement structure for each specific interdepartmental service arrangement, based on the complexity of the service relationship.*

A service arrangement involves two or more organizations pooling their efforts to achieve a common goal. However, knowing the kind of service arrangement to select is important, since they are resource-intensive and challenging to manage. Senior management from both the Department and the Agency opted to create a collaborative arrangement based on the long-standing relationship of the partners.

This unique relationship has both partners as service provider and service recipient, covering a broad range of service categories, each with a range of service offerings. Management chose to rely on the functional heads to deal with organizational changes and transition, as well as ongoing planning, service delivery and management reporting.

The SSP arrangement is comprehensive. It covers several functional areas, each with a range of service offerings, including human resources, security, facilities management, information management, information technology, access to information and privacy, communications, financial operations, material management, audit, evaluation, emergency management and international affairs. While there are no related service-level agreements, the Framework Agreement commits to developing service standards and performance measures (see [Recommendation I.2](#)). Under this agreement, the Deputy Heads retain line authority over the functions described above (that are located in their organization) and each Deputy Head may provide direction to and receive support from all functions. Given this operating environment, the agreement included a clause to have the two Deputy Heads agree to conduct an independent review of the SSP implementation two years after the agreement came into force, and every four years thereafter.

In conclusion, both organizations have opted for the most appropriate service agreement that best reflects the complexity and long-standing relationship of the partners.

3.2 Implementation plan

***Audit criterion:** The Department and the Agency have built an implementation plan regarding the Shared Services Partnership that includes transition activities, transition roles and responsibilities, milestones, resource commitments and human resource considerations.*

In 2011, an Internal Services Integration Team was created. They crafted a project charter that was used to guide the transformation. The charter described a project that would merge the internal functions of the Department and the Agency into one platform achieving efficiencies and improving effectiveness within the Health Portfolio, while reducing overall costs and delivering uniform, affordable, quality services. The charter outlined a project scope and work stream deliverables over three phases. Phase one covered October to January 2011, phase two covered from January to March 2012, and phase three ran from March to August 2012, reaching the end-state as per the implementation plan. Transition road maps were developed, workforce adjustment activities were planned and common services were delivered. The last phase detailed in the project charter was around optimization. The expectation for this phase is benchmarking performance, developing performance measures, reengineering, automation and continuing communication (see [Recommendation I.2](#)).

Also, the functional areas developed implementation plans that supported the Internal Services Integration Team. The audit analyzed implementation documentation provided by lead service areas and noted transition activities, milestones, resource commitments and human resource considerations.

The audit reviewed a presentation made to PEC in October 2012, which notes the consolidation/harmonization/optimization model. The end-state timeline was modified to April 2013 for harmonization activities. A second presentation in December 2013 to PEC on the status of SSP implementation indicated that achievement of full harmonization varied by functional areas. Despite earlier plans for an April 2013 completion of harmonization, the SSP generally remains in the harmonization phase and ongoing transitioning activities are under the direction of the functional lead areas responsible for providing the service.

In conclusion, the Department and the Agency have built an implementation plan regarding the SSP.

3.3 Scope of services

***Audit criterion:** The Department and the Agency clearly define the scope of services covered by interdepartmental service arrangements.*

The scope of services should be clearly identified and documented, so that the extent of the work involved and the respective obligations are understood by the parties when building the service relationship. Depending on the complexity of the service arrangement, a service agreement should include the following scope elements: a vision or purpose statement; a declaration of key

principles; the services and activities (service bundles/service inventory, tiered service and delivery channels); relative roles and responsibilities; and key service assumptions.

The audit examined the agreement and found all of the key and relevant scope elements noted above. The services and activities are identified at the corporate service and program function levels. Because the services provided are well established at the Department and the Agency, the audit concludes that it is sufficient to simply name the service in the agreement.

In conclusion, the agreement included all key and relevant scope elements.

3.4 Dispute resolution

***Audit criterion:** The Department and the Agency have a process in place to identify critical issues related to day-to-day operations and service delivery, and have considered these in the establishment of a resolution process.*

A key governance and internal control for managing interdepartmental service arrangements is the existence of a dispute resolution process. A formal dispute resolution process is basically any process that can bring about the conclusion of a dispute and is an effective tool for establishing communication channels between organizations for dealing with unresolved or problematic areas. When the process is working properly, it allows for a trusted and transparent approach for dealing with unresolved issues. Key elements of a dispute resolution process include a provision for all parties to resolve disputes in good faith, as well as an agreed-upon escalation process should resolution prove elusive.

The agreement has, as one of its fundamental underpinnings, a commitment by the Deputy Heads to support the success of the SSP. There is an explicit expectation to collaborate to the fullest extent and to make necessary efforts and trade-offs to secure success.

The dispute resolution process outlined in the agreement is at a very high level. The working committees serve as forums for addressing all corporate services, program and policy issues related to the agreement, resolving as many as possible at this level and referring others to the PEC for final resolution. As such, the agreement has processes in place for managing critical issues pertaining to day-to-day operations and service delivery.

A review of records of decisions from PEC and PEC-IS indicates that internal service issues are discussed. No unresolved or reoccurring problematic issues were identified.

While the SSP contains the basic elements of a dispute resolution process and the working committees are in place to deal with critical issues, it will be important to refine the governance in order to have an effective dispute mechanism (see [Recommendation I.1](#)).

3.5 *Financial arrangements*

Audit criterion: *The Department and the Agency have established financial arrangements, including the funding model, fee structure, resource pooling arrangements, cost transparency, variances and adjustments and cost-recovery arrangements, for the provision of the internal services.*

Financial arrangements are a critical aspect of building a collaborative relationship. Departments need to ensure that they have the legal mandate to provide a service before expending departmental appropriations in delivering or collaborating in the provision of the service. Departments that provide services need to have the authority to recover cost and to re-spend revenue, if applicable. The cost-recovery model used needs to be consistent with existing cost-recovery authorities and TB policy.

As the ISA develops, modifications may be required to accommodate changing conditions. It is important that flexibility and adaptability be built into the service agreement to ensure that the parties are able to continue delivering the organizational programs and services within the context of evolving government-wide initiatives and renewed policies. Some key principles that should be applied, to the extent possible, include providing stable multi-year funding, accommodating funding and investment in services to meet client needs and ensuring cost transparency and clear accountability.

For the SSP Framework Agreement, the transfer of full-time equivalents and appropriations from the service recipient organization and the service provider organization was applied using Section 132 of the *Public Service Employment Act* and Section 31.1 of the *Financial Administration Act*. Subsequently, through the use of Section 4.2 of the *Department of Health Act*, the service provider is able to charge an established fee for each functional service and re-spend the revenue recovered to offset the cost of service provision. The agreement includes the key applicable financial arrangement elements. The appropriation-based funding model was used, with clauses to allow for flexibility and adaptability. Unexpended appropriations for the service areas identified in the agreement have been deemed to have been appropriated to the service provider. The base fee considers A-base and other funding adjustments (for example, pressures or transition funding, additional funding for volume-driven functions and funding for new reporting requirements). It also outlines that separate equitable cost-sharing arrangements may be established for investments in service enhancements, such as new systems development. Any future projects will require PEC approval.

The functional leads in the SSP are responsible for the financial monitoring of the adjusted base-fee budgets. On a quarterly basis, a financial situation report of the budgets, forecasts and projected surplus/deficits by function is presented to PEC. The audit notes that the last PEC meeting was held in July 2014.

In conclusion, the agreement includes the key applicable financial arrangements.

3.6 *Performance measurement and monitoring*

Audit criterion: *The Department and the Agency have performance measures and regularly monitor and report on the administration of interdepartmental service arrangements.*

Performance measures, monitoring and reporting of internal services are key internal controls for managing ISAs. The TBS Guideline on Service Agreements advocates some current best practices in this area and suggests that ISAs demonstrate and/or contain the following key elements.

- The measurement and reporting regime provides performance measurement results to clients (end-users and stakeholders) that are meaningful, timely and impartial. Communication of results to clients demonstrates transparency, accountability and commitment to quality service.
- Responsibilities and processes for monitoring service standards and client satisfaction have been identified.
- Performance is measured on a regular basis, including service standards and client satisfaction. It informs future action and provides a basis for ongoing improvement. The frequency and nature of client satisfaction and input measures should be outlined in the agreement.
- Reports are presented periodically to the governance bodies on the performance of the service agreement, in order to evaluate the effectiveness and efficiency of the service delivery arrangement.
- Service delivery processes are improved upon on an ongoing basis. Specific processes should be established to identify and implement improvements and to assess their effectiveness, as reflected in better service performance.

Responsibility and accountability for monitoring and reporting on the performance of internal services rests with the functional leads within the SSP. The agreement cites the commitment to develop service standards for the shared services covered by the agreement, as well as performance measures for those services, within 12 months (June 2013) and approved in their final form within 18 months (December 2013) by PEC. However, the agreement does not specifically describe such standards and performance measures.

The Corporate Services Branch (CSB) provided its first performance report to PEC in October 2013, covering the first two quarters of 2013-14. This report provided performance information on human resources, information management, information technology, real property services and security and access to information and privacy program. The report also contained client feedback on these services. The design for reporting is based on several factors: service commitments, service standards, stewardship indicators and a client feedback interface (client satisfaction). PEC endorsed the report format as a good start for monitoring and reporting on the performance of internal services. In March 2014, CSB provided PEC with a draft performance report covering the period from October 2013 to January 2014.

In December 2013, the Communications and Public Affairs Branch (CPAB) presented its service standards and a self-assessment exercise (taking stock) to PEC. This presentation covered the second quarter of fiscal year 2013-14. Overall, the results were positive but it was acknowledged

that there are some areas for improvement.

It was observed that financial reporting to PEC was limited mainly to budget updates. Discussions and presentations regarding accounting and procurement operations usually take place at the PEC Financial Operations Co-Management Table.

Under the agreement, service standards for the Office of International Affairs, the Centre for Emergency Preparedness and Response, PAAB and the Evaluation Services Directorate were not required. However, for other service areas, as identified in the agreement, functional leads were requested to develop performance measures, service standards and reporting mechanisms.

It should be noted that the agreement ties the performance review of the related executives to the performance of the agreement. This is cited in Section 7.3 of the agreement and confirmed through interviews with senior management and a review of a sample of Performance Management Agreements that identified SSP-related objectives. Given that performance reports are still in draft form and that standards have not yet been formally approved, it is difficult to see how the performance management agreements of the executives involved can be assessed against the successful operation of the agreement.

In addition to the performance reporting mentioned above, the agreement also includes the provision of periodic internal reviews of the SSP. The first review takes place two years from inception, with subsequent reviews being conducted every four years thereafter.

It should also be noted that monitoring and reporting of internal services takes place monthly at the Department, as part of the Deputy Minister Dashboard exercise. In addition, performance of internal services is also regularly monitored and reported within each of the functional areas. A review of agenda items and records of decisions from the Department's Executive Committee indicates that performance reports for internal services are regularly provided at these meetings. In November 2013, functional leads were given the opportunity to provide a shared services update that highlighted achievements, challenges and opportunities. A review of records of decisions from the Agency's Executive Committee meetings did not identify regular discussions and reporting of performance for internal services.

Lastly, it should be noted that the agreement does not specify the frequency of reporting of internal services to PEC and its subcommittees. Performance reports for internal services are provided to PEC and its subcommittees on an ad-hoc or as required basis.

Regular monitoring and reporting of performance, including the measurement of client satisfaction, serves as an early warning, to enable timely decision-making and corrective actions and to provide a basis for continuous improvement to the related processes, systems and controls in place. The establishment of a defined and consistent monitoring and reporting process over the SSP will act to mitigate risks related to non-performance.

In conclusion, measuring performance of ISAs should be based on declared and approved standards for service delivery and while there has been progress, there remains an opportunity to continue to develop and approve key service standards, performance measures and a regular monitoring and reporting regime.

Recommendation I.2

It is recommended that the Assistant Deputy Minister, Corporate Services Branch, the Assistant Deputy Minister, Communications and Public Affairs Branch, and the Chief Financial Officers from both Health Canada and the Public Health Agency of Canada review and revise the Shared Services Agreement to reflect current service standards, performance measures and monitoring regime.

Management response

Management agrees with the recommendation.

The Corporate Services Branch will coordinate with the Communications and Public Affairs Branch, the Chief Financial Officer Branch and the Office of the Chief Financial Officer to review and revise the Shared Services Agreement, where necessary, to reflect current service standards, performance measures and a monitoring and reporting regime.

4. Conclusion

The most recent and innovative internal services delivery agreement is the Shared Services Partnership between the Department and the Agency. In 2012, through an Order in Council, the agreement set out the framework for the delivery of corporate administrative services and certain other program functions. The agreement is unique in that it is the first time that two federal organizations have both contributed resources to a single service arrangement designed to operate equally in support of both organizations. As a result, the agreement has generated approximately \$24 million annually in reduced overhead costs.

Over the last two years, both organizations have been working jointly towards achieving the benefits of the new partnership. More specifically, both organizations have established and implemented the agreement with an accountability structure; however, the operating effectiveness of the governance has been challenging. As such, the audit recommends that the Head of the Partnership Executive Committee (PEC) Secretariat develop and implement an action plan, approved by PEC, to strengthen governance. The audit also recommends that the ADM of the Corporate Services Branch, the ADM of the Communications and Public Affairs Branch and the Chief Financial Officers from both the Department and the Agency set out approved key service standards, performance measures and a regular monitoring and reporting regime, including the frequency of performance reporting, for their branch's shared services covered by the agreement. This work would contribute to greater transparency and clear client expectations and accountabilities regarding the service offerings and service delivery.

The areas of improvement that have been noted will collectively strengthen the management control framework for establishing and managing ISAs.

5. Part I: Shared Services Partnership Framework Agreement – Specific lines of enquiry and criteria

Audit of Shared Accountability in Interdepartmental Service Arrangements (ISAs)		
Criteria Title		Audit Criteria
Line of enquiry 1: Governance		
1.1	Governance structure ^{2,3,4}	There is an accountability structure in place for managing interdepartmental service arrangements.
1.2	Roles and responsibilities ^{2,3,4}	The Department and the Agency have defined and communicated roles and responsibilities for individual interdepartmental service arrangements.
1.3	Guidance and tools ³	The Department and the Agency utilize tools, including guidance documents (policies, directives or guides), and provide internal support to enable the development of interdepartmental service arrangements.
Line of enquiry 2: Risk management		
2.1	Risk management ^{2,3}	Transition and financial risks related to the Shared Services Partnership are identified, assessed and mitigated by the Department and the Agency.
Line of enquiry 3: Internal controls		
3.1	Interdepartmental service arrangement structure ³	The Department and the Agency have determined the type of interdepartmental service agreement structure for each specific interdepartmental service arrangement, based on the complexity of the service relationship.
3.2	Implementation plan ^{2,3,4}	The Department and the Agency have built an implementation plan regarding the Shared Services Partnership that includes transition activities, transition roles and responsibilities, milestones, resource commitments and human resource considerations.
3.3	Scope of services ³	The Department and the Agency clearly define the scope of services covered by the interdepartmental service arrangements.
3.4	Dispute resolution ^{3,4}	The Department and the Agency have a process in place to identify critical issues related to day-to-day operations and service delivery, and have considered these in the establishment of a resolution process.
3.5	Financial arrangements ^{2,3,4,5}	The Department and the Agency have established financial arrangements, including the funding model, fee structure, resource pooling arrangements, cost transparency, variances and adjustments and cost-recovery arrangements, for the provision of the internal services.
3.6	Performance measurement and monitoring ^{2,3,4,6}	The Department and the Agency have performance measures and regularly monitor and report on the administration of interdepartmental service arrangements.

Information sources:

²TB Directive on Internal Support Services (March 30, 2012). The Directive does not apply to the Shared Services Partnership Agreement.

³TBS Guideline on Service Agreements – Essential Elements (July 4, 2012)

⁴TBS Guideline on Service Agreements – An Overview (July 4, 2012)

⁵TBS Guide to Costing (July 8, 2008)

⁶TBS Guideline on Service Standards (July 4, 2012)

6. Part I: Shared Services Partnership Framework Agreement – Scorecard

Audit of Shared Accountability in Interdepartmental Service Arrangements			
Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Governance structure		There is an accountability structure in place. The Head of the PEC Secretariat should develop and implement an action plan, approved by PEC, to strengthen the overall partnership governance.	I.1
1.2 Roles and responsibilities		Roles and responsibilities are defined and communicated in the agreement. Additional clarity regarding the mandate of the committees would facilitate more effective decision-making.	Refer to I.1
1.3 Guidance and tools		Guidance and tools were utilized to support the development of the agreement.	-
Risk management			
2.1 Risk management		Transition and financial risks were managed. Continuous risk management and oversight will be important in sustaining the services offered by the agreement.	Refer to I.1
Internal controls			
3.1 Interdepartmental service arrangement structure		Both organizations have opted for the most appropriate service agreement which best reflects the complexity and long-standing relationship of the partners.	-
3.2 Implementation plan		There was an implementation plan regarding the SSP.	-
3.3 Scope of services		The agreement included all key and relevant scope elements.	-
3.4 Dispute resolution		The SSP contained the basic elements of a dispute resolution process; however, it will be important to refine the governance in order to have an effective dispute mechanism.	Refer to I.1
3.5 Financial arrangements		The agreement included the key applicable financial arrangements.	-
3.6 Performance measurement and monitoring		Approved key service standards, performance measures and a monitoring and reporting regime, including the frequency of performance reporting on the shared services, should be set out in the agreement.	I.2

Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Part II – Other Interdepartmental Service Arrangements (ISAs)

The audit also reviewed two other materially significant service agreements within the health portfolio: a fee-for-service agreement between the Department and the National Research Council (NRC) for the delivery of library and information services (\$2.6 million) and a cost-sharing agreement between the Agency and the Canadian Food Inspection Agency (CFIA) for shared common services at the Canadian Science Centre for Human and Animal Health (\$4.8 million).

1. Governance

1.1 Governance structure

Audit criterion: *There is an accountability structure in place for managing interdepartmental service arrangements at the organizational level and for managing individual interdepartmental service arrangements.*

Governance plays an integral role in developing, implementing and managing a successful service relationship. A governance structure with the proper complement of members from both the provider and recipient departments at the appropriate level will foster sound oversight. Governance should reflect the complexity of the arrangement, the capacity of the parties to participate and the need for the involvement of specific individuals or organizations.

The decision to enter into an ISA is generally taken at the branch level and managed at the functional level. Governance and accountability structures are defined in the agreements of the reviewed ISAs. There is no specific department-wide accountability structure for the management of other ISAs. Rather, it is the responsibility of each governance structure to manage its ISAs, including the management of committees and the identification of designated officials.

While there is no specific department-wide accountability structure for the management of the ISAs, both agreements are appropriately managed by the branch operations or functional areas that are best positioned to deal with the business needs and risks.

1.2 Roles and responsibilities

Audit criterion: *The Department and the Agency have defined and communicated roles and responsibilities for individual interdepartmental service arrangements.*

Clearly defined roles and responsibilities of the governance body as a whole, of individual members of the governance body and in relation to service delivery functional leads and client groups are essential elements for effectively achieving the objectives of an interdepartmental service arrangement and relationship.

The Service Agreement between the NRC and the Department clearly identifies the NRC as the provider of library services and Health Canada as the client; as well, the roles and responsibilities of each partner to the agreement are clearly set out.

The Memorandum of Understanding between CFIA and the Agency for the provision of key common services at the Canadian Science Centre for Human and Animal Health identifies the Agency as the lead organization in providing these services and CFIA as the client. The roles and responsibilities of each party are defined at a high level.

Therefore, the roles and responsibilities for both agreements have been adequately defined.

1.3 Guidance and tools

Audit criterion: *The Department and the Agency utilize tools, including guidance documents (policies, directives or guides), and provide internal support to enable the development of interdepartmental service arrangements.*

TB policy instruments provide guidance in the area of internal services and service arrangements, while the TBS Guideline on Service Agreements - Essential Elements provides advice, guidance, practical examples and templates for individuals charged with developing a service agreement. However, departments are required to provide employees with the necessary tools and guidance, as well as functional oversight, for developing ISAs.

The *mySOURCE* Department and Agency intranet site offers templates for the development of memoranda of agreement, memoranda of understanding and interdepartmental letters of agreement. However, there are no links to the TBS website. Further, these templates currently do not reflect the elements set out in the *TB Directive on Internal Support Services*, which came into effect on April 1, 2012.

The audit noted that at the departmental level, neither the Department nor the Agency has developed specific guidance or training on other ISAs. Employees are expected to follow the TB directive and use its related guidance documents. The audit observed that awareness of the TBS guidelines was not widely evidenced across the Department and the Agency. For example, the MOU between the Agency and CFIA was signed in 2007, but has not been updated since 2012. As a result, ISAs have not necessarily been developed in accordance with the TBS guidelines.

There is an opportunity to increase awareness of TBS guidelines for the future development or review of service agreements.

Recommendation II.1

It is recommended that the Chief Financial Officers from both Health Canada and the Public Health Agency of Canada communicate tools and guidance documents that are aligned with the Treasury Board of Canada Secretariat guidelines on interdepartmental service arrangements.

Management response

Management agrees with the recommendation.

The Chief Financial Officers from both Health Canada and the Public Health Agency of Canada will ensure that communication and guidance tools are aligned with the Treasury Board of Canada Secretariat (TBS) guidelines on interdepartmental service arrangements. The Materiel and Assets Management Division (MADM) will update its intranet site, including current templates (memorandums of understanding, interdepartmental letters of agreement, etc.) to reflect the requirement that they be aligned with the TBS guidelines on interdepartmental service arrangements.

2. Internal controls

2.1 Interdepartmental service arrangement structure

***Audit criterion:** The Department and the Agency have determined the type of interdepartmental service agreement structure for each specific interdepartmental service arrangement, based on the complexity of the service relationship.*

TBS guidelines for the structure and governance of ISAs identify three types of documents to be used in articulating a service agreement: a memorandum of understanding (MOU), a master agreement (MA) and a service level agreement (SLA). A combination of these documents is to be used, depending on the complexity of the service environment, as measured by the following considerations: the scope of services under the agreement; the complexity of the arrangement (in terms of the number of partners, etc.); the type of services involved; the term of the relationship; an assessment of the risks involved; the experience of the parties in developing and managing an arrangement; and the level of change to participants caused by the arrangement's implementation.

The MOU is used alone when the service delivery situation is straightforward—the roles and responsibilities are clear, the obligations are readily identified and evaluated and there are few or no risks. This type of agreement is referred to as a simple or single-tier agreement. The MOU is combined with an SLA into a two-tier service agreement when the service arrangement is more complex—the roles and responsibilities are changing, the scope of services is broader, there are a number of participants, etc. In this case, the MOU describes the organizational relationships (including governance) and management processes that will regulate the delivery of the service, while the SLA delineates the operational specifics of the service.

The two agreements examined were simple agreements. The agreement between the NRC and the Department is quite detailed, with service descriptions covering information access, information management resources and information technology. The ISA details service lines, service levels and performance indicators; it allows for joint management meetings, documented roles and responsibilities, tracking changes, etc. This agreement has risks related to IT service delivery (which recently became a reality during an event that stopped service). On the other hand, the agreement between CFIA and the Agency is a cost-sharing arrangement. As a result,

these services are generally described in an annex that contains a list of key common services for categories such as business operations, administrative services, material management, security, technical, energy centre, safety and the environment.

In conclusion, a single-tier structure is appropriate for the services delivered in the two agreements.

2.2 Scope of services

Audit criterion: *The Department and the Agency clearly define the scope of services covered by the interdepartmental service arrangements.*

TBS guidelines indicate that it is critical for the scope of services to be clearly identified and documented, so that the extent of the work involved and the respective obligations are understood by the parties when building the service relationship. Depending on the complexity of the service arrangement, a service agreement should include the following scope elements: a vision or purpose statement; a declaration of key principles; the services and activities (service bundles/service inventory, tiered service and delivery channels); relative roles and responsibilities; and key service assumptions.

The two agreements reviewed included most of the key and relevant scope elements. The Agency would benefit from including in its agreement with CFIA a declaration of the key principles that underpin the development and implementation of the service relationship.

2.3 Dispute resolution

Audit criterion: *The Department and the Agency have a process in place to identify critical issues related to day-to-day operations and service delivery, and have considered these in the establishment of a resolution process.*

A dispute resolution process is a key governance and internal control for managing interdepartmental service arrangements. A formal dispute resolution process is basically any process that can bring about the conclusion of a dispute and is an effective tool for establishing communication channels between organizations for dealing with unresolved or problematic areas. When the process is working properly, it allows for a trusted and transparent approach for dealing with unresolved issues. Key elements of a dispute resolution process include a provision for all parties to resolve disputes in good faith, as well as an agreed-upon escalation process should resolution prove elusive. This information should be clearly articulated in each interdepartmental service arrangement.

The ISA between the NRC and the Department describes dispute resolution in general terms and does not contain an agreed-upon escalation process in the event that disputes cannot be resolved. The presence of an escalation process would be helpful for resolving difficult and unresolved issues. A review of the NRC-developed briefing and meeting notes identified no systemic problem areas.

The MOU between the Agency and CFIA contains an adequate dispute resolution process. Designated CFIA and Agency officials meet weekly to discuss operations at the Canadian Science Centre for Human and Animal Health. Interviews and correspondence with Agency officials indicate that common services are frequently discussed at these meetings. No problematic or unresolved issues pertaining to shared common services were reported by Agency officials.

There are therefore sufficient dispute resolution mechanisms in place to manage both interdepartmental service arrangements.

2.4 Financial arrangements

***Audit criterion:** The Department and the Agency have established financial arrangements, including the funding model, fee structure, resource pooling arrangements, cost transparency, variances and adjustments and cost-recovery arrangements, for the provision of the internal services.*

Financial arrangements are a critical aspect of building a collaborative relationship. Departments need to ensure that they have the legal mandate to provide a service before expending departmental appropriations in delivering or collaborating in the provision of the service. Departments that provide services need to have the authority to recover cost and to re-spend revenue, if applicable. Any cost-recovery model used needs to be consistent with existing cost-recovery authorities and TB policy. As the ISA develops, modifications may be required to accommodate changing conditions. It is important that flexibility and adaptability be built into the service agreement to ensure that the parties are able to continue delivering the organizational programs and services within the context of evolving government-wide initiatives and renewed policies.

According to the TBS Guideline on Service Agreements - Essential Elements, service providers should ensure that they do not enter into arrangements where the cost of doing so is greater than their available funds. This requires a solid understanding of their underlying cost model, the scope of work to be delivered and the cost of taking on the new business (including but not limited to incremental costs). Some key principles that should be applied, to the extent possible, include providing stable multi-year funding, accommodating funding and investment in services to meet client needs and ensuring cost transparency and clear accountability.

For the agreements related to internal support services, Section 29.2 of the *Financial Administration Act* is exercised. The respective departmental and Agency Delegation of Financial Signing Authorities Matrix outlines the related contracting authority thresholds for each organization.

The audit observed that the agreements contained most of the key applicable financial arrangement elements. Specifically, the selected funding model and fee structure were appropriate for each common service arrangement. Generally, there were clauses to allow for collaborative investments in service enhancements and the separate establishment of funding arrangements to cover long-term capital plans.

2.5 Performance measurement and monitoring

Audit criterion: *The Department and the Agency have performance measures and regularly monitor and report on the administration of interdepartmental service arrangements.*

Performance measurement, monitoring and reporting of internal services are key internal controls for managing ISAs. The TBS Guideline on Service Agreements proposes current best practices in this area and suggests that ISAs demonstrate and/or contain the following key elements.

- The measurement and reporting regime provides performance measurement results to clients (end-users and stakeholders) that is meaningful, timely and impartial. Communication of results to clients demonstrates transparency, accountability and commitment to quality service.
- Responsibilities and processes for monitoring service standards and client satisfaction have been identified.
- Performance is measured on a regular basis, including service standards and client satisfaction. It informs future action and provides a basis for ongoing improvement. The frequency and nature of client satisfaction and input measures should be outlined in the agreement.
- Reports are presented periodically to the governance bodies on the performance of the service agreement, in order to evaluate the effectiveness and efficiency of the service delivery arrangement.
- Service delivery processes are improved upon on an ongoing basis. Specific processes should be established to identify and implement improvements and to assess their effectiveness, as reflected in better service performance.

The two agreements reviewed contain clauses pertaining to performance measurement and services. However, level of detail recorded and the extent to which service standards are documented are different in the two reports. Neither agreement identifies the implications for services that are not delivered as expected.

The agreement between the NRC and the Department details service descriptions covering information access, information management resources and information technology. The agreement also contains a detailed list of services, standards for each and a measureable indicator organized into general, uptime commitments and information technology.

The agreement between the NRC and the Department states that the NRC will monitor and report on performance. Quarterly reports produced by the NRC library officials are presented to the joint Governance Committee. Budget information pertaining to acquisitions and collections is reported in these reports. In addition to these quarterly financial updates, the NRC also produced a status report for the period from April 1, 2013 to June 30, 2013, which measured performance against the service standards identified in the service agreement. The status report indicated that all service standards had met their target. Only one report of this nature was identified. The audit noted that an activities and action log was maintained for library and information services for fiscal year 2013-14. This information is managed by both the NRC and the Department officials.

Lastly, the agreement does not indicate how often performance reports are to be provided by the NRC.

The MOU between CFIA and the Agency is dated 2007 and was amended in 2012; as such, it has not been updated in three years. The agreement outlines a cost-sharing structure between the agencies and contains a list of key common services, with categories such as business operations, administrative services, material management, security, technical, safety and environmental, containment and communications. While the MOU cites a financial reporting requirement, it does not identify key service standards, and as such, no performance reports for these shared services are produced. The Agency's management indicated that CFIA and Agency officials meet weekly to discuss common services at the Canadian Science Centre for Human and Animal Health.

In conclusion, the agreements contain clauses for performance measurement. However, the Agency would benefit from implementing key service standards and a regular monitoring and reporting regime in its agreement with CFIA. As well, the Department would benefit from documenting the frequency of performance reporting in its agreement with the NRC. The establishment of a defined and consistent monitoring and reporting process over ISAs will act to mitigate risks related to non-performance.

Recommendation II.2

It is recommended that the Assistant Deputy Minister, Infectious Disease Prevention and Control Branch, Public Health Agency of Canada, set out key service standards and performance reporting, including the frequency of performance reporting, for the agreement between the Canadian Food Inspection Agency of Canada and the Public Health Agency of Canada for key common services at the Canadian Science Centre for Human and Animal Health.

Management response

Management agrees with the recommendation.

Senior management at the Canadian Food Inspection Agency of Canada's (CFIA) National Centre for Foreign Animal Diseases was engaged informally and formally at the Laboratory Executive Committee meetings. CFIA's Corporate Facility Management Division has also been engaged. Negotiations will begin in 2015-16 to determine if a revision to the services and/or costs of these services is warranted. A renewal of the Canadian Science Centre for Human and Animal Health in-depth building cost analysis is due on March 31, 2015. This will serve as the basis for negotiations related to costs. Common services not covered in the Building Cost Analysis will be compiled and CFIA's National Centre for Foreign Animal Diseases' use of these services will be estimated to arrive at a dollar value.

CFIA's National Centre for Foreign Animal Diseases and the Agency's Canadian Science Centre for Human and Animal Health will develop meaningful service standards, service and financial reports and reporting timelines that will be included in a revised Memorandum of Understanding (MOU) or amendment to the existing MOU.

Recommendation II.3

It is recommended that the Assistant Deputy Minister, Corporate Services Branch, establish the frequency of performance reporting in the agreement between the National Research Council of Canada and the Department for the shared delivery of library and information services.

Management response

Management agrees with the recommendation.

The agreement will be revised to outline the frequency of performance reporting.

3. Conclusion

The audit reviewed two other materially significant service agreements within the health portfolio: a fee-for-service agreement between the Department and the National Research Council (NRC) for the delivery of library and information services (\$2.6 million) and a cost-sharing agreement between the Agency and the Canadian Food Inspection Agency (CFIA) for shared common services at the Canadian Science Centre for Human and Animal Health (\$4.8 million). The audit found that the governance and accountability structures are defined and appropriately managed. Having tools and guidance for developing and managing ISAs is important. In this regard, the Portfolio's intranet site offers templates for the development of memoranda of agreement, memoranda of understanding and interdepartmental letters of agreement. While the templates are useful, it would be important to keep them current and to include on the site links to the Treasury Board of Canada Secretariat guidance documents.

The audit also noted that the agreement between the Department and the NRC for library services contained a detailed list of services and the associated service standards, while the agreement between the Agency and CFIA included a list of key common services but did not document service standards. The audit recommends that key services standards and performance reporting be established for the Agency's agreement. Further, the Department and the Agency would benefit from documenting the frequency of performance reporting in the two agreements.

The areas for improvement that have been noted will collectively strengthen the management control framework for establishing and managing ISAs.

4. Part II: Other Interdepartmental Service Arrangements – Specific lines of enquiry and criteria

Audit of Shared Accountability in Interdepartmental Service Arrangements (ISAs)		
Criteria Title		Audit Criteria
Line of enquiry 1: Governance		
1.1	Governance structure ^{7,8,9}	There is an accountability structure in place for managing interdepartmental service arrangements at the organizational level and for managing individual interdepartmental service agreements.
1.2	Roles and responsibilities ^{7,8,9}	The Department and the Agency have defined and communicated roles and responsibilities for individual interdepartmental service arrangements.
1.3	Guidance and tools ⁸	The Department and the Agency utilize tools, including guidance documents (policies, directives or guides) and provide internal support to enable the development of interdepartmental service arrangements.
Line of enquiry 2: Internal controls		
2.1	Interdepartmental service arrangement structure ⁸	The Department and the Agency have determined the type of interdepartmental service agreement structure for each specific interdepartmental service arrangement, based on the complexity of the service relationship.
2.2	Scope of services ⁸	The Department and the Agency clearly define the scope of services covered by the interdepartmental service arrangements.
2.3	Dispute resolution ^{8,9}	The Department and the Agency have a process in place to identify critical issues related to day-to-day operations and service delivery, and have considered these in the establishment of a resolution process.
2.4	Financial arrangements ^{7,8,9,10}	The Department and the Agency have established financial arrangements, including the funding model, fee structure, resource pooling arrangements, cost transparency, variances and adjustments and cost-recovery arrangements for the provision of the internal services.
2.5	Performance measurement and monitoring ^{7,8,9,11}	The Department and the Agency have performance measures and regularly monitor and report on the administration of interdepartmental service arrangements.

Information sources:

⁷TB Directive on Internal Support Services (March 30, 2012). The Directive does not apply to the Shared Services Partnership Agreement.

⁸TBS Guideline on Service Agreements: Essential Elements (July 4, 2012)

⁹TBS Guideline on Service Agreements: An Overview (July 4, 2012)

¹⁰TBS Guide to Costing (July 8, 2008)

¹¹TBS Guideline on Service Standards (July 4, 2012)

5. Part II: Other Interdepartmental Service Arrangements – Scorecard

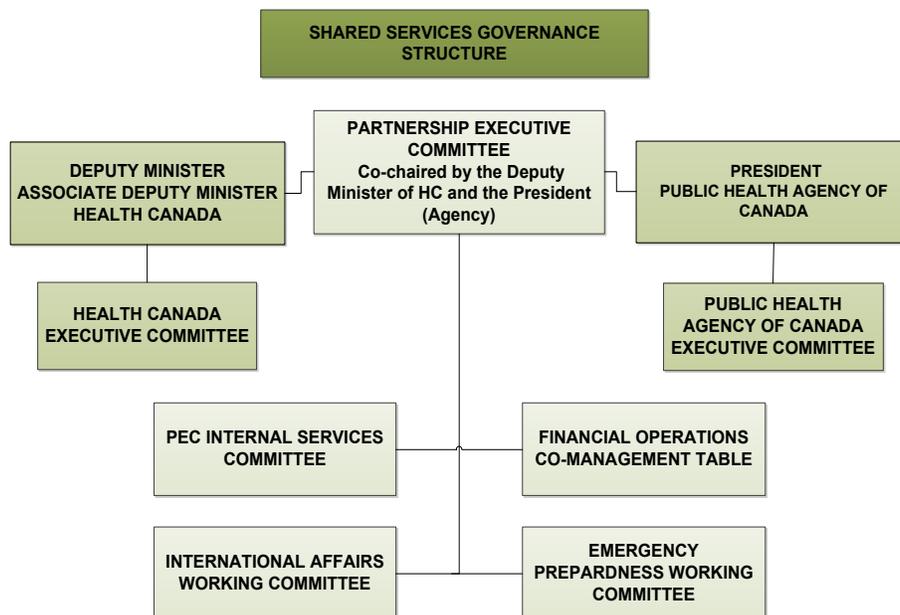
Criterion	Rating		Conclusion	Rec #
	NRC*	CFIA**		
Governance				
1.1 Governance structure			While there is no specific department-wide accountability structure for the management of ISAs, the agreements are appropriately managed by the branch operations or functional areas that are best positioned to deal with the business needs and risks.	-
1.2 Roles and responsibilities			The roles and responsibilities have been adequately defined for both agreements.	-
1.3 Guidance and tools			There is an opportunity to increase awareness of the TBS guidance documents for the future development or review of service agreements.	II.1
Internal controls				
2.1 Interdepartmental service arrangement structure			A simple structure is appropriate for the services delivered in both agreements.	-
2.2 Scope of services			Both agreements included most of the key and relevant scope elements.	-
2.3 Dispute resolution			There are sufficient dispute resolution mechanisms in place to manage both interdepartmental service arrangements.	-
2.4 Financial arrangements			Both agreements included most of the key applicable financial arrangement elements.	-
2.5 Performance measurement and monitoring			Approved key service standards and a monitoring and reporting regime, including the frequency of performance reporting should be established for the agreement between the Agency and CFIA.	II.3
			The frequency of performance reporting should be established in the agreement between the Department and the NRC.	II.2

Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

*NRC: Agreement between the National Research Council of Canada and Health Canada for the shared delivery of library and information services.

**CFIA: Agreement between the Canadian Food Inspection Agency and the Public Health Agency of Canada for the provision of key common services at the Canadian Science Centre for Human and Animal Health.

Appendix A – Shared Services Partnership governance structure



The Partnership Executive Committee (PEC) works in parallel with the Executive Committees of both Health Canada and the Public Health Agency of Canada. Executive Committees are responsible for horizontal decision-making, direction setting and oversight of substantive and corporate responsibilities in their respective organization, with PEC responsible for direction setting and oversight of items pertaining to shared services. PEC is chaired by both Deputy Heads and membership includes internal services and program area ADMs from both organizations. PEC is supported by several working committees designed provide leadership and direction on specific areas of focus.

The PEC-Internal Services is the forum for the discussion of policies, procedures and issues related to internal services. Areas of focus include: access to information and privacy, communications, human resources, information management, information technology, occupational health and safety, real property and security. This committee is co-chaired by the ADM, Corporate Services Branch, Health Canada, and the ADM, Infectious Disease, Prevention and Control Branch, Public Health Agency of Canada.

The **International Affairs Working Committee** is a forum for identifying and addressing operational, program and policy issues related to international affairs in Health Canada and the Public Health Agency of Canada. This committee provides a forum for horizontal policy issue management, including the development of a framework for the international priorities of Health Canada and the Public Health Agency of Canada and will report to the PEC as required. This

committee is co-chaired by the ADM, Strategic Policy, Planning and International Affairs Branch, Public Health Agency of Canada and the ADM, Strategic Policy Branch, Health Canada.

PEC Financial Operations Co-management Table is called upon on an ad-hoc basis to discuss items such as accounting operations and procurement as it pertains to the shared services partnership. Health Canada and the Public Health Agency of Canada each retain their executive finance committee structures: At Health Canada, EC-PAC (Planning and Accountability Committee) and at the Agency, the Executive Committee Management and Operations are responsible for financial management and control, departmental planning and reporting and management accountability. The Financial Operations Co-Management Table is co-chaired by the Chief Financial Officer, Chief Financial Officer Branch, Health Canada and the Chief Financial Officer, Office of the Chief Financial Officer, Public Health Agency of Canada.

The **Emergency Preparedness Working Committee** oversees the coordination and integration of joint emergency management activities for the Department and the Agency and coordinates the application of the Health Portfolio Strategic Emergency Management Plan. This committee identifies priorities and provides direction in the area of emergency management, including the development of emergency management policies, plans, training and exercises of common interest. This committee is co-chaired by the Director General, Environmental Radiation Health Services, Healthy Environments and Consumer Safety Branch, Health Canada, and the Branch Head, Health Security Infrastructure Branch, Public Health Agency of Canada.

Appendix B – Fee structure for the Shared Services Partnership

The base fee for services provided by the Agency and base fee payable by HC (service recipient) for the 2012-13, 2013-14, 2014-15 and steady-state:

		Amount in \$ (including EBP)				
		Audit	Evaluation	Emergency Management	International Affairs	Base Fee for Agency Services
2012-13	90% base fee	5,462,906	3,254,258	1,720,440	3,596,380	14,033,984
	10% base fee	606,990	361,584	191,160	399,598	1,559,332
	Total base fee	6,069,896	3,615,842	1,911,600	3,995,978	15,593,316
2013-14	90% base fee	4,957,075	3,016,682	1,720,440	3,146,830	12,841,027
	10% base fee	550,786	335,187	191,160	349,648	1,426,781
	Total base fee	5,507,861	3,351,869	1,911,600	3,496,478	14,267,808
	Actual interdepartmental transfer	5,848,438	3,368,339	2,083,255	3,464,465	14,764,497
2014-15	90% base fee	4,669,853	3,008,537	1,720,440	2,697,280	12,096,111
	10% base fee	518,873	334,282	191,160	299,698	1,344,012
	Total base fee	5,188,726	3,342,819	1,911,600	2,996,978	13,440,123

The base fee for services provided by HC and the base fee payable by the Agency (service recipient) for 2012-13, 2013-14, 2014-15 and steady-state:

		Amount in \$ (including EBP)						
		Human Resources	Real Property and Security	Accommodations	IM/IT	ATIP	ADMO and Planning	Total Corporate Services
2012-13	90% base fee	9,224,332	4,807,884	9,209,961	17,751,683	853,488	360,000	42,207,348
	10% base fee	1,024,926	534,209	1,023,329	1,972,409	94,832	40,000	4,689,705
	Total base fee	10,249,258	5,342,093	10,233,290	19,724,092	948,320	400,000	46,897,053
2013-14	90% base fee	7,900,938	4,308,842	9,209,961	16,326,925	821,088	360,000	38,927,754
	10% base fee	877,882	478,760	1,023,329	1,814,103	91,232	40,000	4,325,306
	Total base fee	8,778,820	4,787,602	10,233,290	18,141,028	912,320	400,000	43,253,060
	Actual interdepartmental transfer	9,070,931	5,081,339	14,562,409	18,966,534	1,872,052	0	49,553,265
2014-15	90% base fee	6,851,799	4,306,417	4,349,961	16,322,826	641,088	360,000	32,832,091
	10% base fee	761,311	478,491	483,329	1,813,647	71,232	40,000	3,648,010
	Total base fee	7,613,110	4,784,908	4,833,290	18,136,473	712,320	400,000	36,480,101

		Amount in \$ (including EBP)				
		Corporate Services	Communications	Financial Management	Materiel Management	Base Fee for HC Services
2012-13	90% base fee	42,207,348	10,565,505	3,432,083	1,052,453	57,257,388
	10% base fee	4,689,705	1,173,945	381,342	116,939	6,361,932
	Total base fee	46,897,053	11,739,450	3,813,425	1,169,392	63,619,320
2013-14	90% base fee	38,927,754	9,162,266	3,322,255	821,126	52,233,402
	10% base fee	4,325,306	1,018,030	369,140	91,236	5,803,711
	Total base fee	43,253,060	10,180,296	3,691,395	912,362	58,037,113
	Actual interdepartmental transfer	49,553,265	10,392,403	3,793,426	932,383	64,671,477
2014-15	90% base fee	32,832,091	9,145,466	3,322,255	747,113	46,046,926
	10% base fee	3,648,010	1,016,163	369,140	83,013	5,116,325
	Total base fee	36,480,101	10,161,629	3,691,395	830,126	51,163,251

Appendix C - List of identified ISAs at the Department and the Agency for fiscal year 2013-14

(Unaudited information as of June 24, 2014)

Provider	Customer	Type of ISA	# of ISAs	Services provided	Annual cost in 2013-14 (\$000)
SHARED SERVICES PARTNERSHIP, VARIOUS BRANCHES OF HEALTH CANADA AND PUBLIC HEALTH AGENCY OF CANADA					
Health Canada	Public Health Agency of Canada	Shared Services Partnership	1	HR, IMT/IT, real property and security, accommodations, ATIP, communications, financial operations and materiel management.	64,700
Public Health Agency of Canada	Health Canada	Shared Services Partnership		Audit, evaluation, emergency preparedness and international affairs	14,800
CORPORATE SERVICES BRANCH, HEALTH CANADA AND PUBLIC HEALTH AGENCY OF CANADA					
Corp Services Branch (CSB) / HC	Health Security Infrastructure Branch (HSIB) / PHAC	MOU	1	I STOP Project	886
	Infectious Disease Prevention and Control Branch / PHAC	Service Agreement	1	Security services at the Canadian Science Centre for Human and Animal Health	834
	Associate DM - PHAC	Service Agreement	1	Library Services	536
	Infectious Disease Prevention and Control Branch / PHAC	Service Agreement	1	Security Services at the JC Wilt Infectious Disease Research Building	362
	All branches at PHAC	MOU	1	Development Costs of Single Window initiative	320
	Health Security Infrastructure Branch (HSIB) / PHAC	Service Agreement	1	Renewal of 2 UNIX SAS server licenses for SAS	60
	Health Security Infrastructure Branch (HSIB) / PHAC	MOU	1	Utilize TBIPS contract for 1 business analyst from HC for GPHIN project	22

Provider	Customer	Type of ISA	# of ISAs	Services provided	Annual cost in 2013-14 (\$000)
National Research Council (NRC)	Corp Services Branch (CSB) / HC	Service Agreement	1	Library Services	2,600
PWGSC	Corp Services Branch (CSB) / HC	MOU, Master Agreements, Interdepartmental letters of agreement, and special service agreements	83	Real property and security, procurement, receiver general and pension services, compensation, IT, acquisition services, and Linguistic services.	46,000
Shared Services Canada (SSC)	Corp Services Branch (CSB) / HC	Service Agreement	12	Data Centre, Distributed Computing, Telecommunications, IT Security, BC tripartite	3,800
Agriculture and Agri-food Canada (AAFC)	Corp Services Branch (CSB) / HC	Service Agreement and service level agreement	2	Provision of PeopleSoft	1,600
			2	Office accommodation at the Atlantic Food and Horticulture Research Bldg.	6
				Fuel agriculture	3
Natural Sciences and Engineering Research Council of Canada (NSERC)	Corp Services Branch (CSB) / HC	MOU	1	Implementation of SharePoint services + support	1,100
Correctional Services Canada (CSC)	Corp Services Branch (CSB) / HC	Interdepartmental letter of agreement	17	Real Property Services	790
Statistics Canada	Corp Services Branch (CSB) / HC	MOU	2	Language training	250
				Language statistics in support of the official languages initiative from participating departments	50
Treasury Board of Canada Secretariat	Corp Services Branch (CSB) / HC	MOU	1	Support of GC 2.0 Tools and GCconnex	79
Canada School for Public Service (CSPS)	Corp Services Branch (CSB) / HC	MOU	1	Training	32
Human Resources Council	Corp Services Branch (CSB) / HC	Interdepartmental letter of agreement	1	Human Resources Council Executive Office	30
Environment Canada	Corp Services Branch	Service Level	2	Accessibility, Accommodations, Adaptive Computer Technology	22

Provider	Customer	Type of ISA	# of ISAs	Services provided	Annual cost in 2013-14 (\$000)
	(CSB) / HC	Agreement			
Canada Border Services Agency	Corp Services Branch (CSB) / HC	MOU	1	Transfer of systems furniture located at the LCDC Bldg. Ottawa	15
Public Services Commission	Corp Services Branch (CSB) / HC	Interdepartmental letter of agreement	1	TRST testing	1
COMMUNICATIONS AND PUBLIC AFFAIRS BRANCH, HEALTH CANADA					
Human Resources Development Canada (HRSDC)	Communications Public Affairs Branch (CPAB) / HC	Service agreement	1	1-800 inquiry line	357
CHIEF FINANCIAL OFFICER BRANCH, HEALTH CANADA					
Chief Financial Officer Branch (CFOB) / HC	Aboriginal Affairs and Northern Development Canada (AANDC)	MOU	1	Implementation of SAP	3,000
Aboriginal Affairs and Northern Development Canada (AANDC)	Chief Financial Officer Branch (CFOB) / HC Corp Services Branch	MOU	1	Implementation of GCIMS	3,600
HEALTHY ENVIRONMENT AND CONSUMER SAFETY BRANCH, HEALTH CANADA					
Statistics Canada	Healthy Environment and Consumer Safety Branch (HECSB) / HC	Interdepartmental letter of agreement	3	The Canadian Tobacco, alcohol and Drug Survey	1,400
				Canadian Tobacco Use Monitoring Survey	1,400
				Canadian Health Measures Survey	380
Canada School of Public Service (CSPS)	Healthy Environment and Consumer Safety Branch (HECSB) / HC	MOU	4	Training	100
STRATEGIC POLICY BRANCH, HEALTH CANADA					
Strategic Policy Branch (SPB) / HC	Patented Medicine Prices Review Board (PMPRB)	MOU	1	Sets out the funding arrangements for the work of PMPRB under the National Prescription Drug Utilization System	850
	Aboriginal Affairs and	Interdepartmental	1	To utilize a coordinated approach for recipient audits whereby an auditor	152

Provider	Customer	Type of ISA	# of ISAs	Services provided	Annual cost in 2013-14 (\$000)
	Northern Development Canada (AANDC)	letter of agreement		may be representing both FNIHB and AANDC to audit common recipients to verify compliance with the terms and conditions of some or all funding agreements with that particular recipient.	
	Environment Canada	MOU	2	For the funding of activities and projects related to Science Policy Integration, Human Resources, Improving Collaboration and Secretarial Governance.	61
				Hosting of Nanoportal and Related Sites on the Environment Canada shared web infrastructure for Health Canada.	10
	Canadian Institute of Health Research	MOU	1	Best Brain Exchanges	8
		MOA	1	National Curriculum for training in drug safety and effectiveness research	5
	Corp Services Branch (CSB) / HC	MOU	1	Development of the HC Bioethics Core Course e-Learning	29
Statistics Canada	Strategic Policy Branch (SPB) / HC	Interdepartmental letter of agreement	1	Life Path Data	48
	Strategic Policy Branch (SPB) / HC	Interdepartmental letter of agreement	1	Vital statistics Data	6
	Strategic Policy Branch (SPB) / HC	Interdepartmental letter of agreement	1	Long term facility survey	228
PEST MANAGEMENT REGULATORY BRANCH, HEALTH CANADA					
Canadian Food Inspection Agency (CFIA)	Pest Management Regulatory Branch (PMRA)	MOU	2	Co-location fees – central experimental farm	60
				PMRA funds the Administrative Monetary Penalty Tribunal	93
Agriculture and Agri-food Canada (AAFC)	Pest Management Regulatory Branch (PMRA)	MOU	1	Cost of the purchase of a subscription to an international database of registered pesticides	40
INFECTIOUS DISEASES PREVENTION AND CONTROL BRANCH, PUBLIC HEALTH AGENCY OF CANADA					
Infectious Disease Prevention and Control Branch / PHAC	Strategic Policy Branch (SPB) / HC	Interdepartmental letter of agreement	1	Ethics review of research projects	199
	Statistics Canada	Interdepartmental letter of agreement	1	Canadian Health Measures Survey	135

Provider	Customer	Type of ISA	# of ISAs	Services provided	Annual cost in 2013-14 (\$000)
	Canadian Food Inspection Agency (CFIA)	MOU	1	Co-location of NML –provision of common internal services	4,800
			158	Total ISAs excluded from the audit scope	68,959
			3	Total ISAs included in audit scope (55.8 % of audit coverage)	86,900
			161	Total identified population as of June 24, 2014	155,859

Summary of ISAs by branch

BRANCH	# of ISAs	Annual cost in 2013-14 (\$000)	# of ISAs audited	Cost (\$000)
Shared Services Partnership, Various Branches HC/PHAC	1	79,500	1	79,500
Corporate Services Branch , HC/ PHAC	134	59,498	1	2,700
Communications and Public Affairs Branch, HC	1	357	0	0
Chief Financial Officer Branch, HC	2	6,600	0	0
Healthy Environment and Consumer Safety Branch, HC	7	3,280	0	0
Strategic Policy Branch, HC	10	1,397	0	0
Pest Management Regulatory Branch, HC	3	193	0	0
Infectious Diseases Prevention and Control Branch, PHAC	3	5,034	1	4,700
Total	161	155,859	3	86,900