



Public Health
Agency of Canada

Agence de la santé
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Final Report

Audit of the Economic Action Plan *Governance and Planning*

April 2014

Canada 

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Executive summary

The focus of the audit was on the planning and governance of the Agency's transformation initiatives to support the *Economic Action Plan*. The goal of the *Plan* is to support the return to a balanced federal budget by 2014-15. To reach a balanced budget, 67 federal government organizations examined direct program spending in order to identify proposals for reductions in operating, grant and contribution, and capital expenditures, while maintaining the integrity of essential services. By 2014-15 the Agency is expected to contribute savings of \$68 million, including approximately 298 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 Agency's *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.

The Public Health Agency of Canada effectively governed and planned for the development of a 3-year economic action plan that is to renew and transform business processes through the implementation of 12 cost-reduction and efficiency improvement initiatives. In the first year of the plan, the Agency successfully managed within its reduced spending allocations. Within a short timeframe, Branch leads developed and began implementing program and internal service transformations. The plans were robust and reflected internal and external dependencies; risk analysis; roll-out strategies; implementation timelines; as well as completion of tracking forms.

While costs associated with *Work Force Adjustment* are tracked and controlled through a devoted internal order in the financial system and monitoring has been integrated into the monthly variance reporting process, the Agency should develop a standard approach to monitoring Full Time Equivalents and salary to sustain target reductions. This additional monitoring control will help the Agency to stay within authorized target.

A detailed internal communications strategy was created, including information for staff and training guides. There was also a detailed 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 *Transformation Executive Dashboard* was created to monitor and track progress, and detailed monitoring reports were completed for each of the transformation initiatives.

Through good governance and planning the Public Health Agency of Canada has been progressing towards implementation of its *Economic Action Plan* commitments. The Agency reports that they have received approval to re-scope a project related to strategic partnerships in order to secure full implementation by 2014-15. The audit report contains one recommendation that will serve to further strengthen the existing processes.

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. To reach a balanced budget, each federal government organization examined direct program spending in order to identify proposals for reductions in operating, grant and contribution, and capital expenditures, 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 of program spending. Organizations examined their spending 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 services 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, a Treasury Board committee chaired by the President of the Treasury Board.

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 percent 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 joint Treasury Board proposal for the *Economic Action Plan*, consisting of the Agency's cost savings proposals, including staff reductions. The Public Health Agency of Canada contribution is \$68 million, including approximately 298 positions by 2014-15. Planned savings for fiscal 2012-2013 were accomplished.

Table 1: The Agency's *Economic Action Plan* Planned Savings (in 000)

Savings by Functional Area	2012-13	2013-14	2014-15 & Ongoing	Full Time Equivalents Reductions
Administrative Efficiencies and Rationalization of Structures and Functions	7,419	20,320	29,957	114
Strategic Partnerships and Shared Services	1,108	2,832	7,951	55
Grants and Contributions	3,192	6,402	16,855	81
Public Health Program Review	1,996	6,162	13,204	48
Total - Public Health Agency of Canada	\$ 13,715	\$ 35,716	\$ 67,967	298

Source: Financial data is from the Agency's Quarterly Financial Reports Supplementary Data on Budget 2012 Implementation.

To implement the staff reductions, the Public Health Agency of 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 Public Health Agency of Canada's *Economic Action Plan*.

3. Audit scope

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

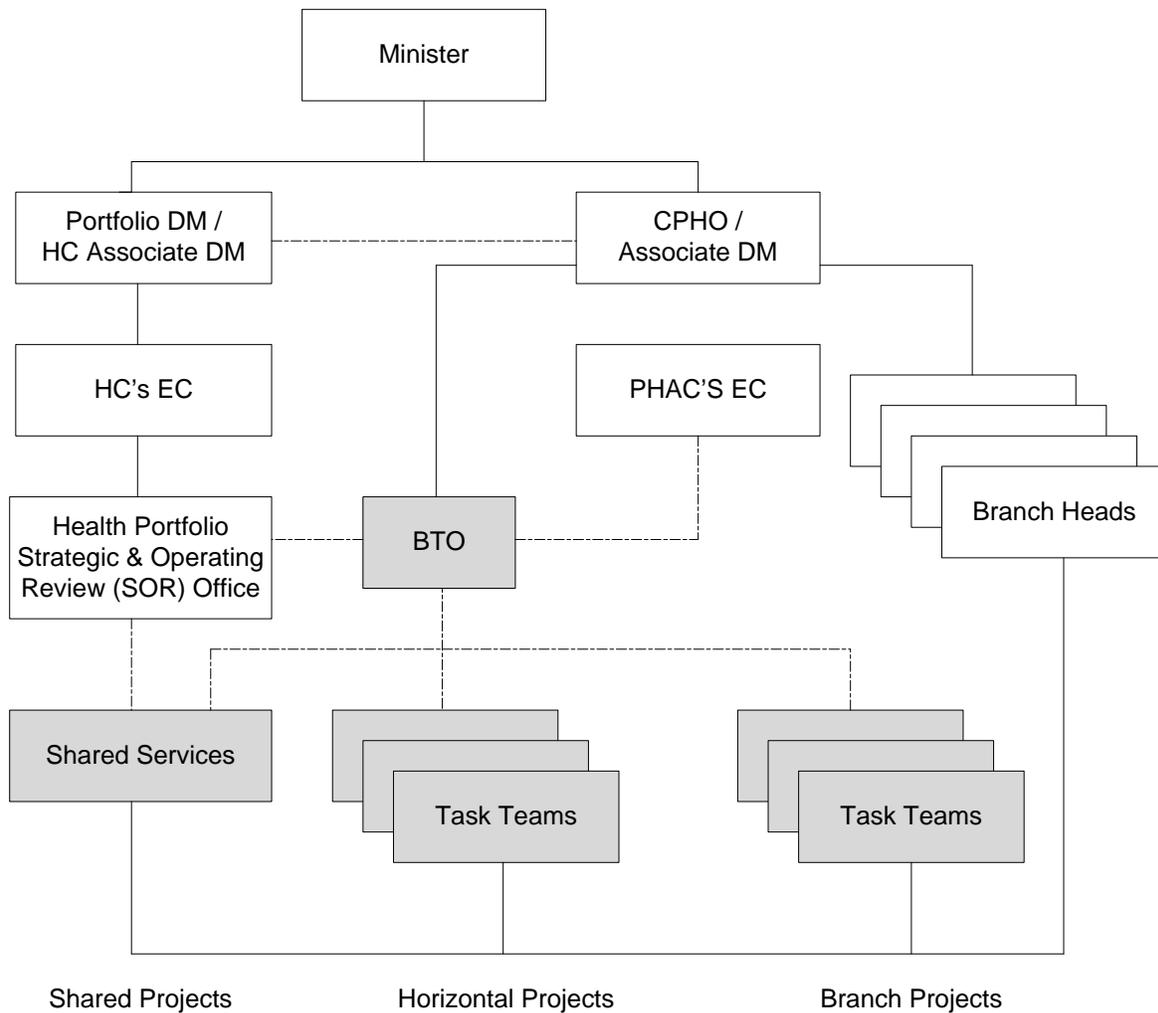
Strategic review results are published in the government's budget and the information related to these decisions is also incorporated into documents such as *Reports on Plans and Priorities* and *Departmental Performance Reports*. To meet Parliament's expectations departments and agencies must be able 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.

The Public Health Agency of Canada implemented a governance framework to support effective planning, communication and monitoring for the *Economic Action Plan* transformations resulting in budgetary reductions. This framework includes: the Executive Committee; the Business Transformation Office (BTO); and Corporate Functions that, in turn, includes the Work Force Management Centre of Expertise, the Transformation Coordination Committee, the Work Force Management Committee, the Joint Work Force Adjustment Working Group, the Partnership Executive Committee, and Branch Executive Committees (see Governance Diagram).

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

The Business Transformation Office was created in October 2011, with a mandate to coordinate development and implementation of Transformation Agenda. The mix of team skills complemented the tasks required to be completed. The Office included financial expertise, human resources expertise, and program analysts. From a governance perspective the Office reports to the Associate Deputy Minister and the Chief Public Health Officer (CPHO), and provides guidance to the Executive Committee. The Office is responsible for leading and coordinating the *Economic Action Plan* transformation agenda. They also perform a coordination function with representatives from each Branch to exchange information, monitor progress and ensure consistent engagement across the Agency. In addition, the Office coordinates 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.

Governance Diagram



Assistant Deputy Minister Forum is a venue for discussion on issues related to the Transformation Agenda. Previously referred to as the Assistant Deputy Minister Steering Committee, it meets biweekly. The forum is used to allow for senior management discussion and guidance on transformation initiatives which have a horizontal impact and to identify and discuss new and emerging programs or corporate policy and management issues affecting the Agency as whole. It is not a decision-making body and no record of decisions or minutes are maintained.

Transformation Coordination Committee provided leadership and advice in support of the overall transformation agenda during the planning and development phase of the *Economic Action Plan* initiatives and was disbanded in March 2012. It was a forum to discuss progress, risks and issues associated with specific initiatives and overall transformation efforts.

Work Force Management Committee was responsible to control the growth in salary and Full Time Equivalent at the Agency level, and, when variances are identified, the Committee will provide strategic guidance and support concerning mitigation strategies. Its objectives are to ensure that the Agency and its business units meet their financial and budget targets; and to facilitate the management and realignment of staff to business priorities.

Joint Work Force Adjustment Working Group was responsible for issues relating to the communication and engagement between management and the bargaining agents on work force management issues. This included recommending and sharing strategies for the effective application of the Work Force Adjustment Directives.

Shared Services Steering Committee was created following a decision to adopt shared services 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. This committee included an Assistant Deputy Minister's Committee and a Branch Integration Committee which was a horizontal direction setting, advisory and oversight body. Following implementation, the committee was renamed the **Partnership Executive Committee**. 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 will review investment proposals and decide on the allocation and re-allocation of resources.

Branch Executive Committees deal with ongoing *Economic Action Plan* initiatives within their control after the budgetary decisions were taken. They report to the Executive Committee and the various other committees as required.

Committee agendas, records of decisions and meetings were analyzed in relation to 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 Agency 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 Head**, supported by the Associate Deputy Minister, set the tone and strategic direction for the Agency 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 Head established a Strategic Operating Review Coordinating Committee to oversee the review exercise. Following the review exercise the Deputy Head created the Business Transformation Office. The Office reports directly to the Deputy Head and provided strategic advice for the plan and continues to support the implementation.

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, Assistant Deputy Ministers and others participated or chaired many *Economic Action Plan* related committees. For example, membership in the Partnership Executive Committee included the two Associate Deputy Ministers.

The **Business Transformation Office** was led by a Director General and is currently within the Strategic Policy, Planning and International Affairs Branch. The Office was created in October 2011 following the strategic operating review to provide leadership in transforming the Agency and would coordinate and monitor the implementation of the transformation proposals. At the November 28, 2013 Banking Day there was a decision to continue to keep the Business Transformation Office. Its role and mandate were extended by Executive Committee to include the management of a broader Agency transformation agenda. The Office has the responsibility to ensure on-going monitoring and delivery of the transformation initiatives.

Business Transformation Office Role

- Coordinate the change agenda with the Health Portfolio partners
- Provide status reports to Executive Committee
- Ensure timely flow of information
- Provide oversight and support for larger transformational initiatives and monitor progress/alignment of lower risk initiatives
- Ensure successful implementation of all initiatives by facilitating the integration of Human Resources, Finance, Communications and other
- Provide framework of guiding principles, change management objectives, rules of engagement, business tools, timetables, etc.
- Continue to explore with Program and Corporate areas new ways to transform business operations
- Support Program Heads to identify issues
- Provide leadership and liaison with Central Agencies

Those Agency officials accountable for the governance and planning of the *Economic Action Plan* initiatives in support of the implementation were provided clear direction from the Deputy Head.

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*, the 2013-16 Health Canada's *Human Resources Strategic Plan*, the *Initiative Implementation Updates*, the *Agency Operational Plans*, and the *Corporate Risk Profile*.

The *Economic Action Plan* risks have been incorporated in the Public Health Agency of Canada *2011-12 Corporate Risk Profile*. The *Economic Action Plan Initiatives* include an assessment of risks in regard to the implementation of the initiatives. The proposals specify an impact assessment based on reductions of five and ten percent. Implementation plan reporting templates include a section to detail risks associated with each initiative (for example, risk to implementation) and associated mitigating strategies. Branch and corporate risks were reassessed or updated once plans were government approved. For example, the Shared Service Partnership risks are reported on cost savings proposals, outlining internal service related risks. The Agency and Branches had mechanisms in place to track the status of *Economic Action Plan* specific risks and their associated mitigation strategies.

3. Internal controls

3.1 Planning process

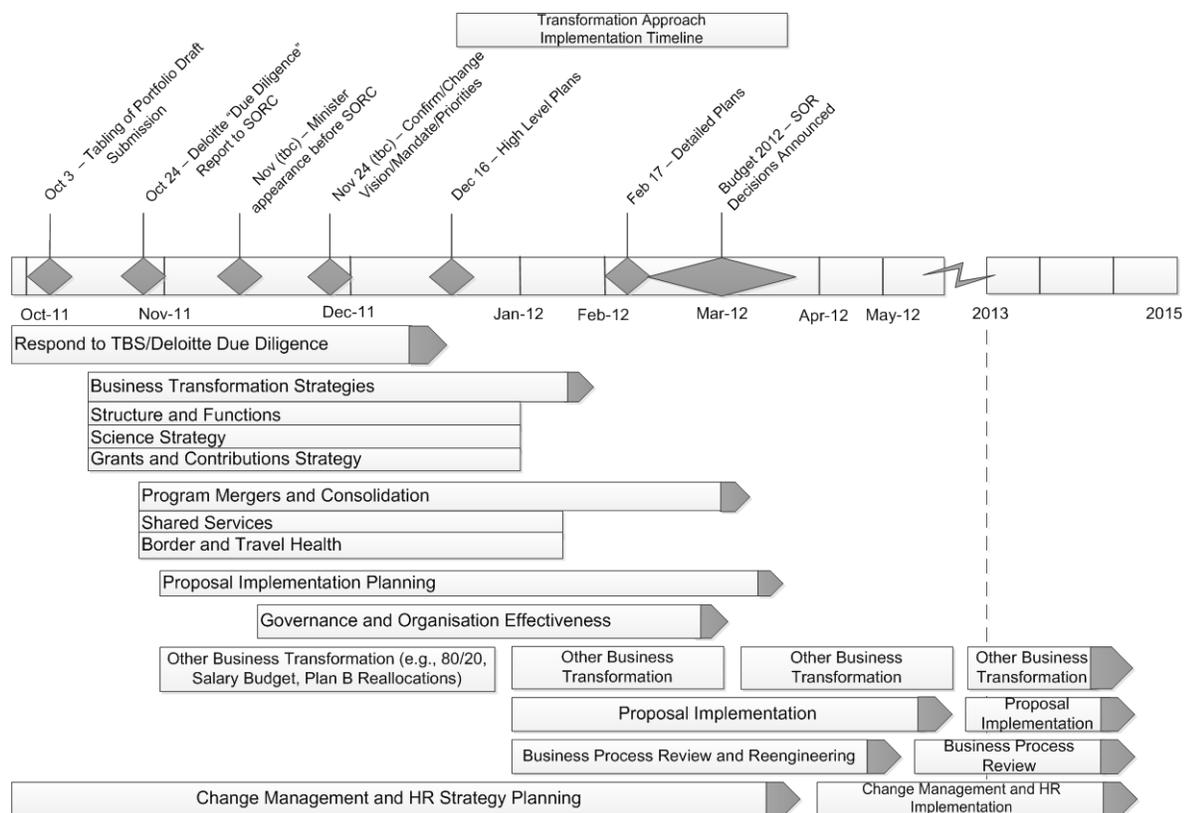
Audit criterion: *The Agency has an effective planning process to develop the Economic Action Plan.*

Strategic reviews are one means of progressing a department's or agency's 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.

The Public Health Agency of Canada used a three phased approach to develop the *Economic Action Plan*. During the first phase business transformation strategies including human resource strategies and defining proposals were established. Phase two involved additional planning and phase three included business transformation, proposal implementation, business process review, reengineering and change management.

Transformation Approach Activities from Tabling of Portfolio Submission to TBS (October 2011 – Present)



The Agency identified the key elements of the transformation, they included: organizational simplification and process optimization, reducing spending not directly related to delivery of program and service, focussing on core mandates and Government priorities, 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. Project Charters were completed as part of the planning process. The charters included project description scope, risks and mitigation strategies, milestones, deliverables and roles and responsibilities of key internal stakeholders. Both the Project Charters and plans had Assistant Deputy Minister approval. All the proposed plans were approved by senior management.

The Business Transformation Office developed an information management strategy given the vast amounts of information that was to be accumulated and analyzed. At the outset of the development of the plan, the Business Transformation Office engaged Information Management expertise from within the Agency to provide additional guidance. In an effort to maximize the security of information the Office provided each corporate lead with an encrypted USB key to store versions of Plan within their scope of responsibility. In addition, information was electronically shared and stored on the Agency's network. In an attempt to limit access to classified documents, documents were sometimes stored electronically on personal computer drives or on restricted access shared drives that were "hidden." The Agency used password protection, however, the passwords could have been stronger.

The Business Transformation Office reports that they also received advice from the Information Management team to develop a file classification for its information holdings. They are in the process of updating the holdings to meet expectations related to storage, transmission, reclassification, declassification, retention or destruction of files.

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, branch project managers require implementation strategies that demonstrate objectives, cost savings, timelines and final deliverables.

The audit reviewed all twelve project plans and conducted interviews with the 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 Business Transformation Office created and provided detailed guidance to the branches for the interpretation and completion of the corporate project-level planning/reporting tool. For example, each branch used the tool 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; however, it was found that the tools and templates could have benefited from having senior management sign-off.

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 Business Transformation Office and the Office of the Chief Financial Officer synthesized information from project-level tools and presented information in a Branch-level dashboard

including, forecasted cost-pressures resulting from Work Force Adjustment or other project delays.

At the macro level, cost reduction initiatives are grouped under four categories: Administrative Efficiencies and Rationalization of Structures and Functions; Shared Services and Strategic Partnerships; Grants and Contributions; and Public Health Program Review.

Administrative efficiencies and the rationalization of structures and functions (\$30M) are expected to generate ongoing savings by simplifying and streamlining internal operations across the Agency's branches. Savings are being obtained by reducing spending on travel, temporary help and service and management contracts. The Agency is refining business processes to better support operations. For example, the internal structures and functions will be streamlined; size of executive complement, office accommodation footprint and a number of external advisory bodies will be reduced. Regional Transformation is being accomplished by moving from six to five administrative areas. For example the Agency reports that the streamlining of travel, the optimization of office space the reduction of contract expenditures and the transformation of regional office management structure have been completed.

The Health Promotion Chronic Disease Prevention Branch, Infectious Disease Prevention and Control Branch, and the Health Security Infrastructure Branch are undergoing regional transformation. The Agency's regional offices will shift their focus from one of acting as administrative centres for Grants and Contributions to providing operational support for the delivery of the Agency's core federal public health mandate in public health capacity-building, knowledge development and exchange, and emergency preparedness and response.

The Agency reports that the regional transformation initiative to centralize the Business Management Function has been completed. However, the Modernizing Production and Dissemination of Public Health Information initiative, which cuts across various Agency branches, was reported to be delayed.

The **Strategic Partnerships and Shared Services (\$8M)** 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 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 will

Shared Services Role

- Access to Information and Privacy
- Accommodations
- Internal Audit
- Communications
- Emergency Management
- Evaluation
- Financial Operations
- Human Resources
- Information Management and Information Technology
- International Affairs
- Material Management
- Real Properties and Security

result in “one back office” supporting two organizations to drive efficiencies and standardization (see text box for a list of shared services). The Agency reports that the shared services transformation of audit and evaluation are complete.

Further, there is the consolidation within Public Health Agency of Canada operations of complementary activities from other departments. This consolidation occurred in the areas of emergency management; border health services; pathogen control and health-related international activities. For example, the Agency reports that the amalgamation of Border and Travel Health Services has been completed.

The Agency will generate savings by simplifying administrative processes for **grants and contributions (\$16.8M)**. The regional offices will shift their focus from one of acting as administrative centres for Grants and Contributions to providing operational support for the delivery of the Agency’s core federal public health mandate in public health capacity-building, knowledge development and exchange, and emergency preparedness and response.

By January 2013, senior management approved a re-scoping of one of the projects within the transformation initiative related to third party delivery. Senior management was informed through a change request for both deliverables and timelines. The Agency has now committed to exploring the feasibility of creating key strategic partnerships by April 2017. The project was expected to achieve savings of \$3.4M annually and reduce 36 full-time-equivalents by 2014-15. Since this was initially reported, there have been new developments associated with the Strategic Partnerships component of grants and contribution transformation – specifically, that the work will continue with self-financing in place via savings realized in other grants and contribution transformation components (for example, administration, reduction, integration, and elimination). Senior management indicates that the Agency remains in compliance with the approved funding submission. As such, it will be important for the Office of the Chief Financial Officer to closely monitor operating expenditures and salary expenditures to assist the Agency in meeting its approved *Economic Action Plan* commitment (see recommendation 1).

Through **the public health program review (\$13M)** the Agency is expected to generate savings from the two regulatory branches: the Infectious Disease Prevention and Control Branch; and the Health Security Infrastructure Branch. The Agency reports that it will integrate the management and oversight of laboratories without affecting its ability to provide scientific advice and support research. It will also streamline and better focus surveillance activities, its publications, and support to public health capacity. For example, it has been reported that the Infectious Disease and Control Branch have an enhanced hepatitis strain surveillance system, and a streamlined systems approach to surveillance, and will relocate the National HIV and Retrovirology Laboratories from Ottawa to Winnipeg. Further, the Health Security Infrastructure Branch reports that all key components of Health Portfolio emergency management functions within the Agency have been consolidated.

The Public Health Agency of Canada reports that it has fully met its savings for 2012-13. As well, the November 2013 Project Implementation Status Update reported that 69 percent of initiatives were complete and Full Time Equivalent reductions were 90 percent complete.

Economic Action Plan initiatives with ongoing implementation include those dependent on strategic partnerships (for example, Grants and Contribution Administration Efficiencies and Program Integration). The next *Economic Action Plan* project implementation status update is scheduled for May 2014.

Through the analysis 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 Agency processes and procedures.*

To secure implementation 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 the Agency, Assistant Deputy Ministers are accountable and responsible to deliver both the financial and the non-financial commitments for their respective branches. In that regard, branch project leads were tasked with ensuring that initiatives were advancing towards full implementation.

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

Banking Days and Budget Day Banking days are two other internal control mechanisms that are used to monitor and make decisions. These internal control mechanisms periodically review the progress on branch plans, budgets, and investments/pressures and will be used to monitor and make decisions/reallocations and reporting. The November 2013 banking day noted the Agency's limited financial flexibility over the next four years.

In addition to periodic reviews, the Office of the Chief Financial Officer produces **Financial Situation Reports**. In preparation for the management variance reporting process, it is expected that branches conduct a detailed salary management review to ensure recoveries have been processed or forecasted, allowances are properly recorded, forecasts reflect anticipated charges that impact the salary envelope, and salary commitments are accurate and complete. It is the responsibility of branch heads to operate within approved budgets for salaries, operating and maintenance, grants and contributions, and capital expenditures, with the allowance of planning to an end-state organizational design. While branches are required to stay within approved budgets they are allowed to plan end state organizational charts using five percent over programming to reflect turnover and other planning assumptions.

At the request of senior management, preliminary report to update on organizational costing

was produced which specifies the percentage variance of actual salary expenditures from approved salary budgets. The initial report showed that variances ranged from eight to twenty percent with four branches between eight and ten percent and three branches between twelve and twenty percent. Since, the Office of the Chief Financial Officer reports that the costing of end state organizational charts has been completed and human resources is updating Peoplesoft with this information. The results from the end state organization costing is to be presented to the Executive Committee as part of a salary monitoring exercise.

A key human resource control has been the **Work Force Management Committee** with a mandate to control the growth in salary and Full Time Equivalents at the Agency level and to identify where variances have occurred. The Committee was chaired by an Assistant Deputy Minister. The Terms of Reference were approved in December 2011 and criteria for Committee submission review were updated in January 2012 to include additional scenarios that the committee began to examine. However, from document reviews it was noted that the Committee's approval role had to be challenging as they were operating without adequate human resources and financial information. The future role of the Committee is yet to be determined.

The Agency has reported that most branches have historically transferred operations and maintenance funds to salary shortfalls. As a result, affordability issues could emerge after 2014-15. Consequently, the Agency should be maximizing its operational planning process as a vehicle for branches to review authorized Full Time Equivalents and salaries and propose changes at Budget Days. The Office of the Chief Financial Officer reports that these historical and current budget transfers are tracked in the Agency's financial system (SAP).

The above observations indicate that financial and human resource controls should be further enhanced to include baselines for Full Time Equivalent staff levels and associated salary expenditures. This information should be based on the approved end-state organization charts including operating and maintenance transfer requirements to cover current and projected salary requirements. The Office of the Chief Financial Officer can support the Branches by using the financial system to provide a Full Time Equivalent count and salary expenditure update at branch, directorate, program activity, and sub-activity levels. These numbers can be pulled at any given point in time and populated into Full Time Equivalent count templates combined with a salary expenditure template offering more detailed information. The system can also provide salary usage data and forecast spending trends.

In conclusion, the *Economic Action Plan* commitments are integrated into departmental processes and procedures, however, the financial and human resources controls can be further enhanced to include baselines for Full Time Equivalents and associated salary expenditures to sustain *Economic Action Plan* cost savings reductions.

Recommendation 1

It is recommended that the Chief Financial Officer develop and implement an approach to monitoring Full Time Equivalents and salary expenditures to sustain target reductions.

Management response

Management agrees with the recommendation.

The Office of the Chief Financial Officer (OCFO) will implement a salary and Full Time Equivalent monitoring process, including comparison to approved organizational designs by Branch, for quarterly reporting to Executive Committee.

3.4 Communication

Audit criterion: *There is an effective communication plan related to Agency 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 was responsible to support the Deputy Head, the branches and the internal services providers to prepare and inform staff of the Agency’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 communication plans included objectives, approach, target audience, timelines etc. Internal communication plans for information to employees were done at all levels with plans for specific communication through emails, town halls, and intranet postings. Communication roles and responsibilities were established for the management levels of the organization, from middle management up to the Deputy Head. 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 Associate Deputy Minister and the Chief Public Health Officer held an Agency wide webcast after the Government of Canada tabled its Budget (*Economic Action Plan 2012*) in order to present the implications for the Public Health Agency of Canada. This announcement communicated the Agency’s expenditure reductions and the process of adjustment and

Internal Communications Role

Deputy Head: speeches, all staff videoconference, and town halls.

Branches: internal communication plans, ADM messaging, speaking notes and town halls.

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

identifying opportunities for affected employees. Following the Deputy Head'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. These work force management tools, guides and strategies and online references were developed to provide support for managers and employees. Following the Deputy Head's announcement, information was made available and communicated to staff through dedicated web pages on the Agency 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 e-mails 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.

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* and resources available for employees that were affected. There were plans for communication strategies for the varying phases of the *Economic Action Plan*. Internal communications were well planned and executed with specific time lines for each task. Separate internal strategy was created for both pre-budget and post-budget communications. The strategy included guiding principles such as: accountability for results; fairness; respect; and timeliness.

External Communications

The Agency serves a diverse population and needs to ensure that there is appropriate communication with its external stakeholders concerning the *Economic Action Plan*. This includes: independent health promotion organizations; various associations; and networks. 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 Agency also monitored feedback from various media such as newspapers, radio and television.

The audit found strong evidence that the Agency 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 Agency 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 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 Business Transformation Office which performed a challenge and review function. In December 2011 the Implementation Plan was presented to Executive Committee. Detailed and summary initiative reporting was conducted in June and October 2012; and January, May, and November 2013. As mentioned, the cost savings amounts are monitored with the Monthly Variance Report. Amendments to Agency plans including the Agency Operational Plans have been completed as a result of the *Economic Action Plan* initiatives.

To further support monitoring of the *Economic Action Plan*, a **Transformation Executive Dashboard** was created to monitor and track the progress. The Dashboard shows each initiative's status with regards to: scope; schedule; financial; human resources; and risks.

Detailed monitoring reports were completed for each of the transformation initiatives. They contained key information including associated impacts and savings, overall implementation status and details on target completion dates, impact and risk assessments. There were status updates for key indicators and milestones accomplished. There were quarterly monitoring reports completed for all the initiatives from June 2012 through November 2013. *Economic Action Plan* transformation initiative monitoring reports were regularly discussed by the Executive Committee. Progress against targets for the various initiatives continues to be reported to Executive Committee. This includes information on reductions in Full Time Equivalents and related salary expenditures, the costs associated with the reductions and progress on the specific initiatives. Issues have been raised to Executive Committee and other governance bodies of ongoing risks and mitigation strategies including: the need to improve the accuracy of salary forecasts and manage salary expenditures to keep within Branch End State salary budgets; the reliance of using Operations and Maintenance funds to cover salary deficits; and the reduced flexibility to take this action in the years to come.

As well, there are no specific mechanisms to monitor the impact of cuts on delivery of services. The Business Transformation Office has identified a number of concerns including: a lack of clarity on how well branches will be implementing their proposed initiatives; a tendency to "move back to old ways"; and gaps in strategic/horizontal collaboration and planning. There was a concern that the current momentum for change could fade and there was a need to continue to manage the process. As a result there was a decision to keep the Business Transformation Office in place.

The latest presentation to Executive Committee in November of 2013 notes the progress on the remaining transformation initiatives and new change requests requiring approval. It notes

which projects are on track, at moderate and high risk. It notes that 90 percent of the work force management activities have been completed. Adherence to the Full Time Equivalent 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.”*

As part of the *Economic Action Plan*, the Business Transformation Office is to perform a key challenge and review function in monitoring and reporting. It was observed that the role of the Business Transformation Office consists of performing a challenge and review function for initiatives and of gathering and disseminating *Economic Action Plan* information. It was also noted that the Office routinely requests and receives initiative progress updates. However, supporting documentation was not always provided by the leading branches at times, to some overstated progress. The Office reports that it plays an advisory role in most of the initiatives and specifies that when more involved, they are able to provide a more accurate review, challenge, and validation function (see *Audit of Agency Operational Planning Process* March 2014).

The Office reports that there is a project closure mechanism included in the project management approach. Corporate project leads submit a change request to the Business Transformation Office requesting the closure of a specific project. As part of its review and challenge function, the Business Transformation Office reports that it collaborates with corporate project leads on the review of the status of the initiatives, including validation of initiative completion. The Office states that this collaboration includes consideration of initiative completion as reported in the change request against its own knowledge of the progress of the respective initiative. Finally, when an initiative will be recommended for closure by the Office, it is identified as such on the Transformation Monitoring report, and the Transformation Executive Dashboard. The Executive Committee will then confirm agreement on the completion of a project, thus closing the initiative. Once the initiative completion has been confirmed by the Executive Committee, the Office reports that it closes out the project and releases all associated deliverables and assets. Further, to facilitate the transfer of key initiative information, project documentation is retained by the Office for consideration in future projects.

C - Conclusion

In order to meet its *Economic Action Plan* commitment savings of \$68 million and approximately 298 Full Time Equivalents positions by 2014-15, the Agency had to identify opportunities to achieve greater efficiencies in operations and opportunities to re-focus business processes and service delivery platforms.

The Agency 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 twelve 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 agency processes and procedures but improvements are needed for financial and human resource controls to sustain *Economic Action Plan* cost savings reductions.

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 monitoring plans and reporting mechanisms, providing senior management with key information on progress against targets.

A monitoring process was established to support financial expenditure monitoring via the monthly variance reports. A Transformation Executive Dashboard was created to monitor and track *Economic Action Plan* results. The Business Transformation Office reports that there is a challenge and review function, as well as a project closure mechanism included in the project management approach. To support consistency of approach and application, these processes would be strengthened through their documentation and approval. The Business Transformation Office plays a role in completing an *Economic Action Plan* initiative challenge and review, and project closure function as this forms a knowledge base for project managers in future projects.

Through good governance and planning, the Public Health Agency of Canada has been progressing towards implementation of most of its *Economic Action Plan* commitments. The Agency reports that they have received approval to re-scope a project related to strategic partnerships to secure full implementation by 2014-15.

Appendix A –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 Agency 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 Agency processes and procedures.
3.4 Communications	There is an effective communication plan related to the Agency actions and resources.
3.5 Monitoring and reporting	The Agency has mechanisms in place to monitor and report on <i>Economic Action Plan</i> initiatives.

Appendix B - Scorecard

Scorecard – Audit of the <i>Economic Action Plan</i> Governance and Planning			
Criterion	Rating	Conclusion	Rec #
Governance and Accountability			
1.1 Oversight	S	There is appropriate oversight is in place to support the implementation of the Economic Action Plan.	
1.2 Roles and responsibilities	S	There are clear roles and responsibilities to support the implementation of the Economic Action Plan.	
Risk Management			
2.1 Risk management	S	Risks related to the implementation of the Economic Action Plan are identified, assessed and have mitigating strategies.	
Internal Controls			
3.1 Planning process	S	There is a rigorous planning process to develop the <i>Economic Action Plan</i> .	
3.2 Cost reduction initiatives	S	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	NMO	<i>Economic Action Plan</i> commitments are integrated into Agency processes and procedures but financial and human resource internal controls can be enhanced.	1
3.4 Communication	S	There is a communication plan related to the Agency's actions for external stakeholders and communication plans and resources for employees.	
3.5 Monitoring and reporting	NMI	There are mechanisms in place to monitor and report on <i>Economic Action Plan</i> Initiatives.	1

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