

*Canadian Institutes of Health Research*

**Non-Financial Administration of the Operating  
Grants Program**

June 2009

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## **Executive Summary**

### ***Introduction***

The Internal Audit of the Non-Financial Administration of the [Operating Grants Program](#) (OGP) is part of the Risk-Based Annual Internal Audit Plan 2008-2009 approved by the [Canadian Institutes of Health Research](#) (CIHR) Governing Council.

The mandate of CIHR is to excel, according to internationally accepted standards of scientific excellence, in the creation of new knowledge and its translation into improved health for Canadians, more effective health services and products, and a strengthened Canadian health-care system. CIHR's Operating Grants Program provides operating funds to support research proposals in all areas of health research. The program, which supports excellence in research as evaluated through a peer review process, is the foundation of CIHR's programming. Competitions are held each September and March with an open call for investigator-initiated research proposals, with no restrictions on areas of research, team size and composition, or maximum level of requested funds. The program represents CIHR's single largest investment with 2007-2008 disbursements of \$380 million and a 2008-2009 budget of \$378 million, accounting for more than half of CIHR's grants and awards base budget.

### ***Risk Addressed by the Audit***

It is Government of Canada policy to ensure that grant programs are managed with integrity, transparency, and accountability in a manner that is sensitive to risks. The audit addresses the risks that the administration of Operating Grants may not comply with government policy and that grants may be unauthorized, be made to ineligible recipients, be improperly reported to Parliament, and violate the Official Languages Act. The risks relate to the Treasury Board (TB) [Management Accountability Framework](#) (MAF)<sup>1</sup> element of Stewardship, which requires that the departmental control regime (assets, money, people, services, etc.) be integrated and effective, and its underlying principles be clear to all staff.

### ***Objective***

The objective of this audit is to assess the adequacy and effectiveness of internal controls over the non-financial administration of the Operating Grants Program.

### ***Scope***

The audit covers TB policy requirements for departmental responsibility and accountability, approval of terms and conditions, Parliamentary approval and

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<sup>1</sup> The Management Accountability Framework sets out the Treasury Board's expectations of senior public service managers for good public service management.

accountability, eligibility and accountability of recipients, stacking of assistance, official languages, monitoring, and operational goals and objectives for Operating Grants.

### ***Overall Audit Opinion***

The audit has concluded that the internal control framework for the non-financial administration of Operating Grants contains moderate issues: There are control weaknesses, but exposure is limited because either the likelihood or the impact of the risk is not high.

### ***Statement of Assurance***

In my professional judgement as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided in this report. The audit of the non-financial administration of Operating Grants was conducted in accordance with the Federal Government *Policy on Internal Audit* and related professional standards. The audit opinion is based on a comparison of conditions that existed at the time of the audit against established audit criteria that were agreed upon with management. The evidence is sufficient to provide senior management with proof of the opinion.

### ***Summary of Internal Control Strengths***

The following aspects of the non-financial administration of Operating Grants represent strengths.

- CIHR has established policies and procedures to ensure that effective program controls are designed and implemented; due diligence is exercised in the selection and approval of grant recipients and in the management and administration of the program; grants are not made to federal departments; potential recipients of grants meet requirements for eligibility and entitlement set out for the grants program; a reasonable expectation is established that the recipient of grants will use the funds for specified purposes or to meet specified objectives; there is a written agreement between CIHR and recipients of the grants; stacking of assistance is taken into account; and requirements of the Official Languages Act are satisfied.
- CIHR has obtained Treasury Board approval of the terms and conditions for the relevant class of grant recipients.
- CIHR neither increases nor redirects grants to other recipients without the authority of Parliament.
- CIHR assesses, through a formal program evaluation, and reports to Treasury Board on the effectiveness of the grants program when requesting renewal of terms and conditions.
- CIHR informs Parliament about planned grants programs, including stated objectives, expected results and outcomes, and milestones for achievement for the Operating Grants Program.
- CIHR informs Parliament of evidence of results achieved.

- CIHR internal audit plans include a provision for the review of internal management policies, practices, and controls of the grants program. Terms of reference for audits include a determination of whether grants are managed in accordance with TB policy.

### ***Summary of Internal Control Weaknesses***

The following aspects of the non-financial administration of Operating Grants require management's attention.

- In 2007-2008, the Research Portfolio, which administers Operating Grants, conducted a reorganization and identified the positions it needed for delivering its mandate. Although staffing measures taken to fill those positions are sufficient to ensure delivery of Operating Grants in the short-term, the current staff deficit does not enable adequate monitoring, learning, and training that are necessary for sustaining operational effectiveness.
- CIHR needs to establish and report on its achievement of operational goals, objectives, and plans for the Operating Grants Program.
- Some, but not all, relevant CIHR documents communicated to applicants and recipients specify that grant payments are subject to Parliamentary appropriations, as required by policy. The documents are not explicit that the disbursement of the full value of the grant is contingent on Parliamentary appropriations and may be reduced or cancelled if CIHR funding levels are decreased by Parliament.
- CIHR needs to strengthen controls to ensure that current and former public servants and public office holders are in compliance with conflict of interest and post-employment codes as required by policy.
- CIHR needs to define roles and responsibilities for CIHR officials represented on an advisory committee or board established by a recipient in relation to any CIHR grants.

Other, lower-risk findings have been issued in a letter to management's attention.

Internal Audit thanks management and staff for their excellent cooperation in this audit.

*Dev Loyola-Nazareth*  
Chief Audit Executive  
Canadian Institutes of Health Research

## **Detailed Report**

### ***Methodology and Criteria***

The assessment of the adequacy and effectiveness of internal controls over the non-financial administration of Operating Grants was performed through interviews with management and staff at Knowledge Creation Programs (KCP) and Program Planning and Process (PPP) in the Research Portfolio, Financial Operations and Monitoring (Finance), and Human Resources; review of documentation; walkthrough of procedures; identification, definition, and analysis of controls against audit criteria; and testing of a sample of transactions to ensure eligibility criteria are met. The sample was randomly selected from fiscal period 2007-2008. Controls were deemed adequate if they were sufficient to minimize the risks that threatened the achievement of objectives. Controls were effective if they worked as intended.

The audit was conducted between October 2008 and February 2009. Funding agreements entered into before October 1, 2008 remain in effect until their expiry date. Consequently, audit criteria were derived from the Treasury Board (TB) [Policy on Transfer Payments](#) that was in force from June, 1, 2000 to September 30, 2008. The criteria, observations, and recommendations were affirmed for their continued relevance per the new [Policy on Transfer Payments](#) that came into effect on October 1, 2008. Detailed criteria and conclusions are contained in Appendix A to this report.

### ***Observations, Recommendations, and Management Action Plan***

The following are audit observations, recommendations, and management action plan to address internal control weaknesses in the non-financial administration of Operating Grants.

Observation	Recommendation	Management Action Plan
<p><b>1. In 2007-2008, the Research Portfolio conducted its reorganization and identified the positions it needed for delivering its mandate. Although staffing measures taken to fill those positions are sufficient to ensure delivery of Operating Grants in the short-term, the current staff deficit does not enable adequate monitoring, learning, and training that are necessary for sustaining operational effectiveness.</b></p> <p>TB policy and the MAF require that departmental capacity exists to effectively deliver and administer the Operating Grants Program, including monitoring, learning, and training.</p> <p>In 2007-2008, the Research Portfolio was reorganized into its current structure to streamline processes, group similar activities into branches and sections, and establish a baseline for the number and types of positions required to deliver services. The reorganization and related decisions regarding the capacity of each branch and section were determined by Research Portfolio directors and the Subcommittee on Performance Measurement (SPM), informed by external consultants.</p> <p>Two branches were made responsible for Operating Grants – Knowledge Creation Programs (KCP) and Program Planning and Process (PPP). KCP is responsible for the direct delivery of Operating Grants (receiving and reviewing applications, running the Peer Review Committees (PRC), and addressing any issues that arise as part of these processes).</p> <p>PPP is responsible for the infrastructure for service delivery including recruiting PRC members; long-term strategy and planning; program design, development, and policy; training; communications; and documenting, clarifying, revising, publishing, and monitoring the processes that govern the delivery of programs. The activities of PPP affect all three direct delivery branches within CIHR: KCP, Targeted Initiatives, and</p>	<p>It is recommended that the Vice-President, Research ensure staffing within PPP and KCP is sufficient and appropriate for delivering the full range of services for which each branch is responsible.</p>	<p><b>Responsibility:</b> VP, Research</p> <p><b>Action:</b> Staffing in PPP was frozen due to budgetary constraints in FY 2008/09 and there continues to be no operational budget for these positions in FY 2009/10. We have hired one FTE to fill the change control analyst position in Business Process Management (BPM) (April 2009). We have engaged temporary consultants to fill 4 additional positions in BPM and 1 training specialist in Training and Communications to move the implementation of the Standard Operating Procedures project forward for this FY (April 2009-March 2010). The remaining vacant positions within PPP will be prioritized as per the vacancy management process and staffed when operational budget becomes available for them.</p> <p>KCP management believes that its current staff complement (numbers) is sufficient to meet its program delivery requirements. Non essential vacant positions will be removed from the organization chart.</p> <p>Nevertheless, KCP management is conducting an analysis to</p>

Observation	Recommendation	Management Action Plan
<p>Research Capacity Development.</p> <p>a) There is a significant understaffing of key positions within PPP (please see Appendix B). As of March 1, 2009, out of 50 positions in PPP, 15 were vacant (either on leave/secondment or unstaffed) and 8 were filled by staff on an acting or interim basis.</p> <ul style="list-style-type: none"> <li>i. PPP's Business Process Unit, responsible for the Standard Operating Procedures project and monitoring ongoing service delivery, had only 3 of 9 positions staffed. There were vacancies in positions responsible for monitoring ongoing service delivery, providing quality assurance, ensuring due diligence on the part of program delivery staff, and performing change control. Under the new <a href="#"><u>Policy on Transfer Payments</u></a>, the Business Process Unit would also be responsible for the development of service standards that would provide CIHR with essential workload and performance information for operational planning and effectiveness.</li> <li>ii. The Training and Communications Unit had only 1 of 4 training positions filled and was unable to deliver training beyond the immediate needs of upcoming competition cycles.</li> <li>iii. In addition, across PPP, there were 6 vacancies out of 15 positions that support CIHR's ability to identify business process problems and analyze, develop, and redesign policies and procedures.</li> </ul> <p>Without PPP being able to deliver its full range of services, there is a risk that the processes and products of all three service delivery branches will be impaired and go unmonitored, reducing CIHR's ability to excel in accordance with its mandate.</p> <p>b) As of March 1, 2009, out of 50 positions in KCP, 9 were vacant (either on leave/secondment or unstaffed) and 6 were filled by staff on an acting or interim basis. (Please see Appendix C.)</p>		<p>ensure that its organization is designed, with respect to the level of expertise required, to address its current operational challenges.</p> <p><b>Timeline:</b> On-going</p>



Observation	Recommendation	Management Action Plan
KCP has maintained service delivery despite its staff shortage, but the risk remains high that its effectiveness may be impaired over the long-term.		
<b>2. CIHR needs to establish operational goals, objectives, and plans for the Operating Grants Program, as well as criteria to measure progress against these goals and objectives; assess performance against plans; and report on the results to Governing Council.</b>		
The Operating Grants Program, which accounts for more than 50% of CIHR's base grants and awards budget, lacks formal operational goals, objectives, and plans. Formal operational goals, objectives, and plans are needed for the effective implementation of strategic direction provided by Governing Council. They will help prioritize activities and plan for appropriate staffing and resources; measure progress; and report on the status of achievements.	It is recommended that the Director, KCP establish operational goals, objectives, and plans for the Operating Grants Program, including measures for assessing progress, and report on the results to Governing Council.	<p><b>Responsibility:</b> VP, Research</p> <p><b>Action:</b> A Scientific Council (SC) retreat was held in February 2009 to set objectives for the Operating Grants Program. A white paper is being prepared following this retreat to identify options for further SC discussion in June 2009. Implementation of proposed options will begin in 2009/10.</p> <p><b>Timeline:</b> White paper completed by January 2010. Implementation of recommendations to be completed by April 2011.</p>
<b>3. Some, but not all, relevant CIHR documents communicated to applicants and recipients specify that grant payments are subject to Parliamentary appropriations, as required by policy. They are not explicit that the disbursement of the full value of the grant is contingent on Parliamentary appropriations and may be reduced or cancelled if CIHR funding levels are decreased by Parliament.</b>		
<p>Per TB policy, the grants' terms and conditions, program literature, and funding agreements should include provisions for the reduction or cancellation of grants in the event that departmental funding levels are decreased by Parliament.</p> <p>CIHR's Terms and Conditions do not mention Parliamentary appropriations. The Authorization for Funding that is sent to grant recipients, the <a href="#">Tri-Agency Financial Administration Guide</a>, and the <a href="#">funding opportunities details page</a> for the Operating Grants Program state that funds are subject to Parliamentary appropriations, but they do not</p>	It is recommended that the Directors, PPP and KCP ensure that CIHR's program literature clearly explains that funding amounts are contingent on Parliamentary appropriations, and grants may be reduced or cancelled if appropriations are inadequate.	<p><b>Responsibility:</b> Director, PPP</p> <p><b>Action:</b> The following wording is included in every funding opportunity announcement: "CIHR's contribution to the amount available for this initiative is subject to availability of funds voted annually to CIHR by parliamentary appropriations, and the conditions that may be attached to them."</p> <p>Further wording will be</p>

Observation	Recommendation	Management Action Plan
<p>specify that, therefore, grants can be reduced or cancelled in the event of insufficient appropriations. CIHR's <a href="#">Grants and Awards Guide</a> discusses provisions for cancellation based on the build-up of unspent funds, but not as impacted by appropriations. The <a href="#">Memorandum of Understanding on the Roles and Responsibilities in the Management of Federal Grants and Awards</a> discusses parliamentary reporting requirements, but not appropriations. There is a risk, therefore, that recipients of grants may be uninformed that their funds can be reduced or cancelled by Parliament.</p>		<p>included in the funding opportunity details page to specify that grants can be reduced or cancelled in the event of insufficient appropriations.</p> <p><b>Timeline:</b> From December 2009 competition launch</p>
<p><b>4. CIHR needs to strengthen controls to ensure that current and former public servants and public office holders are in compliance with conflict of interest and post-employment codes as required by policy.</b></p>		
<p>TB policy requires that grant recipients respect and comply with the Conflict of Interest and Post-Employment Code for Public Office Holders and the Conflict of Interest and Post-Employment Code for the Public Service.</p> <p>Through its research funding application forms, CIHR informs applicants of the potential for conflicts of interest if they are current or former public servants or public office holders. In addition, it has a process to deal with complaints on the subject that are brought to its attention. However, it does not have a process in place to review applications for employment history, so that program staff proactively flag potential conflicts for follow-up.</p>	<p>It is recommended that the Director, PPP establish and the Director, KCP implement a process to review applications for information on and flag for follow-up potential conflicts of interest for current and former public servants and public office holders.</p>	<p><b>Responsibility:</b> Director, PPP</p> <p><b>Action:</b> PPP will conduct an analysis of the issue and draft procedures to follow-up on problematic files.</p> <p><b>Timeline:</b> Analysis by July 2009 Implementation by March 2010</p>
<p><b>5. CIHR needs to define roles and responsibilities for CIHR officials represented on an advisory committee or board established by a recipient in relation to any CIHR grants.</b></p>		
<p>Per TB policy, CIHR officials represented on an advisory committee or board established by a recipient in relation to a grant provided by CIHR should not be seen to be exercising control on the committee or board or on the use of the funds, and should respect and comply with the Conflict of Interest and Post-Employment Code for Public Office Holders and the Conflict of Interest and Post-Employment Code for the Public Service.</p>	<p>It is recommended that the Chief Financial Officer (CFO) establish roles and responsibilities for CIHR staff members who sit on external committees or boards. The roles and responsibilities should state clearly that staff members are not to</p>	<p><b>Responsibility:</b> CFO</p> <p><b>Action:</b> A memorandum will be issued by the end of June 2009 to all CIHR staff members informing them of the following requirements:</p> <p>If a CIHR staff member is asked to sit on an external committee or board at the request of CIHR,</p>

Observation	Recommendation	Management Action Plan
<p>The lack of clearly defined roles and responsibilities for CIHR staff members who participate on advisory committees or boards established by grant recipients exposes CIHR to a variety of risks:</p> <ul style="list-style-type: none"> <li>• misunderstanding or misperceptions of the purpose and obligations of the staff member;</li> <li>• inappropriate communications or disclosures by the staff member;</li> <li>• influence on the use of grant funds, by the staff member;</li> <li>• potential, perceived, or actual conflicts of interest by the staff member;</li> <li>• potential, perceived, or actual loss of objectivity of the staff member;</li> <li>• potential, perceived, or actual lack of transparency by the staff member; and</li> <li>• public embarrassment and loss of faith within the research community.</li> </ul> <p>While it may be unlikely that a CIHR staff member would be required or requested to attend an advisory committee or board for Operating Grants, such participation has occurred for other types of grants provided by CIHR and, therefore, should be defined for the protection of both CIHR and its staff.</p>	<p>exercise or be seen to exercise control over the committee or board and over the use grant funds, and should respect CIHR's Policy on Conflict of Interest and Confidentiality in the context of Merit, Relevance and Peer Review (<a href="#">CCIP</a>). The roles and responsibilities should be shared with the members of the advisory committee or board as well as the researchers involved.</p>	<p>i.e., the employer, then it is CIHR's responsibility to define the terms of reference that govern the participation of the employee. The terms of reference need to be vetted by the Vice-President whose employee is involved in the external committee or board and be approved by the Chief Financial Officer.</p> <p>If a CIHR employee decides to sit on an external committee or board at her own discretion, she must submit the terms of reference of the committee or board for review by the Chief Financial Officer and disclose any real or apparent conflict of interest to the Chief Financial Officer per existing procedures.</p> <p><b>Timeline:</b> June 2009</p>

## Appendices

### Appendix A – Audit Criteria and Conclusions

The audit uses the following definitions to make its assessment of the internal control framework.

Conclusion on Audit Criteria	Definition of Opinion
Well controlled	Well managed, no material weaknesses noted or only minor improvements are needed.
Moderate issues	Control weaknesses, but exposure is limited because either the likelihood or the impact of the risk is not high.
Significant improvement required	Requires significant improvements in the area of material financial adjustments or control deficiencies represent serious exposure.

#### **Overall Conclusion**

The audit has concluded that the internal control framework for the non-financial administration of Operating Grants contains moderate issues: There are control weaknesses, but exposure is limited because either the likelihood or the impact of the risk is not high.

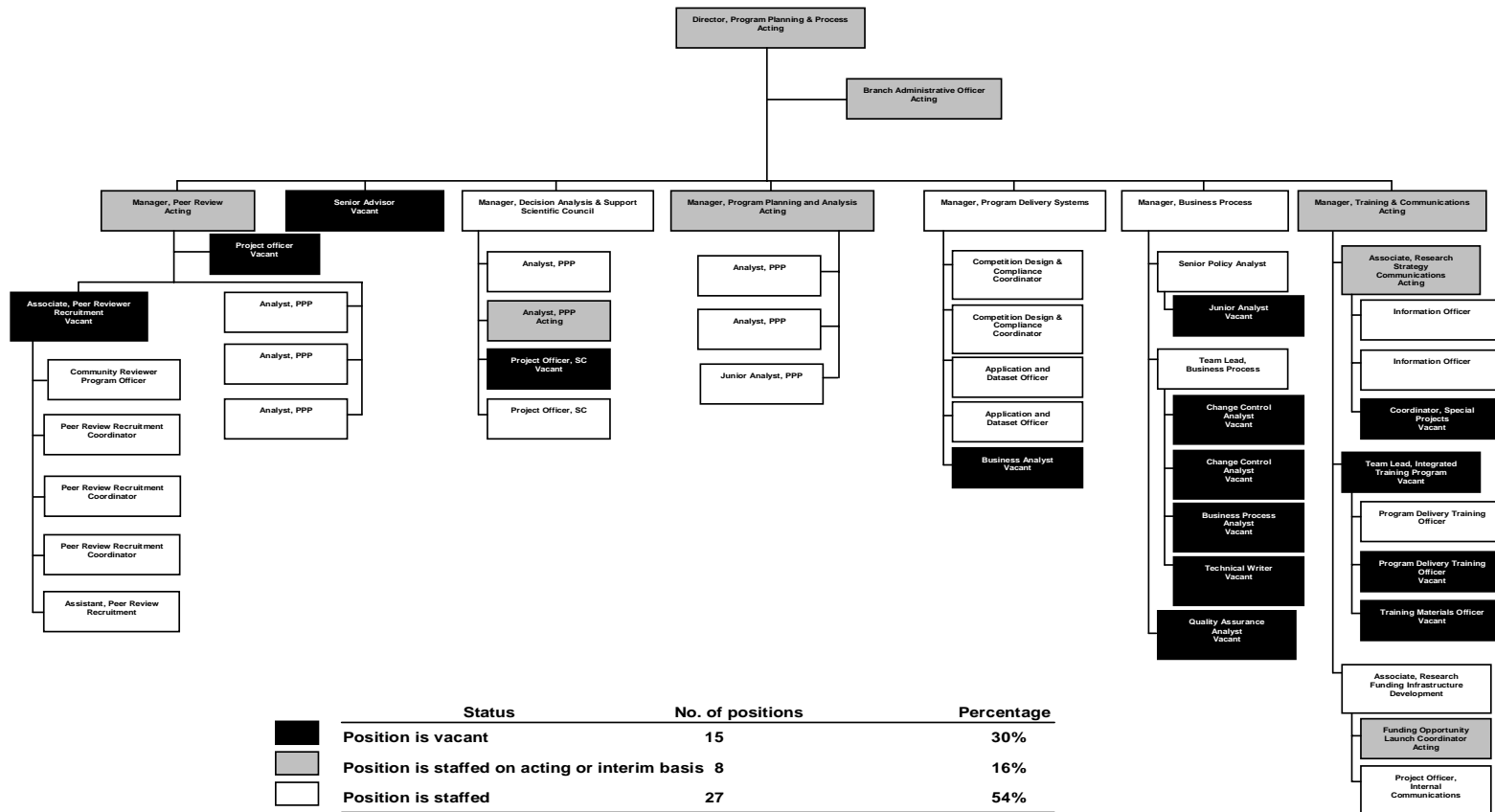
Criteria	Conclusions and Observation #
<b><i>Departmental Responsibility and Accountability</i></b>	
1. CIHR has established policies and procedures to ensure that:	
a. effective program controls are designed and implemented within the Operating Grants Program;	Well controlled
b. due diligence is exercised in the selection and approval of grant recipients and in the management and administration of the program;	Well controlled
c. the senior financial officer in conjunction with senior program managers develops efficient and effective procedures to ensure that payment requests meet the requirements of the policy on account verification relating to section 34 of the Financial Administration Act (FAA);	Well controlled <i>Observation 5 in Management Letter</i>
d. proper program records and other relevant documents are maintained to provide documentary evidence of decisions made; and	Moderate issue <i>Observation 3 in Management Letter</i>
e. departmental capacity exists to effectively deliver and administer the Operating Grants program including monitoring, learning, and training.	Significant improvement required <i>Observation 1 in Report</i>
<b><i>Approval of Terms and Conditions</i></b>	
2. CIHR has obtained Treasury Board approval of the terms and conditions	Well controlled

Criteria	Conclusions and Observation #
for the class of grant recipients.	
3. Terms and conditions, program literature, and agreements include provisions for cancellation or reduction of grants in the event that departmental funding levels are changed by Parliament.	Moderate issue <i>Observation 3 in Report</i>
4. CIHR assesses, through a formal program evaluation or similar review, and reports to Treasury Board on the effectiveness of the grants program when requesting renewal of terms and conditions.	Well controlled
<b><i>Parliamentary Approval and Accountability</i></b> 5. Parliament is informed about planned grants program through the transfer payment tables included in Part II of the Main Estimates or in Supplementary Estimates. The Departmental Report on Plans and Priorities includes supplementary descriptive material, such as stated objectives, expected results and outcomes, and milestones for achievement on the Operating Grants Program.	Well controlled
6. The Estimates contains a list of intended recipients and the specific amounts to be paid to each or a list of classes of grant recipients when it is not possible to list the intended recipients or the specific amount to be paid to each. Grouping of grants into a class is restricted to small payments made to groups of individuals or organizations who meet the eligibility criteria. Where classes are used, the description clearly identifies the intended group of recipients and the nature of the program or purpose of the grant.	Well controlled
7. CIHR does not increase or redirect grants to other recipients without the authority of Parliament.	Well controlled
8. CIHR includes in the Departmental Performance Report evidence of results achieved, related to results commitments and specific planned results in Reports on Plans and Priorities for the grants program.	Well controlled
<b><i>Eligibility</i></b> 9. CIHR has established controls to ensure that:	
a. grants are not made to federal departments;	Well controlled <i>Observation 1 in Management Letter</i>
b. predetermined assessment criteria for applications under classes of grants are made public and applied in a consistent manner;	Moderate issue <i>Observation 2 in Management Letter</i>
c. potential recipients of a class grant meet requirements for eligibility and entitlement set out for the grant program;	Well controlled
d. a reasonable expectation is established that the recipient of a class of grants will use the funds for specified purposes or to meet specified objectives; and	Well controlled
e. recipients respect and comply with the Conflict of Interest and Post-Employment Code for Public Office Holders and the Conflict of Interest and Post-Employment Code for the Public Service.	Moderate issue <i>Observation 4 in Report</i>

Criteria	Conclusions and Observation #
<p><b><i>Accountability of the Recipient</i></b></p> <p>10. There is a written agreement between CIHR and recipients of the grants.</p>	Well controlled
<p>11. CIHR officials represented on an advisory committee or board established by a recipient in relation to an Operating Grant provided by CIHR:</p> <ul style="list-style-type: none"> <li>a. are not seen to be exercising control on the committee or board or on the use of the funds,</li> <li>b. respect and comply with the Conflict of Interest and Post-Employment Code for Public Office Holders and the Conflict of Interest and Post-Employment Code for the Public Service.</li> </ul>	Moderate issue <i>Observation 5 in Report</i>
<p><b><i>Stacking of Assistance</i></b></p> <p>12. CIHR obtains a statement from a potential recipient about other sources of proposed funding for a project, either through information on application forms or other suitable means, prior to providing a grant in excess of \$100,000.</p> <p>13. For grants in excess of \$100,000, CIHR ensures that the amount of the grant it makes is appropriate where a project is anticipated to receive a grant and/or a contribution from more than one program in a department, from more than one department or more than one level of government. CIHR takes into account the other sources of funds (which includes private sector contributions), including the expectation that the recipient must contribute its own funds towards the eligible cost of the project. Provision for repayment is to be included in the agreements covering the grant in case more funding of this nature is provided from federal, provincial, and municipal sources than was anticipated.</p> <p>14. CIHR considers specific limits to the Total Government Assistance, (e.g., 50% of eligible project costs) in developing and proposing Terms and Conditions for the grants program.</p>	Well controlled
<p><b><i>Official Languages</i></b></p> <p>15. When grants support activities that benefit both official language communities, CIHR ensures that their design and delivery respect the obligations of the Government of Canada as set out in Part VII of the Official Languages Act and that services and benefits are made available in both official languages in compliance with the Official Languages Act.</p>	Well controlled
<p><b><i>Monitoring</i></b></p> <p>16. CIHR internal audit plans include a provision for the review of internal management policies, practices, and controls of the grants program. Terms of reference for audits include a determination of whether grants are managed in accordance with TB policy.</p>	Well controlled
<p><b><i>Operational Goals and Objectives</i></b></p> <p>17. For the Operating Grants Program, CIHR has</p> <ul style="list-style-type: none"> <li>a. established operational goals and objectives;</li> <li>b. established adequate criteria to determine whether operational goals and objectives have been achieved; and</li> <li>c. measured operational results against established goals and objectives and reported the results to Governing Council periodically.</li> </ul>	Significant improvement required <i>Observation 2 in Report</i>

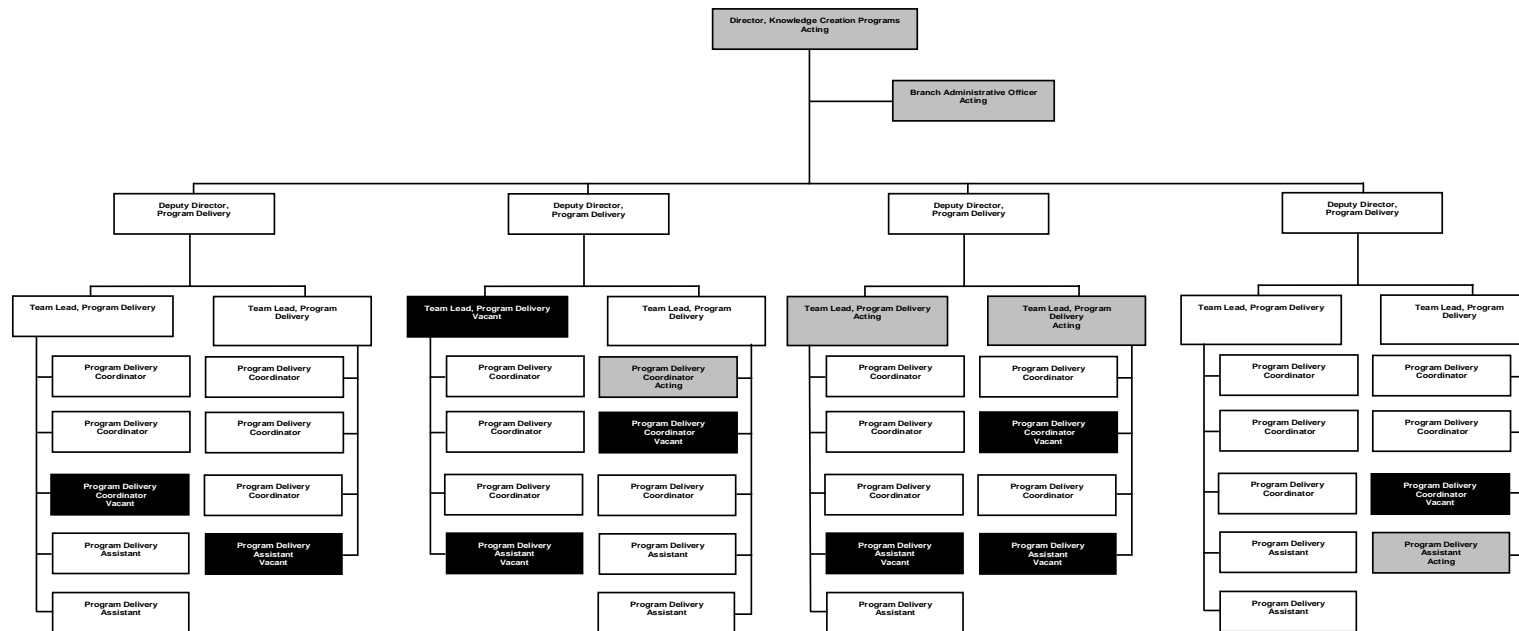
## Appendix B – Staffing of Program Planning and Process




As of March 1, 2009



## Appendix C – Staffing of Knowledge Creation Programs

As of March 1, 2009



Status	No. of positions	Percentage
 Position is vacant	9	18%
 Position is staffed on acting or interim basis	6	12%
 Position is staffed	35	70%
<b>Total</b>	<b>50</b>	<b>100%</b>