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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

NOVEMBER

**Chapter 10**  
Award and Management of  
a Health Benefits Contract—  
Public Works and Government  
Services Canada and Health Canada



Office of the Auditor General of Canada

*The November 2006 Report of the Auditor General of Canada comprises Matters of Special Importance—2006, Main Points—Chapters 1 to 12, Appendices, An Overview of the Federal Government's Expenditure Management System, and 12 chapters. The main table of contents is found at the end of this publication.*

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Chapter

# 10

**Award and Management of a Health  
Benefits Contract**

Public Works and Government Services  
Canada and Health Canada

*All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

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# Award and Management of a Health Benefits Contract

## Public Works and Government Services Canada and Health Canada

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### Main Points

#### What we examined

Health Canada is responsible for providing non-insured health benefits such as drugs and medical supplies to eligible First Nations people and Inuit. In 1997, Public Works and Government Services Canada (PWGSC) awarded a contract to First Canadian Health Management Corporation Inc. to provide claim processing services for Health Canada's Non-Insured Health Benefits (NIHB) program. We looked at whether PWGSC complied with the government's contracting policy when it awarded the contract and whether Health Canada exercised adequate control over public funds spent on the program.

We did not audit claimants' eligibility for the program because we had concluded in an earlier audit (November 2004 Report, Chapter 4, Management of Federal Drug Benefit Programs) that Health Canada had an adequate process to confirm the eligibility of clients and the validity of the drug benefits before approving payments. During that audit, the government's contract with First Canadian Health Management Corporation Inc. came to our attention and we decided to audit the contract the following year.

The reporting of this audit, originally scheduled for April 2006, was deferred because of changes in the parliamentary calendar as a result of the federal election. To update our observations, in August 2006 we obtained information from both organizations on any action they may have taken to address the observations and recommendations in this chapter. We have provided that information at the end of the chapter under **Subsequent Events**.

Our conclusions about contract management practices and actions refer only to public servants and not to any actions by the contractor. The rules and regulations we refer to apply to public servants; they do not apply to contractors. We did not audit the records of the contractor.

#### Why it's important

From the start of the contract in 1998 until January 2006, Health Canada spent about \$104 million on fees to process claims for about \$2.6 billion worth of drugs and dental and medical supplies and

equipment delivered to eligible First Nations people and Inuit. Given the importance of the goods and services being provided, as well as the cost of delivering them, it is essential that in contracting for these services, officials at PWGSC and Health Canada protect the interests of the Crown by ensuring that they comply with applicable acts and regulations, including sections 32, 33, and 34 of the *Financial Administration Act*. These sections ensure that the money to pay for the services is available (s 32), that the charge is lawful (s 33), and that the government received what it paid for (s 34).

### What we found

- PWGSC could not demonstrate that any of the bidders for the contract had provided evidence of financial stability, even though it was one of the mandatory requirements. Therefore, PWGSC should not have awarded the contract to any of the bidders.
- From 1998 to January 2006, Health Canada did not comply with provisions of the *Financial Administration Act* by making payments of about \$2.6 billion to First Canadian Health Management Corporation Inc. (FCH) without the certification required under sections 33 and 34 of the Act.
- Between 1998 and 2003, Health Canada annually tracked payments made to FCH for processing claims. However, it did not track the payments cumulatively over the life of the contract, as section 32 of the *Financial Administration Act* requires. Although the services Health Canada paid for were delivered, payments exceeded the initial value of the contract by \$24 million. Since 2003, Health Canada has been tracking payments on a multi-year basis in compliance with section 32 of the Act.
- Our audit work to update our observations found that PWGSC and Health Canada have resolved the contract management issues raised in this chapter. Nonetheless, our mandate requires that we bring to Parliament's attention any matters whose nature and significance warrants it. We are reporting these issues because of their seriousness and the length of time during which some basic financial management controls relating to this contract were lacking.

**The departments have responded.** PWGSC and Health Canada responded positively to our recommendations and have taken corrective actions. Their responses are included in this chapter.



## Introduction

### Importance of the contract

**10.1** In 1997, PWGSC awarded a contract to First Canadian Health Management Corporation Inc. (FCH) to provide claim processing services for Health Canada's Non-Insured Health Benefits (NIHB) program. PWGSC had to seek the Treasury Board's approval to carry out this procurement, as the value of the contract exceeded PWGSC's approval authority. The contract was valued at \$45.7 million for the first five years, with two two-year renewable options. The first option was valued at \$14.8 million and the second was valued at \$14.4 million, for a total of \$74.9 million over nine years. Due to the increasing volume of claims, the total value of the contract was increased in March 2004 to \$161.4 million over the nine-year period.

**10.2** The NIHB program provides medically necessary health-related goods and services not covered by other provincial, territorial, or third-party insurance plans to about 765,000 eligible First Nations people and Inuit. Goods and services include drugs and dental and medical supplies and equipment.

**10.3** Health Canada makes two types of payments to the contractor for the delivery of the NIHB program. The Department pays a processing fee for each claim that service providers submit to FCH. The processing fees have totalled about \$104 million since the beginning of the contract to January 2006. The Department also pays the contractor to reimburse service providers for the medically necessary health-related goods and services that they provided to eligible First Nations people and Inuit. Since the beginning of the contract until January 2006, the total costs for the goods and services have been about \$2.6 billion.

### Past internal audits

**10.4** By June 2003, PWGSC was aware that the FCH contract, scheduled to end in November 2003, had exceeded its original value. As a result, at the direct request of the Deputy Minister, PWGSC completed an internal audit of the contract in 2004. The audit focused on procurement and management practices from the time of requisition in 1996 to December 2003. It included a review of key procurement and contract administration documents from PWGSC's records. The audit report has been posted on the Department's website.

**10.5** Between 2003 and 2005, Health Canada’s internal audit group conducted a series of reviews of the contract. The internal audit group was acting in an advisory capacity at the direct request of the First Nations and Inuit Health Branch. The reviews focused on a number of key contract management areas that were the sole responsibility of Health Canada as the project authority for the contract. However, the reports were not posted on the Department’s website.

**10.6** In response to the findings identified in PWGSC’s internal audit and Health Canada’s reviews, both departments developed action plans to resolve problems identified in their reports. We assessed their action plans and concluded that both departments had implemented most of the initiatives outlined in their action plans and that the initiatives addressed the identified problems. Management in both departments are implementing the remaining initiatives.

#### **Focus of the audit**

**10.7** Our objective was to determine whether

- Public Works and Government Services Canada awarded the contract to First Canadian Health Management Corporation Inc. in accordance with the Treasury Board Contracting Policy, and
- Health Canada complied with relevant authorities and exercised adequate control over public funds spent.

**10.8** We examined issues that internal audit groups in both departments had identified, including

- compliance with section 34 of the *Financial Administration Act* (FAA) for the payment of claim processing fees to the contractor,
- implementation of the cost adjustment formula, and
- compliance with the Treasury Board Aboriginal Business Procurement Policy and Incentives.

**10.9** We also examined some issues that were beyond the scope of the work carried out by the two departmental internal audit groups, including

- awarding of the contract,
- compliance with sections 33 and 34 of the FAA for the payment of medically necessary health-related goods and services,

- clarity of the Delegation of Financial Signing Authorities document at Health Canada for the payment of medically necessary health-related goods and services, and
- compliance with sections 32 and 34 of the FAA for the payment of claim processing fees.

**10.10** More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

## Observations and Recommendations

### Awarding the contract

#### **None of the bidders met a mandatory requirement, yet PWGSC awarded the contract**

**10.11** We expected PWGSC to have complied with the Treasury Board Contracting Policy when awarding the contract to First Canadian Health Management Corporation Inc. (FCH). This includes ensuring that bids met all the mandatory requirements, and establishing and structuring procurement files, with a complete audit trail. This facilitates management oversight, particularly in the event of a financial review, subsequent legal action, or an official complaint.

**10.12** As the contracting authority, PWGSC is responsible for ensuring that the evaluation of the proposals is conducted according to specified criteria. In this case, there were six mandatory requirements that all bidders had to meet to be considered eligible for selection (Exhibit 10.1).

**10.13** One of the mandatory requirements for bidding companies was to provide evidence of their financial stability and current financial position. To meet this requirement, companies were to provide an opening balance sheet, interim financial statements, certification of their sources of working capital, and a listing of all shareholders or owners.

**10.14** We believe that the certification of sources of working capital is critical, especially for a newly formed company such as FCH. Working capital demonstrates the amount of assets the company has available to meet its short-term obligations (Exhibit 10.2). PWGSC needed to ensure that the winning bid was financially stable to avoid a potential disruption of service.

**10.15** We expected to find supporting evidence on file that demonstrated that the winning bid met the mandatory requirements. PWGSC concluded that four bids met the mandatory requirements. However, the PWGSC file lacked the documents to support this

conclusion. The file did not contain certifications of the organizations' sources of working capital to demonstrate financial stability. We concluded that, without certification of sources of working capital, none of the bids met the mandatory requirement related to financial stability; therefore, PWGSC should not have awarded the contract to any of the four bidders. According to PWGSC's Supply Manual, if all bids fail to meet any of the mandatory requirements, the bidding process must be cancelled.

**10.16** PWGSC informed us that since an independent eight-member Technical Evaluation Team had done an evaluation of the four bids and the Department's Legal Services had also reviewed and signed off on this file, the Department believed that it had exercised due diligence in awarding the contract. However, it acknowledged that its files did not contain complete documentation on the decision-making process followed in justifying the award of the contract. Consequently, PWGSC has not been able to provide evidence that one mandatory requirement was met.

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**Exhibit 10.1 Mandatory requirements for the contract**

1. Sign and submit the first page of the Request for Proposal (RFP) document to acknowledge acceptance of and compliance with all provisions set out in the RFP.
2. Sign a certification that demonstrates compliance with the Aboriginal Business Procurement Policy and Incentives.
3. Be a financially stable legal entity that is currently in a sound financial position. Specifically, have
  - a. an opening balance sheet on commencement of business,
  - b. internal interim financial statements (balance sheet and income statement),
  - c. details of sources of working capital to cover any future 90-day period of the company's total operating costs (this must include certification from a professional accountant), and
  - d. listings of all shareholders or owners.
4. Have experience, within the last five years, providing automated health information and claim processing systems (or specify corporate relationships that meet this experience requirement).  
  
Bidders must provide three verifiable references demonstrating that their company meets this experience requirement.
5. Complete and submit the Mandatory Service Requirement Certification form.
6. Complete and submit the Personnel Certification form.

Source: Health Canada—Non-Insured Health Benefits program, Health Information and Claims Processing System, Statement of Requirements, 1997.

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**Exhibit 10.2 Financial information requirements related to financial stability**

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Each bidder must provide details of sources of working capital to cover any future 90-day period of the company's total operating costs. This must include certification from a professional accountant (chartered accountant, certified management accountant, or certified general accountant) describing the sources of working capital and a breakdown of expenditures for any such 90-day period. This breakdown should include, as a minimum, salaries, fringe benefits, rent, office supplies, advertising, and other costs.

An explanation of the financing sources for these expenditures must also be provided, covering the above-referenced 90-day period. Information required includes existing cash balances and current working capital and/or value of current line of credit less any draw-downs.

A letter of credit from the company's financial institution may also be included as additional information.

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Source: Health Canada—Adapted from Appendix 18 – Financial Information Requirements (Non-Insured Health Benefits program, Health Information and Claims Processing System, Statement of Requirements)

**10.17** In our view, the Department's activities to justify awarding the contract are not a replacement for meeting the mandatory requirements, and therefore the contract should not have been awarded to any of the bidders.

**10.18** The current contract will expire in November 2007. This means that PWGSC will be posting a competitive Request for Proposal for claim processing services in the near future.

**10.19 Recommendation.** In awarding the next contract, Public Works and Government Services Canada should comply with the Treasury Board Contracting Policy and ensure that the successful bid meets all the mandatory requirements.

**Public Works and Government Services Canada's response.** Public Works and Government Services Canada (PWGSC) agrees with this recommendation and will ensure that all contracts awarded comply with the Treasury Board Contracting Policy, including the requirement that successful bidders meet all mandatory requirements.

Since 1997, the rules to determine the extent of maintaining relevant documentation have been strengthened. In 2002, as a result of a Canadian International Trade Tribunal recommendation, PWGSC amended its procedures to ensure that complete documentation is maintained for each procurement.

## Managing the contract

### **Health Canada and PWGSC did not implement two terms and conditions of the contract**

**10.20** We expected Health Canada and PWGSC to ensure that all terms and conditions of the contract were met throughout the life of the contract and that the interests of the parties were protected.

#### **10.21 Health Canada did not apply the cost adjustment formula.**

The contract contained a provision to adjust the processing costs per claim if the volume of transactions reached a certain threshold above or below what was originally set out in the contract. If the number of claims per year exceeded the original threshold, a formula would be applied to reduce the processing costs for each claim. If the number of claims per year fell below the original threshold, the formula would be applied to increase the processing costs for each claim.

**10.22** For the first five years of the contract, the volume of transactions reached a threshold above what was originally set out in the contract. However, the formula to reduce the processing costs for each claim was not applied. As a result, Health Canada paid the contractor \$4 million in unnecessary fees between 1999 and 2004. In an amendment to the contract in August 2004, the contractor and the Crown agreed, as part of contract negotiations, not to apply the formula either retroactively or for the duration of the contract period.

#### **10.23 PWGSC does not know whether the FCH contract complies with the Aboriginal Business Procurement Policy and Incentives.**

Complying with the Treasury Board's Aboriginal Business Procurement Policy and Incentives is a mandatory requirement of the FCH contract. The policy requires that, where certain contracting requirements and conditions can be assured, contracts over \$5,000 and for which Aboriginal populations are the primary recipients be restricted to qualified Aboriginal business suppliers. A business is deemed eligible under the requirements of the policy if it meets the following conditions:

- Any company bidding on a contract must be at least 51 percent Aboriginal owned and controlled.
- The business, if it employs more than five full-time employees, must be staffed with at least 33 percent of Aboriginal workers.
- At least 33 percent of the work done under the contract must be performed by an Aboriginal business.

**10.24** Before PWGSC awarded the contract, Indian and Northern Affairs Canada carried out audits to determine whether three companies' bids had met the requirements of the Aboriginal Business Procurement Policy and Incentives. The audits concluded that the three bidders had met the requirement for the Aboriginal ownership component. However, at the time of the audits, the companies had not hired any employees. Because of this, the audits recommended that a post-award audit of the successful bidder be performed once the firm had had a reasonable period of time to establish operations and determine whether the remaining requirements of the Aboriginal Business Procurement Policy and Incentives had been met.

**10.25** PWGSC awarded the contract in 1997. In February 2005, as a result of the PWGSC internal audit report, the Department asked Indian and Northern Affairs Canada to conduct an audit, to determine whether FCH was complying with the requirements of the Aboriginal Business Procurement Policy and Incentives. The audit has not yet been completed and, in January 2006, the Crown had not received assurance that the contractor is complying with the requirements of the policy.

**Health Canada did not comply with some requirements of the *Financial Administration Act* for goods and services payments**

**Consolidated Revenue Fund**—The general pool of income of the federal government. All money received by the federal government must be credited to this fund and properly accounted for.

**10.26** Public servants are expected to take appropriate steps to ensure that they discharge their responsibilities with prudence. The *Financial Administration Act* sets out precise conditions that govern payments out of the **Consolidated Revenue Fund** (Exhibit 10.3).

**10.27** We expected Health Canada to take the appropriate steps to ensure that it complied with relevant authorities when making payments to the contractor for medically necessary health-related goods and services covered under the Non-Insured Health Benefits program.

**Exhibit 10.3 Requirements of the *Financial Administration Act* for payments**

**Sufficient funds are available.** Departments must ensure that their total spending does not exceed the amount approved (appropriated) for their program by Parliament (section 32).

**The charge is lawful.** An authorized departmental official must confirm that the expense is a lawful charge against the appropriation (including assurance that value has been received) before requisitioning or releasing payment (section 33).

**Value has been received.** Before a payment is made for goods or services received, the responsible departmental official must certify that the performance of the work, the supply of the goods, or the rendering of services were in accordance with the terms and conditions of the contract and that the price charged is in accordance with the contract, or in the absence of a contract, is reasonable (section 34).

**10.28** Beginning in 1998, Health Canada has sent letters to the Receiver General of Canada giving authorization to make payments to FCH pursuant to section 33 of the *Financial Administration Act*. The funds are paid to FCH and are used to reimburse service providers for the value of the drugs and dental and medical supplies and equipment that have been provided to eligible First Nations people and Inuit under Health Canada's Non-Insured Health Benefits program. Funds of about \$15 million are transferred twice a month.

**10.29** Although the Receiver General of Canada makes the payments, Health Canada is responsible for ensuring that the requirements of sections 33 and 34 of the *Financial Administration Act* are met because it is the department under which Parliament has appropriated money for the Non-Insured Health Benefits program. We found that since the beginning of the contract, Health Canada has not complied with sections 33 and 34 of the Act.

**10.30** Every payment out of the Consolidated Revenue Fund must be accompanied by an authorized signature (certification) under section 34 of the *Financial Administration Act*. We found that in the letters sent to the Receiver General of Canada from 1998 until 2002, Health Canada certified under section 34 once prospectively for the entire year. The Department did not certify each requisition for payment to FCH. We also found that from 2003 to 2006, Health Canada did not certify under section 34 for any of the payments made for the medically necessary health-related goods and services covered under the NIHB program. In both instances, Health Canada either improperly certified under section 34 or did not certify at all. Thus, the Department did not comply with section 34 of the *Financial Administration Act* from 1998 until January 2006.

**10.31** Part of the section 34 certification includes verification procedures to ensure that goods and services have been rendered and that the price charged agrees with a contract or is reasonable. We observed that since the beginning of the contract, program officials at Health Canada have carried out some verification work for the payment of medically necessary health-related goods and services under the NIHB program. This verification work includes audits of service providers to ensure that the NIHB program pays for only approved benefits to eligible clients.

**10.32** In late 2005, the Department began to develop a payment reconciliation process to ensure that the amounts invoiced by FCH are supported. We did not assess the effectiveness of this process because of its recent development. However, we encourage Health Canada to



continue strengthening its verification procedures for payments to the contractor for medically necessary health-related goods and services. While this verification work is important, it is also essential for the Department to properly certify under section 34 of the FAA.

**10.33** Section 33 of the FAA represents the authority of financial officers in a department to requisition payments and charge them against departmental appropriations. The Treasury Board's Policy on Payment Requisitioning and Payment on Due Date states:

Payment authority must not be exercised before the requisition has been duly certified either in writing or electronically, pursuant to section 34 of the FAA, by a person properly authorized to do so. The payment officer must have adequate assurance that the section 34 certification has been provided.

**10.34** Although Health Canada has done some verification work for these payments since the beginning of the contract, the work is not sufficient to authorize and release payments out of the Consolidated Revenue Fund. In the absence of proper certification under section 34 of the FAA, payment authority should not have been exercised pursuant to section 33 of the FAA. This means that from 1998 until January 2006, the Department released payments for medically necessary health-related goods and services without the proper authorization under sections 33 and 34 of the *Financial Administration Act*. Therefore, Health Canada did not have authorization to make payments out of the Consolidated Revenue Fund that amount to about \$2.6 billion as of January 2006.

**10.35** Health Canada informed us that given the various financial controls in place, including the extensive NIHB provider audit program and the verification work being conducted, it has assurance that payments were made for eligible goods and services covered under the NIHB program. However the Department recognizes that the financial controls currently in place need to be improved to comply with sections 33 and 34 of the FAA.

**10.36 Recommendation.** Health Canada should comply with sections 33 and 34 of the *Financial Administration Act* for the payment of medically necessary health-related goods and services under the Non-Insured Health Benefits program.

**Health Canada's response.** Health Canada agrees to take all steps necessary to ensure that all requirements of sections 33 and 34 of the *Financial Administration Act* are met.

### **Health Canada does not have a clear Delegation of Financial Signing Authorities document for approving goods and services payments**

**10.37** Health Canada's Delegation of Financial Signing Authorities document, effective October 2004, indicates that the program officer has authority to approve payments up to \$5 million. The document also states:

Exceptions to the financial signing authority limits may be dealt with on an exceptional basis with the recommendation of the Branch Head/Regional Director General and the approval of the Deputy Minister. For example, payments to First Canadian Health can be approved by the delegated Director or Director General even when these payments exceed their delegated financial authority (...)

**10.38** Based on how FCH payments were referred to in the Delegation of Financial Signing Authorities document and that bi-monthly payments of about \$15 million were well above the \$5-million limit delegated to program officials, we expected to find the following:

- a dollar limit for the program officials signing under section 34 of the *Financial Administration Act*, and
- an approval by the Deputy Minister to increase the signing authority of the program officials for these exceptional payments to FCH.

**10.39** We did not find either the dollar limit or the approval by the Deputy Minister. Health Canada officials told us that they believed the delegation was correct and that the Deputy Minister's approval of the document itself was the authority necessary for making these exceptional payments to FCH. However, in our view, the wording of the document was not sufficiently clear to avoid differing interpretations.

**10.40 Recommendation.** Health Canada should modify its Delegation of Financial Signing Authorities document for the First Canadian Health Management Corporation Inc. contract to ensure that the delegated authority to officials signing under section 34 of the *Financial Administration Act* for the payment of medically necessary health-related goods and services is sufficiently clear.

**Health Canada's response.** Health Canada agrees and will clarify the wording in the Delegation of Financial Signing Authorities document pertaining to the delegated authority of officials approving the payment of medically necessary health-related goods and services.

**Health Canada did not comply with some requirements of the *Financial Administration Act* for claim processing payments**

**10.41 Section 32 of the *Financial Administration Act*.** Section 32 (2) of the FAA requires departments to establish procedures and maintain records for the control of financial commitments chargeable to each appropriation or item. We found that Health Canada did not track commitments and expenditures on a multi-year basis, which resulted in the Department making payments that exceeded the value of the contract. By 2002, after only four years into the contract, the Department had exceeded the full value of the five-year contract.

**10.42** However, it was not until June 2003 that Health Canada and PWGSC officials became aware that expenditures had exceeded the original contract value by \$16 million. At the end of the original contract period, 30 November 2003, Health Canada had spent \$24 million more than the contract value.

**10.43** Health Canada has now taken steps to track expenditures against the value of the contract. Since June 2003, program officers at the Department have been tracking expenditures to ensure that funds are available for the contract before releasing payments. Thus, the Department has been complying with section 32 (2) of the FAA for the FCH contract.

**10.44 Section 34 of the *Financial Administration Act*.** Under section 34 of the FAA, program officers may only approve invoices for payment after ensuring that the goods and services were received and that the price agrees with the contract. We selected a random sample of 154 invoices over seven years to check whether there was adequate documentation to support the volume of claims processed by FCH. We found that all the files contained the certification required under section 34; however, 22 of the 154 invoices had no documentation to support the volume of claims processed. The value of these 22 invoices totalled \$5.5 million. For these invoices, it is unclear how Health Canada officials certifying under section 34 obtained assurance that the contractor had invoiced the Department for the correct amounts.

**10.45** Health Canada became aware of this situation in December 2003 through an internal review and took steps to strengthen the procedures for complying with section 34. From our sample, we noted that, since 2004, invoices have been accompanied by documentation that supports the payments. Thus, since 2004, Health Canada has complied with section 34 of the FAA for this contract.

## Conclusion

**10.46** Government policies for contracting and financial management are designed to ensure that government contracting is a transparent and fair process and that prudence and probity are evident in the use of public funds.

**10.47** We found that Public Works and Government Services Canada should not have awarded the contract to any of the bidders. Further, PWGSC officials did not always discharge their responsibilities for this contract in accordance with the Treasury Board Contracting Policy.

**10.48** PWGSC has taken steps to deal with the issues brought to management's attention as a result of its internal audit report. However, it still needs to address some issues. It needs to obtain assurance that the contractor is complying with the requirements of the Treasury Board Aboriginal Business Procurement Policy and Incentives. In addition, in awarding the next contract, the Department needs to comply with the Treasury Board Contracting Policy.

**10.49** Health Canada has also taken corrective action to address the issues identified in its internal reviews. However, some issues still need attention. Health Canada does not properly certify before releasing payments out of the Consolidated Revenue Fund for the payment of medically necessary health-related goods and services, as required by sections 33 and 34 of the *Financial Administration Act*. Health Canada's non-compliance with sections 33 and 34 of the FAA meant that from 1998 until January 2006, the Department paid FCH about \$2.6 billion out of the Consolidated Revenue Fund without the proper authorization.

**10.50** Furthermore, Health Canada needs to review its Delegation of Financial Signing Authorities document to ensure that the delegated authority to officials signing under section 34 of the FAA for the payment of medically necessary health-related goods and services is sufficiently clear.

**10.51** Both departments need to give greater attention to ensuring that departmental officials comply with these relevant authorities.

## Subsequent Events

**10.52** The tabling of this report was delayed from April 2006 until November 2006 because of changes in the parliamentary calendar as a result of the federal election. We completed the audit fieldwork on 31 January 2006. We conducted additional audit work to update our observations to 1 September 2006. The objective of this additional work was to determine whether Public Works and Government Services Canada (PWGSC) and Health Canada had taken appropriate steps to address issues related to the management of the First Canadian Health Management Corporation Inc. (FCH) contract.

**10.53** We examined whether

- PWGSC ensured that the contractor met the Aboriginal Business Procurement Policy and Incentives,
- Health Canada is complying with sections 33 and 34 of the *Financial Administration Act* when making payments for the medically necessary health-related goods and services, and
- Health Canada modified its Delegation of Financial Signing Authorities document to ensure that the delegated authority to officials signing under section 34 of the *Financial Administration Act* for the contract is sufficiently clear.

**10.54** In March 2006, Indian and Northern Affairs Canada completed the post-award audit requested by PWGSC to determine whether FCH had complied with the Aboriginal Business Procurement Policy and Incentives. The audit report concluded that FCH met the criteria of the policy and we concur with this conclusion. Therefore, we conclude that seven years after the beginning of the contract, PWGSC has assurance that the contractor is complying with the requirements of the policy.

**10.55** We found that since 1 April 2006, Health Canada is complying with sections 33 and 34 of the *Financial Administration Act* for the payment of medically necessary health-related goods and services. Officials are certifying under sections 33 and 34 on each requisition for payment rather than certifying once prospectively at the beginning of each year. We conclude that after seven years into the contract, the Department is now properly authorizing the payments out of the Consolidated Revenue Fund.

**10.56** Effective July 2006, Health Canada has a new Delegation of Financial Signing Authorities Document. We found that the Minister clearly delegates signing authority, with a dollar limit, to program

officials certifying under section 34 of the *Financial Administration Act* for the payment of medically necessary health-related goods and services.

**10.57** We noted that, on 1 September 2006, Health Canada's internal audit group posted on the Department's website the summary review of the FCH contract that was completed in 2005.

**10.58** We conclude that PWGSC and Health Canada have resolved the issues that we brought to their attention in January 2006. We believe that these observations need to be brought to the attention of parliamentarians because of the seriousness of the issues raised and the length of time that some basic financial controls related to this contract were lacking.

## About the Audit

### Objective

Our objective was to determine whether

- Public Works and Government Services Canada (PWGSC) awarded the contract to First Canadian Health Management Corporation Inc. (FCH) in accordance with the Treasury Board Contracting Policy, and
- Health Canada complied with relevant authorities and exercised adequate control over public funds spent.

### Scope and approach

We examined the procurement process that PWGSC used for awarding the contract as well as Health Canada's management of the contract over a seven-year period (1999–2006). As part of our audit work, we examined relevant documentation related to the contract, such as the Request for Proposal, the Statement of Requirements, and the contract amendments. To help determine whether Health Canada managed the contract effectively, we selected a random sample of 154 invoices for claim processing fees charged by the contractor from 1999 until 2005. We examined the invoices to ensure that the payments were in accordance with the terms and conditions of the contract and that Health Canada had in place the appropriate financial controls to ensure compliance with the *Financial Administration Act*.

### Criteria

We expected that Public Works and Government Services Canada would ensure compliance with the Treasury Board Contracting Policy and with the Aboriginal Business Procurement Policy and Incentives.

We expected that Health Canada would ensure that

- sufficient funds were committed to cover payments to FCH,
- services rendered and the price charged were according to the FCH contract, and
- the requisitions for payments for the FCH contract complied with relevant authorities.

### Audit work completed

We completed the audit fieldwork on 31 January 2006. Since then, we have carried out audit procedures to update our observations up until 1 September 2006. The audit observations and findings as a result of the update are presented in **Subsequent Events** at the end of the chapter.

**Audit team**

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## Appendix List of recommendations

The following is a list of recommendations found in Chapter 10. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Departments' responses
<b>Awarding the contract</b>	
<p><b>10.19</b> In awarding the next contract, Public Works and Government Services Canada should comply with the Treasury Board Contracting Policy and ensure that the successful bid meets all the mandatory requirements. (10.11–10.18)</p>	<p><b>Public Works and Government Services Canada's response.</b> Public Works and Government Services Canada (PWGSC) agrees with this recommendation and will ensure that all contracts awarded comply with the Treasury Board Contracting Policy, including the requirement that successful bidders meet all mandatory requirements.</p> <p>Since 1997, the rules to determine the extent of maintaining relevant documentation have been strengthened. In 2002, as a result of a Canadian International Trade Tribunal recommendation, PWGSC amended its procedures to ensure that complete documentation is maintained for each procurement.</p>
<b>Managing the contract</b>	
<p><b>10.36</b> Health Canada should comply with sections 33 and 34 of the <i>Financial Administration Act</i> for the payment of medically necessary health-related goods and services under the Non-Insured Health Benefits program. (10.26–10.35)</p>	<p><b>Health Canada's response.</b> Health Canada agrees to take all steps necessary to ensure that all requirements of sections 33 and 34 of the <i>Financial Administration Act</i> are met.</p>
<p><b>10.40</b> Health Canada should modify its Delegation of Financial Signing Authorities document for the First Canadian Health Management Corporation Inc. contract to ensure that the delegated authority to officials signing under section 34 of the <i>Financial Administration Act</i> for the payment of medically necessary health-related goods and services is sufficiently clear. (10.37–10.39)</p>	<p><b>Health Canada's response.</b> Health Canada agrees and will clarify the wording in the Delegation of Financial Signing Authorities document pertaining to the delegated authority of officials approving the payment of medically necessary health-related goods and services.</p>



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