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**Report on Regional Financial Control Framework –  
North Region**

**Ministry of Children and Family Development**

**Distribution**

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**Internal Audit & Advisory Services  
Office of the Comptroller General  
Ministry of Finance**

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## Glossary

ARCS	Administrative Records Classification System
CFD	Children and Family Development
CIC	Child-in-Care
CLS	Community Living Services
CSM	Community Service Managers
EPDP's	Employee Performance and Development Plans
FTE	full-time equivalent
HQ	Headquarters
IAAS	Internal Audit & Advisory Services
INAC	Indian and Northern Affairs Canada
MIS	Management Information System
PRO	Payment Review Office
RFM	Regional Financial Managers
SFO	Senior Financial Officer
the ministry or MCFD	Ministry of Children and Family Development
the Region	Ministry of Children and Family Development's North Region

## Executive Summary

We have completed our Financial Control Framework Review of the Ministry of Children and Family Development's North Region (the Region). The purpose of this review was to determine the status of financial controls within the Child and Family Development area of the North Region, identify any significant weaknesses, and to make recommendations for improvement.

Overall, we found that the Region has very dedicated staff, and faces significant challenges due to the vast geographic area. We also found, however, that the Region could benefit from strengthening controls in several key financial areas.

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### Financial Management Capacity Building

We found that the Region is currently not well positioned to meet an increasing demand for financial services; we anticipate the demand will increase further as the Region moves towards becoming an independent authority. The Region has difficulty recruiting and retaining professional financial staff, and would benefit from developing a training plan.

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### Change Management

The Region has a number of processes in place to assist with successfully managing change, but further improvements are needed to support the achievement of regional and ministry goals and objectives. The most significant improvement would be to implement a regional service plan to set the strategic direction for the region.

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### Financial Reporting, Budget Management, and Forecasting

Overall, regional decision makers receive reasonably complete, timely, and accurate budget and forecast information, but the usefulness of the information could be increased by summarizing and analyzing the information. Regional management needs to ensure that they have identified key regional performance indicators, that sufficient time is set aside each month to monitor and evaluate the Region's performance in relation to the key indicators, and to follow up where necessary.

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### Procurement and Contracting Processes

The Region has made significant progress in its competitive tendering processes, but challenges still exist in small communities where there is a shortage of qualified contractors. The Region is currently not in a strong position to ensure that contract services are delivered, as contracts do not always contain clearly defined service deliverables, unit costs have not been determined and there are limited opportunities to identify and collect unearned revenue. The Region would benefit from developing a comprehensive contracting strategy to help identify and prioritize contracting

initiatives and strengthen Region and service provider accountability.

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Revenue Control

We found that controls needed strengthening to ensure that the costs of providing services to aboriginal children are recovered from other funders where applicable. We also noted that the Region needs to improve controls over the recovery of relocation allowances.

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Document  
Retention,  
Financial System  
Access & Asset  
Controls

The Region's document storage, retrieval, and disposal processes are consistent with government policy, but some improvements could be made in financial system change controls, and asset management.

These and other comments and recommendations are presented in more detail in the body of the report. We wish to thank management and staff of the North Region and the Ministry's Headquarters who contributed their time and assistance to this project.

David J. Fairbotham  
Executive Director  
Internal Audit & Advisory Services

April 12, 2005

## Introduction

Significant changes that are taking place within the provincial government are having an impact on the Ministry of Children and Family Development's (the ministry or MCFD) financial control framework. These changes include a legislated requirement for a balanced budget, the elimination of payment authority, the centralizing of payroll and human resource services in government, the streamlining of government financial policies and procedures, and fewer staff.

In addition to the broader government changes, there are ongoing and pending changes taking place within MCFD which include:

- the implementation or upgrades to financial management systems, notably the implementation of iprocurement in November 2004;
- the implementation of output-based contracting;
- the transition of the Children and Family Development (CFD) and Community Living Services (CLS) regions to separate legal entities (authorities); and
- the increased regionalization of ministry financial services as part of the transition to regional authorities.

The MCFD Senior Financial Officer (SFO) is looking for assurance to support his assessment of the Ministry's Financial Control Framework required in his annual Management Letter, and regional management and staff are looking for reasonable suggestions to assist with maintaining a solid financial framework while considering ongoing resource challenges. In support of the above, Internal Audit & Advisory Services (IAAS) was asked by the SFO and CFD North Region management to first review the financial management of the CFD North Region with an emphasis placed on the forecasting process. Following this review, separate financial control framework reviews may be applied to the remaining four CFD regions.

## Purpose

The purpose of this review was to determine the status of financial controls within the CFD North Region, identify any significant weaknesses, and make recommendations for improvement, if required.

## Scope, Objectives and Approach

The scope of the project included a review of the following areas for the CFD North Region, according to the level of ministry-assessed need or risk.

- Financial management capacity building, to determine whether controls are sufficient to enable the region to meet an increasing demand for financial services.
- Change management, to determine whether controls are sufficient to enable the region to identify and respond to changing circumstances in a timely manner.
- Financial reporting, to determine whether controls are sufficient to allow the region to provide timely, complete and accurate information that is useful to decision-makers.
- Financial budget management and forecasting, to determine whether controls are sufficient to allow the region to operate within budget.
- Procurement processes, including contract management, to determine whether controls are sufficient to allow the region to award contracts appropriately, ensure contracted services are delivered and recover unearned contractor revenues.
- Revenue control, to determine whether controls are sufficient to ensure monies owing to the region are identified, collected or written off in accordance with policy.
- Financial systems access and electronic authority change controls, to determine whether controls are sufficient to ensure the region's financial systems are secure and that regional staff can operate these systems within their delegated level of authority.

- Asset management, to determine whether controls are sufficient to ensure the region's assets are utilized effectively and safeguarded from loss or misuse and, where no longer of use, are disposed of in accordance with policy.
- Retention and organization of key financial documentation, to determine whether controls are sufficient to allow the regions to easily identify and retrieve documents.
- Financial management roles and responsibilities, to determine whether controls are sufficient to support the region in delivering efficient and timely financial services. Our observations and recommendations related to roles and responsibilities have been incorporated into the relevant sections within this report.

The review also identified opportunities for ministry headquarters to further assist the CFD North Region to achieve these objectives.

Project scope excluded:

- any financial management areas in which ministry headquarters is strengthening and streamlining financial service delivery in the CFD regions; and
- ministry headquarters' financial processes and procedures.

Our approach involved:

- interviews with ministry Headquarter (HQ) and CFD North Region staff to identify and focus on control areas requiring the greatest attention;
- examination of ministry documentation relating to:
  - earlier ministry financial management reviews, studies, control self assessments, systems descriptions and discussion papers at either the HQ or CFD regional level;
  - financial management roles and responsibilities at the CFD regional, versus HQ levels;
  - cross-ministry or regional financial committee work involving the CFD Regional Financial Managers (RFM) or their designates;
  - financial management policies, guidelines and procedures – headquarters and regional; and

- financial records and transactions generated at the regional level.
- conducting workshops with regional staff to identify:
  - the barriers to the achievement of each control objective;
  - existing controls;
  - best practices, and
  - appropriate mitigating strategies.
- reviewing key internal controls identified for reasonableness, and providing suggestions for improvement where appropriate.

## North Region Profile

The North Region comprises over half the landmass for the province of British Columbia; its population is estimated at 296,000.

The region has a fiscal 2004/05 budget of \$75.6 million, and employs 343 staff in 26 local offices. The region provides services in areas such as child protection, youth justice, early childhood development, adoptions, and child and youth mental health.

The percentage of children in care in the North Region is high in comparison to other regions in the province, and exceeds provincial averages for the number of children on income assistance, the serious juvenile crime rate, and teen pregnancies.

A significant portion of child welfare work in the region is dedicated to working with aboriginal children and their families. There are 51 first nation bands in the region, and 11% of the population is aboriginal. Approximately 73% of the North Region's children in care are aboriginal, compared to a provincial average of 44%.

Regional staff have indicated that the size and geographic location of the region impacts their ability to provide efficient and effective services to children and families. Recruitment, staff retention, training, transportation, and communication were specifically noted as challenging areas to manage.

## Findings and Conclusions

### 1.0 Financial Management Capacity Building

Objective – To determine whether controls are sufficient to enable the region to meet an increasing demand for financial services.

Sufficiency of Internal Controls to achieve Objective	Yes	Partially	No
Professional Financial Expertise	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Training Plan Developed	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Communication Within RFM Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training Opportunities Available	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Staff Appraisals Completed	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Annual Risk Assessment/Capacity Gap Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Staff Vacancies Filled Quickly	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Staff Cross-Trained	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## **Summary**

In our opinion, the Region is currently not well positioned to meet an increasing demand for financial services; we anticipate the demand will increase further as the Region moves towards becoming an independent authority. The Region has difficulty recruiting and retaining professional financial and contract management staff.

The North Region's Corporate Service's area processes most of the financial transactions for the region, and we were informed that financial staff in the regional office frequently work overtime because they cannot keep up with the work demands.

## **Staffing Ratios**

We conducted an analysis, in Appendix C, to compare the North Region's finance and procurement staffing to the other four regions. The staffing levels were determined using regional organization charts, and ratio analysis was based on staffing levels in each region in relation to their full-time equivalent (FTE) allocations, budgets, contracts and number of offices.

Our analysis indicates that, while the North Region has the highest ratio of finance staff to budget, the region has the lowest number of procurement staff, and has the highest number of physical sites in relation to combined finance and procurement FTEs.

Although we have not completed our review of the other four regions, our initial analysis indicates that the North Region's financial resources dedicated to financial forecasting and budgeting appear high, while the resources dedicated to procurement appears low.

The ratios do not account for the North Region's size and distance from district offices and MCFD Headquarters, nor do they reflect the qualifications of financial and procurement staff. In addition, three of the eight finance staff used to calculate the North Region's ratios are temporary transformation staff with terms scheduled to end March 31, 2005.

## **Training and Career Development**

The Region would benefit from developing a regional training plan, based on a comprehensive assessment of staff training needs across the Region.

The regional financial officers spend a lot of time training staff that work in the field. This internal training is often done by telephone because of the climate and large geographical size of the region. The Director of Corporate Services indicated that she would like to have a regional financial officer visit each of the 26 district offices once per year to train and update the district staff; however, regional financial officers were only able to visit two district offices during the current fiscal year. External training is encouraged but attending training courses offered in Prince George can be a challenge for staff located in the more remote areas of the Region, and there are additional time and cost barriers for staff attending courses in Vancouver or Victoria.

We were informed that Employee Performance and Development Plans (EPDP's) have been completed at the management level, but annual performance appraisals are not consistently completed throughout the Region.

## **Recommendation**

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**(1) We recommend that the Region:**

- **develop a regional training plan based on a comprehensive assessment of training needs throughout the Region; and**
  - **ensure that EPDP's and annual performance appraisals are completed for all staff.**
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### *North Region Response*

*The North Region has completed a survey of all training needs, and the Regional Office staff has completed their EPDP's. The remaining financial staff in the North Region are in the process of completing their EPDPs.*

*The Region is planning on converting the Training Survey, EPDP information and developmental requirements into a Regional Financial Training Plan.*

## **Recruitment and Capacity**

The three regional financial officers are experienced, cross-trained, and can provide suitable coverage when staff are absent. Temporary staff are occasionally utilized to fill vacancies, or assist with managing workload pressures; but they are not a long-term solution, as regional office financial duties are complex and temporary staff are not cross-trained.

We were informed that it is difficult to recruit professional financial staff in the region. There are no designated accountants among the financial staff working in the region, and the Regional Contract Manager position is currently vacant. In comparison, the Vancouver Island region has seven staff dedicated to procurement and accountability, and has four designated accountants. In some cases, Headquarters provides FTE's and financial support for initiatives, but the regional office can rarely find qualified people to fill the FTE positions.

The Director of Corporate Services has developed a new staffing model for the financial and procurement operations of the Regional Office to help resolve some of the capacity gaps in the finance and procurement areas, and is awaiting approval to implement the new model. See Appendix C for details.

### **Recommendation**

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**(2) We recommend that the Region undertake recruitment activities to increase the professional capacity in the financial and procurement areas consistent with the Region's proposed Corporate Services Staffing Model, once approved.**

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#### *North Region Response*

*The Region participated in the development of provincial job descriptions, and we are awaiting the outcome of the Corporate Services Review that will determine classification levels.*

*We intend to undertake appropriate recruitment activities as soon as classifications are determined by the Public Services Agency, and we will look at other strategic options around alternative staffing models.*

## 2.0 Change management

Objective – To determine whether controls are sufficient to enable the region to identify and respond to changing circumstances in a timely manner.

<b>Sufficiency of Internal Controls to achieve Objective</b>	<b>Yes</b>	<b>Partially</b>	<b>No</b>
Change Management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Time and Cost Effective Communication	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Involvement/Knowledge of Initiatives	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Frequent Communication with Other RFM's	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequent Communication with RFM, Field & RFM Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Strategic Plan	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### Summary

The region has a number of processes in place to assist with successfully managing change, but further improvements are needed to support the achievement of regional and ministry goals and objectives.

### Context

The North Region is experiencing a significant level of change. Regional staff find it difficult to respond to change in a proactive manner due to the frequency of change, competing priorities, and a lack of time and resources. As a result, staff work on several projects at the same time, and they cannot always follow projects through to completion. Some staff commented that they feel overwhelmed by the extent of change. Staff also commented that although they are aware of Headquarters and Regional initiatives, they do not have sufficient input into their design.

### Service Plan and Project Management

A comprehensive regional service plan would set the strategic and operational direction for the Region, allow for more effective priority setting, and a more efficient allocation of resources.

A structured project management process and enterprise-wide risk management processes have successfully been used on a couple of recent initiatives. Applying these approaches broadly across the Region will significantly strengthen the Region's ability to respond to change. A Regional Transition Coordinator has been hired to

provide overall project management support to the Region, and a project tracking system is being used to track regional projects. Roles and responsibilities, resource allocation, priorities, and milestones still need to be defined within the project tracking system.

Opportunities for face-to-face meetings with project team members are limited due to the size of the region, and there is minimal backup for district office or sub-region staff to attend project meetings. The RFM Team keeps up with ministry priorities and initiatives by maintaining regular contact with the Financial Administration Branch managers, and through regularly reviewing the Financial Administrative Branch Website.

### **Potential Improvements**

Opportunities to enhance the Region's ability to successfully manage change include the following.

- Developing a regional service plan that identifies the Region's key goals, objectives and strategies and supports the Ministry's Service Plan.
- Ensuring that all key initiatives within the Regional Service Plan are incorporated into the project tracking system, and ranked according to priority based on pre-determined criteria.
- Ensuring each project is supported by a project charter that requires approval, identifies significant project risks, clearly defines staff roles and responsibilities, resource requirements, and project milestones.
- Communicating project plans to key staff throughout the Region, and regularly monitoring and evaluating individual project progress and outcomes.
- Developing cost effective alternatives, such as video conferencing and a regional intranet site, to enhance communication, the effectiveness of project implementations, and increase training opportunities.

## Recommendation

(3) We recommend that the Region develop:

- a comprehensive multi-year service plan supported by a structured project management approach; and
- cost effective alternatives to strengthen communication within the Region.

### North Region Response

*The Region has developed a transformation plan that is linked to the regional budget. The plan addresses multi-year budgets and annual; performance targets by program area.*

*Regional financial communication happens through regional circular letters which include website addresses to access additional information. Other activities are being considered to enhance communication within the Region.*

## 3.0 Financial Reporting, Budget Management and Forecasting

Objective:

- To ensure useful, timely, complete, and accurate information is provided to Ministry decision makers; and
- To determine whether controls are sufficient to allow the region to operate within budget.

Sufficiency of Internal Controls to achieve Objective	Yes	Partially	No
Written directions available to help ensure complete and accurate reporting.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Budget Accountability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Budget Allocation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Budget Calendarization	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Budget Monitoring	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forecast Development and Approval	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Usefulness of information for Decision Making	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## Summary

The main financial report used in the North Region is the Monthly Forecast Report. The report is compiled using information primarily derived from MCFD's Management and Reporting System. Overall, regional decision makers receive reasonably complete, timely, and accurate information, but the usefulness of the information could be increased by summarizing and analyzing the information contained in the Monthly Forecast Report.

## Forecasting Process

We found that, as a result of significant Regional Office and MCFD Headquarters efforts, the financial reporting roles and responsibilities were well communicated and understood.

Our analysis, in Appendix B, indicated that the North Region had:

- the second most stable forecast in the eight month period ended December 31, 2004;
- average forecast accuracy for the nine months ending December 31, 2004; and
- above average forecast accuracy for the Region's March 31, 2004 fiscal year-end.

A significant amount of effort goes into preparing the Region's forecasts. Budgets, forecasts, and actual expenditures have been allocated down to a responsibility centre level, and are reviewed by Team Leaders on a monthly basis. There is a common view, in both HQ and the region, that the benefits obtained from the highly detailed forecast process do not outweigh the costs, and staff are lost in the detail. The current annual estimated cost of the North Region's monthly forecasting process is \$264,000 or four FTE's (see Appendix A for details).

A Forecast Checklist was implemented to reduce input errors, minimize the workload of Team Leaders, and reduce the number of insignificant adjustments each month. In our opinion, the Forecast Checklist can be further strengthened, as follows:

- simplifying the checklist to focus on the primary cost drivers, such as CIC intakes and discharges that are within a team leader's area of responsibility;

- summarizing the forecasts by sub-region and having the Community Service Managers review and approve them, as they are in a better position to assess the overall reasonableness of Child-in-Care (CIC) and FTE forecasts;
- incorporating Regional Deputy Director CIC estimates, and Decision and Support Analysis Branch CIC estimates into the CIC forecasts, possibly using a weighted average.

Overall, we have identified the following issues related to the monthly forecast process based on our discussions with regional staff and our analysis of the monthly report.

- Significant budget reallocations have occurred throughout the year, decreasing the stability and confidence that staff place in the budgeting and forecasting process.
- The detailed forecast preparation and review process significantly impact line staff workload.
- Team Leaders are expected to provide forecast oversight in areas where they don't have responsibility.
- Team Leaders tend to forecast based on what they would like to see happen, rather than what is likely to occur.
- The large volume of forecast checklists increases the risk of roll up errors, particularly in FTE's and CIC.
- Insufficient Manager review of forecasts, resulting in significant variances.
- Need for increased forecast and budget orientation for new Managers.
- Tight timelines for review and feedback, resulting in insufficient time for review and analysis.
- Too much emphasis on low level review, and not enough emphasis on assessing the reasonableness of information or identifying trends;

## Monthly Forecast Report

Staff within the region are exerting significant effort towards producing the Monthly Forecast Report, but there is little time left each month to analyze the information contained in the report. Regional management needs to ensure that they have identified key performance indicators and trends, and that sufficient time is set aside each month to monitor and evaluate the performance against the key indicators and trends, and to obtain reasonable explanations for significant variances.

The timelines are tight for the Community Service Managers to review, analyze and provide feedback on the Monthly Forecast Report. There are currently only five days between when the information is available to prepare the monthly forecast, and when the Forecast Checklists need to be submitted to the Regional Office. Considering that the primary cost drivers in the Forecast Checklist are FTE's, CICs, and contract commitments, and these costs don't tend to change significantly on a weekly basis, we would propose updating the Forecast Checklists well in advance of the deadline to allow sufficient time for sub-region Manager review.

## Recommendation

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### (4) We recommend that the Region:

- **review forecast roles and responsibilities to relieve Team Leaders of some of their responsibilities and to allow for more oversight by the sub-region Managers;**
  - **strengthen budget and forecast orientation for new Managers;**
  - **simplify the Forecast Checklist to focus on the key financial drivers within a Team Leader's responsibility;**
  - **consider using a weighted average of Team Leader, Regional Deputy Director, and Decision and Support Analysis Branch CIC estimates in preparing the Regional forecast; and**
  - **ensure that regional management's review and analysis of forecasts focuses on key cost drivers and regional trends.**
-

## North Region Response

*The Region has undertaken a forecasting survey with field staff.*

*Based on the survey results, the Region is moving to a forecasting system that has Regional Headquarters staff performing increased analysis, involves greater interaction with Managers, and decreased involvement from individual team leaders.*

*The Region already focuses on what we see as the key cost drivers; FTE's, CIC's, and contracts. CIC's and FTE forecasts will be based on trends, and contracts on planned and actual commitments.*

### 4.0 Procurement Processes, Including Contract Management

Objective – To determine whether controls are sufficient to allow the region to award contracts appropriately, ensure contracted services are delivered and recover unearned contractor revenues.

<b>Sufficiency of Internal Controls to achieve Objective</b>	<b>Yes</b>	<b>Partially</b>	<b>No</b>
Roles and Responsibilities Documented & Understood	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Planning Phase	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Evaluation Award Phase	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Amendments	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Unearned Revenue from Service Providers	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and Reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Contract Evaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

#### Summary

The Region has made significant progress in its competitive tendering processes, but challenges still exist in small communities where there is a shortage of qualified contractors, and requests for proposals are unlikely to attract more than one bidder. The Region is not currently in a strong position to ensure that contract services are delivered, as contracts do not always contain clearly defined service deliverables and unit costs have not been determined. We noted that there are limited opportunities to identify and collect unearned revenue.

## Positive Developments

We noted the following positive developments in some of the contracts that we reviewed:

- increased use of competitive tendering within the region;
- examples of well documented, appropriate RFP evaluation processes that were consistent with the evaluation criteria established in the solicitation;
- increased use of program logic modelling to identify inputs, outputs and outcomes;
- meaningful service provider reporting requirements that incorporate identified inputs, outputs, and outcomes;
- incorporating a strategic approach to regional program delivery options for Supported Child Care; and
- tracking the receipt of financial and operational service provider reports in some sub-regions.

However, a number of contracting challenges remain.

## Regional Office Role

There has been a gradual shift within the Region towards a decentralized model of contract management, primarily due to the large geographical area and the diverse needs of local communities. With a few exceptions, such as regional aboriginal services contracts, responsibility for contract management in the North Region has been assigned to the Community Service Managers (CSM) at the sub-region level. While CSMs have strong operational backgrounds, they tend to have limited financial and contract management training, and limited time available for contract management. Each CSM has been allocated a .6 FTE to assist with managing sub-region contracts.

Contracting roles and responsibilities within the region are still in the process of being refined. There appears to be agreement that central contract support could add value by researching contracting best practices and promoting consistency and accountability. There isn't consensus, however, on how the currently vacant contract manager and contract support positions at the Regional Office should be used. The operational areas within the region would like to see the Contract Manager position reporting to the field, rather than the Regional Office. However, having the Central

Contract Manager report to the Director of Corporate Services would allow for a more strategic approach to contracting and support more timely implementation of changes in contract practices.

### **Contract Deliverables**

We found that contract deliverables are often not clearly defined and service provider contracts are typically input driven. Clearly defined contract deliverables will allow the Region to monitor contractor performance to ensure services are delivered as intended. In the longer term, the region may benefit from developing unit costs for non-residential services to ensure services provided are cost effective and equitable between contractors.

The Region has placed a low priority on collecting unearned revenue from contractors for shortfalls in service delivery. Factors limiting the Region's ability to collect unearned revenue include the need for clearer contract deliverables and the need for a clearer definition of unearned revenue in the majority of component schedules. We noted that on two occasions where unearned revenue was defined in the component schedules the region identified a total of \$112,000 of unearned revenue; however, these amounts have not been collected.

### **Contract Amendments**

We identified two risks with contract amendments: overpayments, and contract modifications being made without evaluating the need for changes to service deliverables. Although we did not identify any overpayments related to modifications during our review, we were informed of a \$140,000 overpayment to the Northern Health Authority that had been recovered. We were also informed that there are periodically overpayments related to foster parent "stop and start" payments, and that the RAP system has the ability to automatically recovery the overpayments. A committee has been established to review the risks associated with these overpayments.

### **Monitoring and Evaluation**

With a few exceptions, we found that contract monitoring and evaluation is not well managed within the region. There is generally no system or process in place to track the receipt of required service provider reports; as a result, service providers rarely provide the mandatory reports, and there is limited follow up undertaken to obtain them. When service providers do provide

reports, there is limited financial expertise to review the financial statements for unusual trends or anomalies.

### **Contracting Strategy**

We believe the Region would benefit from implementing a comprehensive contracting strategy to address regional contract issues.

A regional contracting strategy would help the Region set priorities for contracting initiatives and strengthen accountability for contracting, including helping the Region determine whether contract dollars expended are resulting in the desired outcomes for its clients.

### **Recommendation**

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**(5) We recommend that the Region implement a comprehensive contracting strategy that addresses the following areas:**

- **defining the respective contracting responsibilities of the Regional Office and sub regions;**
  - **obtaining the necessary contract management and financial expertise and making it available as a regional resource;**
  - **developing a consistent approach to defining service deliverables;**
  - **developing a plan to move non-residential service contracts to a unit cost basis, where appropriate;**
  - **developing a consistent approach to pursuing unearned revenue from contractors for under delivery of services; and**
  - **strengthening contract monitoring.**
- 

#### *North Region Response*

*The Region has now staffed the Regional Procurement Manager position.*

*The Procurement Manager is a member of the Provincial Procurement Advisory Committee, sits in the working committee for the Catalogue of Services, and is focused on the priorities to be*

*taken with respect to improving the Region's contracting performance.*

*MCFD Unearned Revenue guidelines and a North Region Contract Database have been developed.*

## 5.0 Revenue Control

Objective – To determine whether controls are sufficient to ensure monies owing to the region are identified, collected or written off in accordance with policy.

<b>Sufficiency of Internal Controls to achieve Objective</b>	<b>Yes</b>	<b>Partially</b>	<b>No</b>
INAC Recoveries	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Relocation Allowance Recoveries	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

We found that controls needed strengthening to ensure that the costs of providing services to aboriginal children are recovered from other funders where applicable. We also noted that the Region needs to improve controls over the recovery of employee relocation allowances. We did not review controls related to writing off debts, as the total value of transactions in this area is not significant.

### **Aboriginal Children in Care**

For fiscal 2005, the North Region's net recoveries from Indian and Northern Affairs Canada (INAC) is estimated at \$5.8 million, or \$44,615 per child based on an average of approximately 130 INAC eligible children in care. INAC recoveries are a significant source of funding that the Region needs to take full advantage of. Although significant progress has been made in improving the controls related to INAC recoveries, there is room for additional improvements.

For a child to be eligible for INAC funding, the child must be registered under the Indian Act and the child's parents or guardians must be ordinarily resident on a reserve at the time the child came into care.

For MCFD to successfully apply for INAC funding, information stating that the child has registered Indian status, had parents or guardians ordinarily residing on a reserve, and was in care paid for by the ministry must be accurately entered into the Admissions, Legal Authority, Location (address on the reserve), and Aboriginal

Profile screens in the Ministry's Management Information System (MIS).

At the time of our review, there were 142 aboriginal children in care within the North Region where the "guardian on reserve" field was blank. Through discussion with regional field staff, and staff at Headquarters' Revenue Branch, we were able to narrow down the 142 files to 21 CIC files, where the ministry may not have fully recovered the funds that it is entitled to.

We found:

- One file that revenue staff, regional staff, and IAAS staff agreed should be submitted to INAC for recovery.
- One file where revenue staff concluded that the CIC was adopted on July 17, 2004, and therefore not eligible for ongoing INAC Funding. There may be an opportunity to pursue retroactive recoveries for this child.
- Two files where revenue staff informed us that that the children were in the care of the Nisga'a Agency (see below).
- Eight files where we did not receive a response from regional Team Leaders and are, therefore, unresolved.
- Nine files where revenue staff concluded that the children were not on reserve at the time of removal, based on the address indicated in MIS and their search of an Internet map program. We were advised that INAC verifies the residence of the parent or guardian by calling the Band office; this may be a more reliable step for MCFD staff to follow when determining the residence.

The results of our review of the North Region's INAC recoveries indicate that the Region needs to establish better processes to maximize the recoveries that the Ministry is entitled to. Specifically:

- the Region needs to communicate to field staff the importance of maximizing recoveries for aboriginal children in care;
- processes need to be established for field staff to identify children for whom recoveries may be available, in particular staff need to be made aware of the key pieces of information that need to be checked and entered into MIS;

- Team Leader and District Supervisor reviews of files need to include verifying completeness of the information in MIS; and
- future enhancements to MIS could include making the fields required for INAC billing mandatory fields.

Guardianship for 13 children has been transferred to the Nisga'a Agency. Under the agreement with the Nisga'a Agency, the agency is to reimburse MCFD for cost of these children's care until the agency can establish its own service provider network. However, MCFD has not yet billed the Nisga'a Agency for the costs of providing care to these children because there are offsetting amounts owing to the Nisga'a agency, and a costing methodology has not yet been developed.

### **Recommendation**

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- (6) We recommend that the Region work with the Ministry's Revenue Branch to strengthen processes for identifying and recovering INAC revenues. These processes should include communication, training, supervisor review and system enhancements.**
  - (7) We recommend that the Region and the Revenue Branch work together to fully resolve whether the Region is entitled to INAC recoveries for the remaining children where the guardian on reserve field was blank.**
  - (8) We recommend that the Region develop a method for calculating the costs of providing care to children under the guardianship of the Nisga'a Agency. Once the agency has approved the costing methodology, the Region should bill the agency for costs incurred and establish a regular billing process.**
- 

#### *North Region Response*

*The Region is working with the Headquarter's Finance and Revenue areas to address revenue related issues that impact the Region. The Region has suggested an enhancement to the Ministry systems that will ensure that system input fields that indicate eligibility for INAC funding cannot be bypassed.*

*Each of the CIC's identified for potential INAC funding are being reviewed and reconsidered for INAC billing.*

*The Region is reconciling the costs and recoveries associated with the Nisga'a CIC's. If outstanding costs are identified, the Region will arrange recovery from Nisga'a.*

*The Region is also developing a regional protocol that will include procedures for calculating and recovering the costs associated with sharing resources between the Ministry and delegated agencies, including Nisga'a.*

### **Relocation Allowance Recoveries**

Relocation allowances are available to regular employees, eligible auxiliary employees, and new appointees where there is a need for an increased incentive to attract competent staff. The relocation allowance can exceed \$10,000 for some employees as it can cover staff travel, temporary living expenses, moving costs, furniture storage, legal fees, and real estate commissions.

Any employee who receives relocation allowances and subsequently resigns within two years of the relocation, must repay the expenses paid on a pro-rata basis.

We were informed by regional financial staff that due to high employee turnover in the Region, there is a risk that staff who received relocation allowances may have failed to repay funds consistent with policy for prematurely departing from the Region.

The Region needs to implement controls to ensure that it identifies and recovers the relocation allowances for staff who leave the Region prior to fulfilling the terms of their offer letter.

### **Recommendation**

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**(9) We recommend that the Region:**

- **require supervisors to review for potential relocation allowance recoveries as part of the Employee Separation Report checklist completion procedures; and**
  - **consider performing a review of all employees departed within the last three years to identify and recover outstanding relocation amounts.**
-

## North Region Response

*The Region is planning to hire a Recruitment and Diversity Manager. It will be the Manager's responsibility to ensure that a review of relocation allowance recoveries is undertaken, and to establish a system to ensure that future employee departures are reported and reviewed.*

## 6.0 Financial Systems Access and Electronic Authority Change Controls

Objective – To determine whether controls are sufficient to ensure the region's financial systems are secure and that regional staff can operate these systems within their delegated level of authority.

Sufficiency of Internal Controls to achieve Objective	Yes	Partially	No
Roles and Responsibilities Documented & Understood	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Formal Documented Employee Exit Procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Listing of financial system users obtained and reviewed annually	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### Summary

Roles and responsibilities related to financial systems access and electronic change controls are not currently documented within the region, and responsibilities and reporting could be increased to enhance controls.

### Change controls

Financial system change controls in the North Region are currently managed through the use of a standard electronic form to request changes to systems users, three levels of approval, and through having the MCFD Security Group as the gatekeeper.

Although a system change process is in place, there are insufficient controls in place to ensure that system removal requests are processed. Specifically, responsibilities have not formally been assigned; instead, the onus is currently on the regional administrative staff to ensure that system changes are undertaken in a complete and timely manner, and there is a risk that staff could retain access to MCFD financial systems after leaving the Region or Government without the knowledge of regional administrative staff. Consistently using the ministry's Employee Separation Report would identify all systems access requiring removal when

an employee leaves. Regularly receiving and reviewing a report from MCFD Systems Security staff would help the Region ensure that access is removed on a timely basis and identify any access that needs to be removed.

## **Recommendation**

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<sup>(10)</sup> **We recommend that:**

- **the Region clarify and document financial systems access and electronic authority change roles and responsibilities;**
  - **the Region utilize the existing Employee Separation Report, or develop other procedures, to ensure all access to ministry systems is removed and documented on an employee's departure; and**
  - **MCFD Systems Security staff provide regions with a list of all system's users and related access on a regular basis, and Regional staff review to ensure only authorized users have access.**
- 

### *North Region Response*

*The Region has requested a printout of the access that each employee has in the Region to confirm the accuracy and appropriateness of the current access privileges. In addition, the Recruitment and Diversity Manager will be required to establish a verification process to ensure that access is appropriately cancelled on employee departure.*

## **7.0 Asset Management**

Objective – To determine whether controls are sufficient to ensure the region's assets are utilized effectively and safeguarded from loss or misuse and, where no longer of use, are disposed of in accordance with policy.

<b>Sufficiency of Internal Controls to achieve Objective</b>	<b>Yes</b>	<b>Partially</b>	<b>No</b>
Roles and Responsibilities Documented & Understood	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Safeguarding and Tracking	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Utilization	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Assets disposed in accordance with Policy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Summary

Although roles and responsibilities are documented in job descriptions, existing controls need to be applied more consistently to ensure that regional assets are safeguarded from loss or misuse, and utilized effectively.

## Control weaknesses

We found the following three weaknesses in the application of controls to ensure that regional assets are safeguarded from loss or misuse:

- Supervisors were not consistently completing the Employee Separation Report to ensure all Ministry assets are returned on an employee's departure;
- there was no complete listing of all significant capital assets within the Region to help ensure assets are adequately accounted for; and
- the \$500 Petty Cash Fund in the Regional Office had not been independently counted in over two years. Independent verification of the petty cash balance helps ensure the funds are used properly, protected adequately against loss, and accounted for completely.

We also noted that increased analysis of vehicle usage within the Region would help ensure effective utilization of the Region's vehicles and that staff use of the vehicles is appropriate. Although the requirement to monitor vehicle utilization was clearly documented in a regional staff member's job description, we found no evidence of regional analysis of vehicle utilization. We noted one instance in June 2004 where a vehicle had reported mileage of 8,165 km for the month, with no evidence of follow-up or explanation provided.

Computer utilization is monitored centrally by the MCFD Systems Security staff, and security staff will follow up with the Region in situations where computers are being under utilized, and discuss opportunities for redeployment.

## Recommendation

(11) We recommend that the region:

- utilize the existing Employee Separation Report to ensure all Ministry assets are returned on an employee's departure;
- periodically reconcile petty cash to ensure completeness of funds and the reasonableness of expenditures; and
- review mileage reports for regional vehicles, and follow up on situations where vehicles are under or over utilized.

### *North Region Response*

*The current Employee Separation Report is used to ensure that Ministry assets are returned on departure, but modifications are required to ensure that all assets are identified. A modification request has been sent to the Ministry's Strategic Human Resources Unit.*

*Unannounced audits of all petty cash floats within the Region have now been undertaken, and will continue at least annually.*

*Regular reviews of vehicle mileage will be implemented.*

## 8.0 Retention and Organization of Key Financial Documentation

Objective – To determine whether controls are sufficient to allow the regions to easily identify and retrieve documents.

Sufficiency of Internal Controls to achieve Objective	Yes	Partially	No
ARCs is used for classifying, filing and retrieving key financial documentation.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Destruction of financial information is in accordance with the <i>Document Disposal Act</i> .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Critical financial files are kept in a locked file room with access restricted.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Record retention is sufficient to meet the requirements of the Payment's Review Office	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## Summary

We found that controls are sufficient to allow the region to easily identify and retrieve documents, and staff are aware of their roles and responsibilities related to the retention and organization of key financial documentation.

## Filing

At the time of our fieldwork, filing was up to date, and appeared to be well organized. The Administrative Records Classification System (ARCS) is consistently used for classifying, filing and retrieving key financial management documentation, and the ARCS Retention Schedule is used for ensuring compliance with the *Document Disposal Act*.

Most key financial documentation was properly classified, filed, and safeguarded in a room that is locked at night. The one exception is contract files. Contract files are stored in filing cabinets next to the Director of Corporate Services Office for ease of access, and due to space limitations.

## Recommendation

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**(12) We recommend that the region look at cost effective options for increasing the security of regional contract files.**

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### *North Region Response*

*There is no confidential information in regional contract files, and we do not see the value in increasing security over these files.*

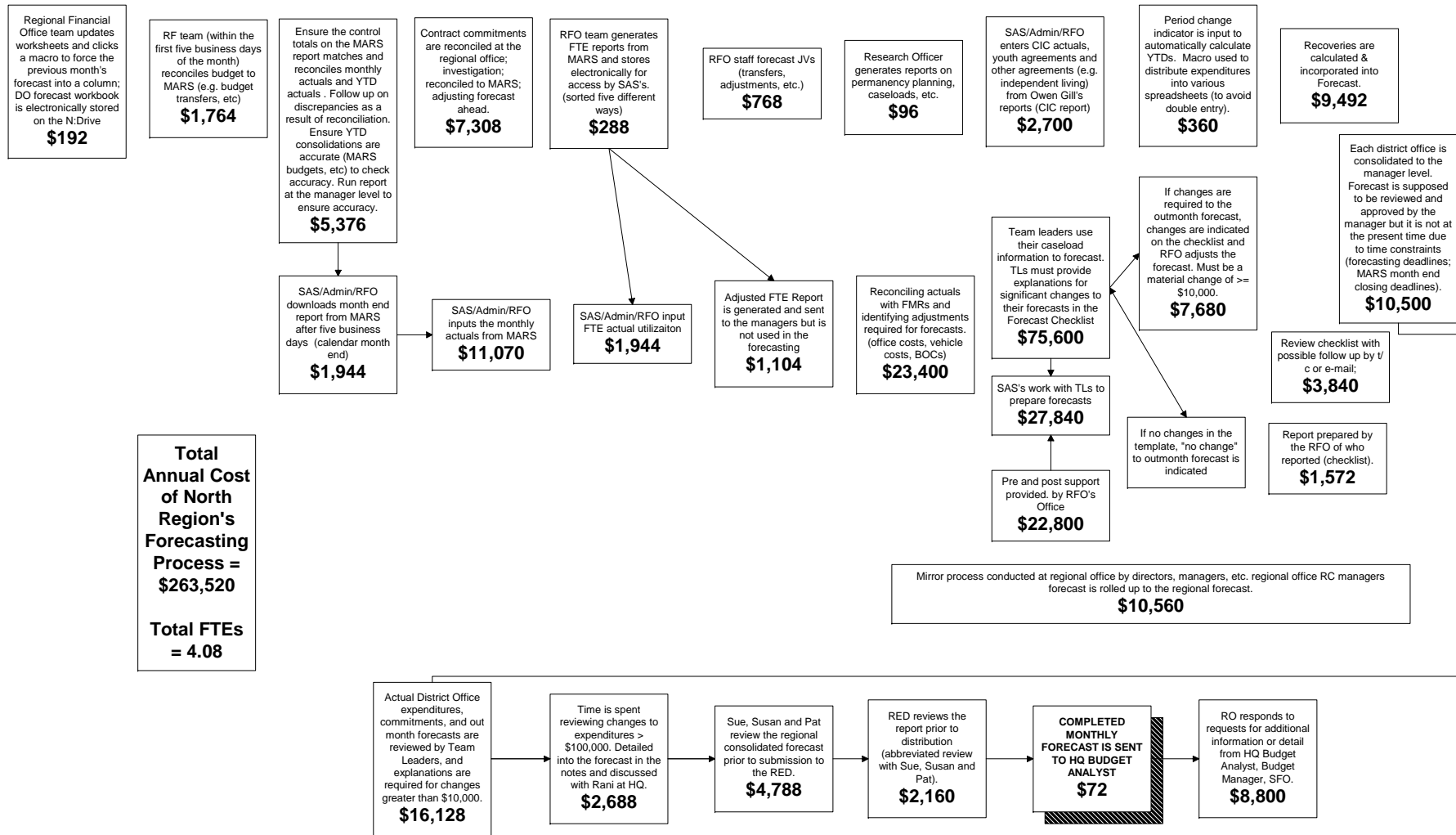
## Payment Review Office

As part of our review of financial documentation, we were asked by the Ministry's Senior Financial Officer to review the Region's ability to comply with requests for documentation from the Payment Review Office (PRO), as PRO staff raised concerns relating to difficulties obtaining supporting documentation from ministry staff.

Based on conversations with staff from the Region and the PRO Office, we were only able to find one PRO exception related to the North Region. The exception indicated a lack of documentation related to the method of solicitation on a particular contract, and the Region advised us that they were not made aware of the exception, so did not respond to it. We followed up on the exception, and we were able to obtain the documentation within the contract file to

support the method of solicitation. The issue appears to be that PRO's expectations regarding supporting information for payments were either unclear or misunderstood; we have been informed that PRO has been sending out bulletins to clarify their requirements.

# Appendix A – Forecasting Process



## Appendix B – Regional Accuracy and Stability of Forecasts

### Forecast Stability May 2004 – December 2004

Region	Standard Deviation	Surplus/(Deficit)
Interior Region	0.53	From \$230,000 to (\$1.88) million
North Region	0.78	From (\$960,000) to \$1.26 million
Vancouver Island	1.00	From (\$2.57 million) to \$130,000
Vancouver Coastal	1.75	\$6.62 to \$11.33 million
Fraser Region	4.13	From (\$5.29 million) to \$6.06 million

\* Standard Deviation is commonly used to measure volatility. A lower standard deviation would be an indicator of a more stable forecast.

### Accuracy of Fiscal YTD Forecast to budget for the period ending Dec. 31, 2004

Rank	Region	Surplus/(Deficit	Variance
1	Interior Region	(\$230,000)	0.19%
2	Vancouver Island	(\$860,000)	0.75%
3	North Region	\$1,260,000	1.63%
4	Fraser Region	\$6,060,000	3.26%
5	Vancouver Coastal	\$7,430,000	5.4%

### Accuracy of March 31, 2004 Actual to January 31, 2004 Forecast

Rank	Region	Surplus/(Deficit	Variance
1	Fraser Region	\$(359,169)	0.20%
2	North Region	\$199,684	0.26%
3	Interior Region	\$439,487	0.36%
4	Vancouver Island	\$669,605	0.58%
5	Vancouver Coastal	\$796,402	0.62%

Based on the analysis above, the North Region:

- has the 2nd most stable forecast in the last 8 months;
- average forecast accuracy for the 9 months ending December 31, 2004; and
- above average forecast accuracy for the Region's March 31, 2004 fiscal year-end.

## Appendix C – FTE Ration Analysis – Comparison Between Regions

	North Region (Proposed) <sup>1</sup>	North Region (Actual)	Vancouver Island	Fraser	Interior	Vancouver Coastal
Regional FTE Allocation	343	343	486	754	522	439
Regional Budget	\$75,670,262	\$75,670,262	\$108,459,428	\$172,325,884	\$113,025,035	\$125,609,987
FTEs – Finance <sup>2</sup>	6	8 <sup>3</sup>	7	7.5	8	7
FTEs – Procurement & Accountability <sup>2</sup>	4	0	7	4	6.5	11.5
# of Contracts, CFD	1,249	1,249	1,797	2,229	2,138	1,204
\$ Value of Contracts, CFD	\$57,000,000	\$57,000,000	\$70,000,000	\$123,000,000	\$77,000,000	\$88,000,000
# of Physical Sites	26	26	18	34	41	29
<i>Ratios:</i>						
Total FTEs to Finance FTEs	57.2	42.9	69.4	100.5	65.3	62.7
Total FTEs to Finance & Procurement FTEs	34.3	42.9	34.7	65.6	36.0	23.7
<i>Budget to FTEs</i>						
Budget to Finance FTEs	\$12,611,710	\$9,458,783	\$15,494,204	\$22,976,785	\$14,128,129	\$17,944,284
Budget to Finance & Procurement FTEs	\$7,567,026	\$9,458,783	\$7,747,102	\$14,984,859	\$7,794,830	\$6,789,729
<i># Sites to FTEs</i>						
# Sites to Finance FTEs	4.3	3.3	2.6	4.5	5.1	4.1
# Sites to Finance & Procurement FTEs	2.6	3.3	1.3	3.0	2.8	1.6
<i># Contracts to FTEs</i>						
# Contracts to Procurement FTEs	312.3	n/a	256.7	557.3	328.9	104.7
\$ Value of Contracts to Procurement FTEs	\$14,250,000	n/a	\$10,000,000.0	\$30,750,000.0	\$11,846,153.8	\$7,652,173.9
Average Value of Contracts	\$45,637	\$45,637	\$38,954	\$55,182	\$36,015	\$73,090

<sup>1</sup> This column represents the information and ratio analysis if the Region's proposed Finance and Procurement staffing model is approved.

<sup>2</sup> Excludes the Director of Corporate Services (or equivalent) position.

<sup>3</sup> The North Region's FTE's includes three temporary transformation staff whose assistance is scheduled to end March 31, 2005.