

Follow-up of the Financial Management Audit Ontario Region

June 2002

Audit and Evaluation Branch

Report Clearance Steps

Follow-up process implemented	August 2000
Report completed	May 2002
Report approved by Departmental Audit and Evaluation Committee (DAEC)	June 17, 2002

Acronyms used in the report

AB	Activity Based
ABC	Activity Based Costing
AES HQ	Atmospheric Environment Service Headquarters
AO	Administrative Officer
BRS	Budget Reporting System
F&A	Finance and Administration
F&A-Ont	Finance and Administration Branch of the Ontario Region
FIS	Financial Information Strategy
FMAF	Financial Management Accountability Framework
HQ	Headquarters
MOU	Memorandum of Understanding
MRS	Management Reporting System
MSB	Management Services Branch
MSC	Meteorological Service of Canada
RMB	Regional Management Board
RDG	Regional Director General
VNR	Vote Netted Revenue

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Context for the Follow-up

This follow-up was initiated 2 years after the report on the Financial Management Audit of the Ontario Region was completed. The follow-up was done in order to determine the level of implementation of the recommendations made in the original report. Follow-ups are important, as they give senior management a crucial indicator as to the implementation rate of recommendations and adjustments made in relation to the management responses.

Current Status

The former Finance and Administration Branch of the Ontario Region (F&A-Ont) has undergone dramatic changes since the release of the Financial Management Audit Report in 1998. The Branch experienced several senior staff retirements shortly after the report was released; these changes occurred at the same time as the occurrence of new drivers are or will be shaping the Finance and Administration communities in the future. These drivers are: the influence of technology on financial activities, the implementation of FIS, the integration of Modern Comptrollership and the growing importance of Knowledge Management. The result has been that in order to address the challenges presented in the audit, as well as those of the future, the F&A-Ont decided to reorganize.

The previous structure of F&A-Ont did not lend itself to allow addressing the strategic concerns found in the audit. The reorganization of F&A-Ont into the Management Services Branch (MSB) has in several ways addressed the key audit conclusion that financial management was exercised in a traditional fashion instead of as a team between program managers and Finance and Administration, the vision expressed in the departmental financial framework. In our initial assessment therefore, the reorganization effort undertaken at the MSB will enable the financial function to enhance the delivery of client services.

Areas Requiring Attention

Indications show that MSB is addressing some of the strategic shortcomings identified in the audit report. Actions planned in the following are identified as "in progress":

- Recommendation #2: Clarification of the AO' roles and responsibilities is part of the MSB 2002-03 strategic plan, through the roll out of the core competencies for the Corporate Services Community, along with related tools for staffing, training, development and performance measurement.
- Recommendation #3: In 2002-03, MSB is preparing to expand the training plan to key players among its client groups.
- Recommendation #4: The development and implementation of assurance mechanisms is part of the MSB 2002-03 strategic plan.
- Recommendation #7: Even though MSB launched in September 2001 an internal ABC exercise, there was no evidence of a global costing approach for the Region. In its 2002-03 priorities, MSB is planning to move from ABC to AB Management to link activities to outputs and resource levels; to develop a Service Level Agreement with its clients; and to share lessons learned with F&A staff nationally and with RMB.

- Recommendation #11: Although there is no evidence that all recommendations have been implemented, management has advised us that improvements are under progress in the area of assurance services and training provision related to contracting. With the release of the report on Auditing of Contracting, the region is initiating an action plan in conjunction with the other Regions and Corporate.

The following areas represent recommendations not met that pose a risk to the department as explained in the next section of this report:

- Recommendation #8: There is no evidence of clear guidance on how future commercialization objectives will be achieved.
- Recommendation #9: Provision of reporting services on commercialization, salary forecasting and VNR correlation to expenditures has yet to come.

Risks

The risk posed to the department related to financial management in the Ontario Region has been reduced since the original audit in 1998. Several issues that were identified in the original audit have been resolved or are subject of actions underway or planned. Contracting practices, guidance on commercialization objectives and reporting tools are the three areas that require improvement in order to further minimize the risk posed to the department. Therefore it is recommended that these three areas of risks be taken into consideration in the planning and conduct of future national audit work.

Follow-up Summary on Each Recommendations

Recommendation 1 - Met

Recommendation	Actions Taken
<p>The Director of Finance and Administration (F&A), under the guidance of the Director General Finance, and in consultation with RMB, should develop an implementation plan for the Financial Management Accountability Framework (FMAF). This plan should:</p> <ul style="list-style-type: none"> · develop mechanisms for the program managers and F&A communities to work together; · ensure effective communication of financial information and processes within F&A, and between F&A, the Branch Administrative Officer (AO) and program managers; and, · create and maintain a climate that fosters effective financial management. 	<ul style="list-style-type: none"> · Although no specific implementation plan has been developed for the FMAF, mechanisms have been developed to help program managers and F&A communities to work together. · Also a climate that fosters effective financial management has been established as a result of the reorganization of MSB, the improvement of financial management practices and increased communication with clients.

Recommendation 2 - In progress

Recommendation	Actions Taken
<p>The Director of F&A should assess the capacity of the financial function in order to ensure the sustained delivery of client services in light of the FMAF objectives. This process should:</p> <ul style="list-style-type: none"> · clarify roles and responsibilities of the advisory function of F&A staff and the AO, and communicate it to all levels of program managers; and, · determine the potential for a decentralized and standardized role of the AO. 	<ul style="list-style-type: none"> · The reorganization of the MSB led to assessing and improving the capacity of the financial function to deliver client services. It has also clarified the roles and responsibilities of the F&A staff. · In its 2002-03 Strategic Plan, MSB is preparing also to look at the possibility for decentralizing some of the advisory function to the AOs', and clarify their roles and responsibilities. · In its 2002-03 priorities, MSB is planning to roll out the core competencies for the Corporate Services Community, along with: <ul style="list-style-type: none"> · finalizing first application of training and development; · preparing individual learning plans; and · developing tools for staffing and performance measurement.

Recommendation 3 - In progress

Recommendation	Actions Taken
<p>The Director of F&A should develop a strategy to engage F&A staff and program managers in training and learning. This strategy should have the approval of RMB and should:</p> <ul style="list-style-type: none"> · include the preparation of a comprehensive training assessment in the context of financial management; · target training to specific audiences and adequately communicate its value-added; and, · create and support a continuous learning environment. 	<ul style="list-style-type: none"> · A 2001-02 training plan has been developed for all MSB employees. · In 2002-03, MSB is preparing to expand the training plan to key players among its client groups. · In addition, the MSB manager has been nominated departmental Champion for the F&A Community Core Competencies. The initial application of this initiative will be focusing on training and development.

Recommendation 4 - In progress

Recommendation	Actions Taken
<p>The Regional Director General (RDG), Ontario Region with support of Regional Management Board (RMB) members should ensure that accountability assurance and assessment mechanisms, as outlined in the FMAF, are implemented. Accountability should be demonstrated by:</p> <ul style="list-style-type: none"> · increasing program managers' awareness of their financial management accountability; · incorporating into existing assurance mechanisms an assertion statement, and financial performance indicators; and · analyzing issues and implementing action plans derived from assurance and assessment mechanisms. 	<ul style="list-style-type: none"> · Assurance statements are present in both Regional Directors and Regional Directors General Management Contracts. · Training is taking place that helps to increase program managers awareness of their accountability. · The development and implementation of assurance mechanisms is part of the MSB 2002-03 strategic plan.

Recommendation 5 - Not Met

Recommendation	Actions Taken
<p>As a client receiving financial services from Ontario Region, the Assistant Deputy Minister of the Atmospheric Environment Service Headquarters (AES-HQ), together with the RDG, Ontario Region should prepare a Memorandum of understanding similar to the one in place with the National Water Research Institute (NWRI).</p>	<ul style="list-style-type: none"> · Although the restructuring of the MSB has resulted in a higher capacity for tracking costs and activities, a MOU between the RDG and the AES HQ has not been developed.

Recommendation 6 - Met

Recommendation	Actions Taken
<p>The RDG, Ontario Region and the Director of F&A should address the communication and cost-effectiveness issues of maintaining two financial offices.</p>	<ul style="list-style-type: none"> · Restructuring of the MSB has created seamless processes between the two offices. The threat of duplication has been minimized due to the creation of one chief for each service (regardless of location).

Recommendation 7 - In progress

Recommendation	Actions Taken
<p>Program managers and F&A should ensure effective cost analysis, planning and monitoring in order to support cost-effective program delivery. Specifically, program managers and F&A should:</p> <ul style="list-style-type: none"> · Identify alternatives and their related financial costs for each project under consideration; · Incorporate full resource allocation, including salary, travel and overhead expenditures, in costing and pricing of alternatives, program deliverables and commercialization projects; and, · Analyze actual expenditures versus planned. 	<ul style="list-style-type: none"> · In September 2001, MSB launched an internal ABC exercise to be completed in March 2002. The results and expertise coming from this exercise will increase MSB capacity to value the services it provides and to support clients into valuing their own programs. · However, there is no evidence yet of a global approach to ensure effective cost analysis, planning and monitoring throughout the Region. · In its 2002-03 priorities, MSB is planning to: <ul style="list-style-type: none"> · move from ABC to AB Management to link activities to outputs and resource levels; · develop a Service Level Agreement with its clients; · share lessons learned with F&A staff nationally and with RMB. · The implementation of FIS is expected to improve areas related to resource allocation and analysis of expenditures.

Recommendation 8 - Improvements required

Recommendation	Actions Taken
<p>The Director of F&A, with the guidance of the Director General Finance-HQ should assess the current costing and pricing methodologies, and provide clear guidance on how to achieve future commercialization objectives.</p>	<ul style="list-style-type: none"> · The Ontario Region will implement the Department's Framework on Cost Recovery. · However, there has been no evidence of clear guidance on how future commercialization objectives will be achieved in the region.

Recommendation 9 - Improvements required

Recommendation	Actions Taken
<p>The Director of F&A should ensure that program managers' reporting and information needs are satisfied in particular, the following requirements should be addressed in order to allow effective project management and adequate demonstration of accountability:</p> <ul style="list-style-type: none"> . better tracking of costs for each program deliverable; . capture of detailed commercialization information; . improved correlation of Vote Netted Revenue (VNR) to the related expenditures; . complete and accurate tracking of assets; and, . increased flexibility in salary forecasting. 	<ul style="list-style-type: none"> . Implementation and training under FIS, MRS and BRS indicates better tracking of costs and assets, as well as increased reporting capability. . However, evidence supporting the provision of detailed commercialization information, flexibility in salary forecasting and correlation of VNR to related expenditures is lacking.

Recommendation 10 - Met

Recommendation	Actions Taken
<p>The Director of F&A should ensure the accurate and complete recording of assets in accordance with Treasury Board Policy.</p>	<ul style="list-style-type: none"> . The accurate and complete recording of assets is under way with the implementation of FIS and the Creation of the Manager of Assets Management position.

Recommendation 11 - In progress

Recommendation	Actions Taken
<p>The Director General of Administration-HQ and the Director of F&A should work together to determine what types of contracting mechanisms would best support program delivery and provide effective guidance and monitoring in order to ensure that the Region is in compliance with the Treasury Board policies. Specifically, the following should be addressed:</p> <ul style="list-style-type: none"> . which contracting arrangement is most appropriate, considering in particular, the new types of collaborative agreements; and, . how these various types of contractual arrangements will be captured and monitored. 	<ul style="list-style-type: none"> . MSB realizes that contracting is a high risk area and there is commitment to improve. . MSB has: <ul style="list-style-type: none"> . issued several contracting and procurement bulletins to their clients; . discussed contracting at their three client management tables; . conducted two formal contracting courses. . Further work is required in: <ul style="list-style-type: none"> . developing a coordinated plan related to contracting; . providing assurance on the appropriate use of various types of contractual arrangements, and on their monitoring. . Management has advised us that with the release of the report on Auditing of Contracting, the Region is initiating an action plan in conjunction with the other Regions and Corporate.

Recommendation 12 - Met

Recommendation	Actions Taken
The Director General of Human Resources Directorate should either confirm or revise the current departmental Policy on Official Languages and clearly communicate it to all concerned.	<ul style="list-style-type: none"> <li data-bbox="816 268 1403 401">· The Official Languages Management Framework (1999) clarifies the confusion as to the language of work for the Ontario Region. <li data-bbox="816 407 1403 598">· The Treasury Board Secretariat is developing an analysis grid along with standards to be used as an assessment tool to enable institutions to determine the appropriate number of bilingual positions to meet service needs.

Recommendation 13 - Deemed to be met

Recommendation	Actions Taken
The Director of Human Resources in the Region and the Director of F&A should assess the situation of F&A with respect to the Official Languages requirements in light of the applicable policies and regulations.	<ul style="list-style-type: none"> <li data-bbox="816 716 1403 947">· MSB has improved on its previous Official Languages status, and is deemed to have met this requirement pending the adoption by the Human Resources Directorate of new guidelines governing official languages and the number of bilingual employees in the Regions.