

# Follow-up of the Financial Management Audit Atlantic Region

***Audit and Evaluation Branch***

**Report Clearance Steps**

Follow-up process implemented	May 2001
Report completed	January 2003
Report approved by the Departmental Audit and Evaluation Committee (DAEC)	May 2003

**Acronyms used in the report**

ABC	Activity Based Costing
AEB	Audit and Evaluation Branch
CMRD	Corporate Management and Review Directorate
DAEC	Departmental Audit and Evaluation Committee
EC	Environment Canada
EMB	Environment Management Board
FAA	Financial Administration Act
FIS	Financial Information Strategy
FMAF	Financial Management Accountability Framework
FPRA	Financial Planning and Resource Analysis
MSB	Management Services Branch, Atlantic Region
MSC	Meteorological Services of Canada
OGD	Other Government Departments
RDG	Regional Director General
RMC	Regional Management Committee
RMAFs	Result-based Management and Accountability Frameworks
SPA	Special Purpose Accounts
TBS	Treasury Board Secretariat
VNR	Vote Netted Revenues

## Table of Contents

<b>CONTEXT FOR THE FOLLOW-UP .....</b>	<b>1</b>
<b>CURRENT STATUS .....</b>	<b>1</b>
<b>AREAS REQUIRING ATTENTION.....</b>	<b>2</b>
<b>RISK.....</b>	<b>2</b>
<b>RECOMMENDATIONS .....</b>	<b>3</b>
<b>STATUS OF INITIAL RECOMMENDATIONS AND ACTIONS TAKEN .....</b>	<b>4</b>



## Context for the Follow-up

This follow-up was initiated two years after the *Financial Management Audit Atlantic Region Report* was approved by the Departmental Audit and Evaluation Committee (DAEC), in December of 1999. The follow-up was done 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 the management response and adjustments made in relation to the recommendations.

In the initial audit, the *Financial Management Accountability Framework* (FMAF) served as the criteria against which the financial management performance was measured. Overall, nine recommendations were made by the Audit and Evaluation Branch (AEB) which focused on the following areas:

- implementation of the FMAF vision;
- Management Services Branch (MSB) organizational structure and capacity;
- management and accountability;
- control and processes; and
- official languages.

The audit findings along with their recommendations were reported to management who agreed with them and prepared detailed responses.

## Current Status

The Atlantic Region has a solid foundation in terms of the ability of MSB and program managers to work together in a spirit of co-operation and trust. The Region is often cited as a model in terms of best practices and innovation.

The Corporate Services at Headquarters, as the functional head, ensures that adequate guidance and functional direction is provided to the regions, in areas covered by this audit, (initial recommendations 1.1 and 1.2). In the area of results-based management (initial recommendation 1.3), the Environment Management Board (EMB) gave its endorsement on January 14, 2002 on a common reporting and coding structure, implemented on April 1, 2002.

In the field of *Modern Comptrollership* (initial recommendations 2, 3, 4 and 5), the Region has invested and is planning to continue investing efforts in implementing the FMAF principles, improving reporting and providing training. The Region has taken the initial step of using the Performance Management Contracts with the Deputy Minister all the way down to the contract of each directors, to plan and then monitor deliverables. Reviews are conducted twice a year to measure achievements against planned objectives.

Regarding the implementation of a control framework (initial recommendation 6), several actions have also been taken by the Region, such as the development and implementation of formal desk procedures for account verification and payment, a formally defined collection process for long term outstanding invoices and the establishment of control checklists for Accounts Payable clerks.

## Areas Requiring Attention

Despite all of the improvements listed above, additional efforts need to be made in the following areas:

- Efforts need to be made to link both the information on operational performance and resources and to provide the type of information required by management for decision-making (initial recommendation 4). In that context the Region needs to continue its efforts in implementing the *Modern Management Action Plan* along with providing appropriate training both for program managers and MSB staff, especially in the areas of financial management, contracting, values and ethics, and in the area of Financial Information Strategy and Financial Management Accountability.
- In regards to the control framework (initial recommendation 6), and more specifically the initial recommendations on pre-verification and monitoring of accounts payable, all transactions pertaining to an area considered at risk, such as relocation, are monitored. The Region does not have the volume to justify statistical sampling verification and relies at the departmental level to do so.

## Risk

A risk for the department is the failure of the Region to fully respect the requirements of the *Official Languages Act* and policies. The *TBS Policy on Official Languages*, chapter 2, *Language of Work in Bilingual Regions* requests that central services essential for employees to carry out their responsibilities, along with work instruments, are to be provided in the language of their choice. The Policy lists such central services and work instruments. In addition, the *TBS Policy on using the Official Languages on Electronic Networks* specifies that: “An office, located in a region designated as bilingual for language of work, that posts information that is intended to serve as one of the following must provide the information in both official languages at the same time, whether the site used is on an internal or external network.” The list includes regularly and widely used work instruments. As per the Policy, Charlottetown, Dartmouth, Halifax, Fredericton, Moncton and Sackville are designated bilingual.

Section 35 of the *Official Languages Act* states that “Every federal institution has the duty to ensure that within the National Capital Region and in any part or region of Canada, or in any place outside Canada, that is prescribed, work environments of the institution are conducive to the effective use of both official languages and accommodate the use of either language by its officers and employees”. As the *TBS Policy on Official Languages* lists Charlottetown, Dartmouth, Halifax, Fredericton, Moncton and Sackville as prescribed bilingual locations the Atlantic Region is required to accommodate both French and English speaking employees. Further, section 36 of the *Act* goes on to state that “Every federal institution has the duty...to make available in both official languages to officers and employees of the institution (i) services that are provided to officers and employees, including services that are provided to them as individuals and services that are centrally provided by the institution to support them in the performance of their duties, and (ii) regularly and widely used work instruments produced by or on behalf of that or any other federal institution”.

At the time of the initial Audit, the Region had agreed to translate existing and new material placed on the Inside Lane. However, this was not done by the Region and the content of Inside Lane remains largely unilingual at this time.

In addition, there is currently no bilingual employee providing financial services to employees in the Region, as MSB lost their bilingual employee as of September 2002. In that context, the Region has engaged in the following action:

- is completing a competition for a bilingual employee;
- sent another employee on full time language training;
- is planning to always have at least one employee within the branch on language training, for the next few years, in order to achieve a critical capacity of bilingualism;
- in the interim, put procedures in place to route French requests through a bilingual employee outside of Finance.

## Recommendations

In conclusion, it is recommended that the areas requiring attention be taken into consideration in the planning and conduct of future national audit work, some of which are currently being looked at with the Accounts Payable Audit.

As for the issue of official languages, since this represents a risk for the department, AEB is planning to conduct a follow-up to the related recommendations, #8 and #9, in one year.

## Management Response

The Atlantic Region is committed to have the Inside Lane fully bilingual within the year. We fully understand our obligations under the Official Languages Act and will have this issue addressed in time for the follow up audit.

## Status of Initial Recommendations and Actions Taken

### Recommendation #1 - Partially Met

*Recommendation 1.1: Commercialization - Partially Met*

Recommendation	Actions Taken
<p>As the functional head, the Assistant Deputy Minister, Corporate Services should ensure that adequate guidance and functional direction is provided to regions, in areas such as :</p> <ul style="list-style-type: none"> <li>• <u>commercialization</u>: advice, interpretation, costing, policy, etc. (e.g. product costing, revenue sharing, collection agencies reporting, TB policy interpretation, revenue risk management)</li> </ul>	<ul style="list-style-type: none"> <li>• While the departmental policy on commercialization was updated in December 2000, it will have to be reviewed again to reflect changes made to the Treasury Board Policy.</li> <li>• This issue will be reexamined in the context of the Commercial Services Audit Follow-up.</li> </ul>

*Recommendation 1.2: Use of financial arrangements and funding options - Met*

Recommendation	Actions Taken
<p>As the functional head, the Assistant Deputy Minister, Corporate Services should ensure that adequate guidance and functional direction is provided to regions, in areas such as :</p> <ul style="list-style-type: none"> <li>• <u>use of financial arrangements and funding options</u>, such as the use of Special Purpose Accounts (SPAs) versus Vote Netted Revenues (VNR) authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Since Spring 1999, FPRA has held meetings and given presentations and informal training sessions aimed at providing clearer directions and interpretation on VNR, SPA, OGDs and costing mechanisms. This training was held for financial staff and program managers in several regions and services including Atlantic and at the annual departmental finance workshops.</li> <li>• For the past 2 years MSC, with the support of FPRA, has worked on an Activity-Based Costing Initiative to be rolled out across the Atlantic Region early 2002.</li> <li>• FPRA has indicated its intent to launch a departmental working group in 2001-02 to revise the departmental multiplier (costing overhead factor). This is being done in the context of the Corporate Financial Activity-Based Costing Project and the Region is awaiting additional departmental guidance.</li> <li>• The revised <i>Revenue Generation and Collaborative Arrangement Policy</i> was introduced, which addressed the interpretation issues raised in the audit.</li> <li>• Since Fall 2000, the FIS Project Office</li> </ul>



	<p>has co-ordinated a Chart of Accounts (COA) Task Force with national representation to update/revise the financial coding manual for compliance with FIS requirements.</p> <ul style="list-style-type: none"> <li>• Early in 2001, the Minister approved a revenue signing delegation instrument which included SPAs and OGDs. A national working group was established to deliver this instrument, lead by FPRA.</li> </ul>
--	--

*Recommendation 1.3: Project definitions and coding - Met*

Recommendation	Actions Taken
<p>As the functional head, the Assistant Deputy Minister, Corporate Services should ensure that adequate guidance and functional direction is provided to regions, in areas such as :</p> <ul style="list-style-type: none"> <li>• <u>project definitions</u> for the linking of operational performance information, human resource information and financial information; accountabilities, and financial performance need to be part of the evaluation process.</li> <li>• <u>coding</u>: need a co-ordinated national process to get the coding structure simplified, consistent, and understandable for all.</li> </ul>	<ul style="list-style-type: none"> <li>• CMRD together with the Blue Print Working Group, have received EMB endorsement on January 14, 2002 on a common reporting and coding structure, implemented on April 1, 2002.</li> <li>• The Atlantic Region has been actively working with CMRD and the Blue Print working group on this initiative, based on some initial steps taken in the Region. The responsibility for pursuing this work now rests with Corporate Services; the role of the Region is simply to participate in the departmental process.</li> <li>• Finance has worked on a new coding structure implementation.</li> <li>• This will provide the tools to support all Regions and Services in linking information on operational performance and resources.</li> </ul>

**Recommendation #2 - In Progress**

Recommendation	Actions Taken
<p>The Director of MSB, together with the Regional Management Committee (RMC), should prepare an action plan for implementing the principles of the Financial Management Accountability Framework Guide, in light of other government initiatives such as Modernization of Comptrollership and the Financial Information Strategy (FIS). This plan should include components such as: information sessions for program managers and MSB staff, outlining the principles and activities that would need to be carried out in order to integrate these principles into day to day management.</p>	<p>A number of steps have been taken or are planned, in the following areas.</p> <p>On training:</p> <ul style="list-style-type: none"> <li>• Training provided to MSB staff in accrual accounting and accounting for capital assets. Managers have been provided with a two-page overview.</li> <li>• MSB piloted a two hour training session, delivered to the Environment Protection Branch, dealing with all facets of the administrative and financial services. This training session will be expanded to four hours, highlighting both MSB responsibilities as well as those of the Program Manager, and delivered to all program branches in the fall of 2001. FIS, Modern Comptrollership and the FMAF are the over riding themes of these sessions.</li> </ul> <p>On reporting tools:</p> <ul style="list-style-type: none"> <li>• Discoverer was selected among various reporting tools as the best available option for managers and will be added on each managers' desktop.</li> <li>• MSB staff has been trained on Discoverer in 2002.</li> <li>• MSB is also planning to adopt a standardized financial reporting package that will be provided to RC Managers on a monthly basis.</li> </ul> <p>In the area of the Financial Management Accountability Framework, the recommendations formulated in the initial audit, for the development of both action and training plans, have been overtaken by departmental initiatives such as <i>Modern Comptrollership</i>, the <i>Financial Information Strategy</i> and the <i>Modern Management Action Plan</i>, in which the Region plays an active role. The Region needs to continue its efforts in implementing the <i>Modern Management Action Plan</i> along with providing appropriate training both for program managers and MSB staff, especially in the area of financial management, contracting, values and ethics.</p>

**Recommendation #3 - In Progress**

Recommendation	Actions Taken
<p>The Director of MSB should develop a training plan for MSB in order to prepare his staff for modernized comptrollership. This plan should include as a minimum the following areas: Activity-Based-Costing, Accrual Accounting, Results-based Management, Risk Management, Government-Wide Procurement Reform.</p>	<ul style="list-style-type: none"> <li>• A branch training plan on FIS was prepared for this past year, as part of the departmental exercise.</li> <li>• In addition, individual training needs were and are continuing to be identified as per the annual performance appraisal process.</li> <li>• Therefore, various training activities occurred since the audit, in areas such as: FIS in general, accrual accounting, accounting for capital assets and various courses for PG's and FI's certification. Many other training activities are also planned in the area of reporting and performance management.</li> <li>• The Region has to continue efforts in ensuring appropriate training to prepare his staff for the Modern Management Action Plan.</li> </ul>

**Recommendation #4 - Partially Met**

Recommendation	Actions Taken
<p>The Regional Director General (RDG) Atlantic Region, with the support of RMC, should oversee implementation of the accountability component. This involves having:</p> <ul style="list-style-type: none"> <li>• financial and non-financial indicators;</li> <li>• a mechanism for ensuring linkages between work plans, project sheets and achievements, in terms of financial and operational data;</li> <li>• decisions made on the basis of information thus obtained, so that accountability is credible and meaningful; and</li> <li>• performance evaluations based on the information above.</li> </ul>	<ul style="list-style-type: none"> <li>• Results-based management was the foundation of some initial piloting of an integrated financial/program planning model for the Region.</li> <li>• One of the key challenges to advancing this model further was the need for the department to adopt a common reporting and coding structure.</li> <li>• As explained as part of Recommendation 1, CMRD, together with the Blue Print Working Group, have received EMB endorsement on January 14, 2002 on such a structure, implemented on April 1, 2002. Finance has worked on a new coding structure.</li> <li>• This will provide the tools to support all Regions and Services in linking information on operational performance and resources.</li> </ul>

	<ul style="list-style-type: none"> <li>• The Region, based on their initial work, has been actively working with CMRD and the Blue Print working group on this initiative.</li> <li>• Also, the Region has taken the initial step of using the Performance Management Contracts with the Deputy Minister as the common linkage among regional planning, performance, and assessment processes. The Region is using a “top down” approach, beginning with the regional Director General’s contract with the Deputy Minister, all the way down to the contract of each directors, to plan and then monitor deliverables. Reviews are conducted twice a year to measure achievements against planned objectives.</li> </ul>
--	--

**Recommendation #5 - Partially Met**

Recommendation	Actions Taken
<p>The Director of MSB, with the support of the RMC, should develop a strategy to engage program managers in training and learning. This strategy should:</p> <ul style="list-style-type: none"> <li>• include the preparation of a comprehensive training needs analysis in the field of financial management and procurement;</li> <li>• include sessions on ethics (conflict of interest, fraud) for all employees;</li> <li>• tailor training to specific audiences and adequately communicate its value-added in the context of the Modernization of Comptrollership; and</li> <li>• create and support a continuous learning environment.</li> </ul>	<ul style="list-style-type: none"> <li>• See related actions under recommendation #2.</li> <li>• The Atlantic Region has also held a large number of formal sessions to discuss values and ethics among all staff from April to June 2001, sessions which allowed discussion and helped to raise the level of awareness.</li> <li>• However, no comprehensive training need analysis has been developed yet in the field of financial management and procurement apart from individual training plans.</li> </ul>

**Recommendation #6 - Partially Met**

Recommendation	Actions Taken
<p>The Director of MSB, with the support of the RMC, should perform a risk analysis and implement a control framework tailored to regional activities and MSB functions. This should include:</p> <ol style="list-style-type: none"> <li>1) formal desk procedures for account verification and payment;</li> <li>2) a formally defined collection process for long term outstanding invoices;</li> <li>3) establishment of control check lists for Accounts Payable clerks;</li> <li>4) a review as to whether or not it is necessary to maintain pre-verification of invoices by accounting;</li> <li>5) an analysis as to whether verification on a sample basis could be done in lieu of the current 100% verification;</li> </ol> <p>6) well-targeted MSB audits on selected operations; and</p> <p>7) a defined process for commercialization activities in which MSB would be a fuller partner.</p>	<p>Actions have been taken in the development of a control framework, more specifically the status on each recommendations are:</p> <ol style="list-style-type: none"> <li>1) Done, with the addition of a documentation trail to satisfy audit requirements.</li> <li>2) Done, including collection procedures, actions schedule and write off process.</li> <li>3) Done, within the manual on accounts payable and receivable.</li> <li>4) &amp; 5) <ul style="list-style-type: none"> <li>• The Region's response was to the effect that because payment processes are centralized in MSB, Accounts Payable Clerks exercise some of the FAA Section 34 monitoring on behalf of the program managers, such as: verification of price against the contract, coding, duplicate payments. Based on this review of all accounts, Program managers then certify that the goods were received or services rendered under section 34 of the FAA. As a result, this negates the possibility of statistical sampling in lieu of 100% verification.</li> <li>• The Region also mentioned that a review will be conducted under the Business Improvement Study currently underway in EC and mentioned the need to consider its centralized support organization versus the risks of passing these functions to managers, as part of the FMAF implementation.</li> </ul> </li> <li>6) The region stated that there is insufficient volume to allow for statistical sampling and suggested that this be done at a department-wide level. All transactions pertaining to an area at risk, such as relocation, are monitored.</li> <li>7) Financial Advisors provide advice on invoice and collection, as well as other issues to support managers. Also, it should be noted that costing activities have dropped dramatically in recent years.</li> </ol>

**Recommendation #7 - Met**

Recommendation	Actions Taken
The Director of MSB should develop a plan to perform a complete inventory of assets in order to be prepared for FIS.	The inventory was completed and the asset database updated in time for FIS implementation on April 1, 2001.

**Recommendation #8 - Not Met**

Recommendation	Actions Taken
The Director of MSB, together with the Human Resource Branch, should ensure that the MSB capacity with respect to the Official Languages requirements is maintained. This implies having the current employee in the bilingual position tested and trained if appropriate.	<p>There is one bilingual position to provide financial services to employees in the Region.</p> <p>There is currently no bilingual employee providing financial services to employees in the Region, MSB having lost a bilingual employee as of September 2002.</p> <p>In that context, the Region has engaged in the following action:</p> <ul style="list-style-type: none"> <li>• is completing a CR-5 competition for a bilingual employee (at the interview stage as of September 2002);</li> <li>• sent another employee on full time language training;</li> <li>• is planning to always have at least one employee within the branch on language training, for the next few years, in order to achieve a critical capacity of bilingualism;</li> <li>• in the interim, put procedures in place whereby to route French requests through a bilingual employee outside of Finance.</li> </ul>

**Recommendation #9 - Not Met**

Recommendation	Actions Taken
The RMC members, with the support of the Human Resources Branch, should ensure that the Inside Lane is available in both official languages.	<p>The Region informed us that the Inside Lane is currently being redesigned.</p> <p>All Human Resources information is now in both languages. However, the remainder of the information on the Inside Lane is available in English only.</p> <p>The Atlantic Region is committed to have the Inside Lane fully bilingual within the year.</p>