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FINANCIAL MANAGEMENT AND CONTROL STUDY

INTERIM REPORT

ON

DEPARTMENT OF FINANCE AND
THE TREASURY BOARD SECRETARIAT

APRIL 30, 1975



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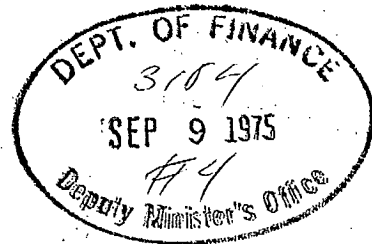
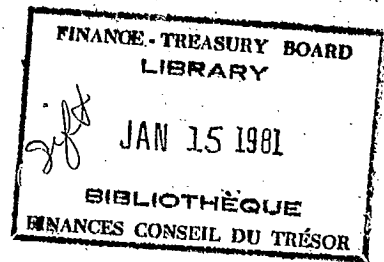
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APPENDIX A - FINANCIAL MANAGEMENT AND CONTROL STUDY

I INTRODUCTION

1.1 A memorandum setting out the approved objectives, terms of reference, reporting format and organization of the Financial Management and Control Study is attached as Appendix A to this interim report. In accordance with that memorandum we have completed a review of the Department of Finance (Department) and the Treasury Board Secretariat (Secretariat) and those significant findings which we believe should be brought to your attention are included in this report.

1.2 Our study was directed primarily toward an evaluation of the effectiveness of the present financial management and control systems. ||

1.3 This interim report includes an overall evaluation of the system of financial management and control and sets out the inadequacies and weaknesses of the various components of this system which were identified by the study team and which are, for the most part, within the authority and responsibility of the Department and the Secretariat to correct. The report includes a description of the various parts of the system, an analysis of the deficiencies revealed by our review and their impact on the effectiveness of financial management and control and our recommendations for corrective action.

1.4 Certain of these matters appear to be attributable to inadequacies in, or constraints imposed by, government-wide personnel, budgeting, financial reporting and other administrative systems. These matters are not dealt with extensively in this report. They have been identified and documented in our files and will be subject to further study and analysis on a government-wide basis.

II SCOPE

EXTENT

2.1 The study was principally directed at the internal financial management and control aspects pertaining to the Department's ten and the Secretariat's three programs which are:

Department

Financial and Economic Policies Program
Municipal Grants Program
Public Debt Program
Fiscal Transfer Payments Program
Contracting-Out Payments Program
Guaranteed Loans Program
Anti-Dumping Tribunal Program
Federal-Provincial Employment Loans Program 1971
Special Program
Winter Capital Projects Fund Program

Secretariat

Central Administration of the Public Service Program
Government Contingencies and Centrally Financed Programs
Employer Contributions to Employee Benefit Plans Program.

2.2 In addition to appropriations financing the programs of the Department and the Secretariat the study included procedures related to the loans and investments accounts, current and demand liabilities, deposit and trust accounts and the deferred and special accounts which are part of the Accounts of Canada and appear in the Statement of Assets and Liabilities.

2.3 The following agencies, although related to the Department and the Secretariat through the nature of their activities and reporting to the Minister of Finance and the Treasury Board, were not included in the study:

The Auditor General,
The Canada Deposit Insurance Corporation,
The Anti-Dumping Tribunal,
The Bank of Canada,
The Industrial Development Bank,

The Department of Insurance,
The Tariff Board, and
The National Research Council of Canada.

WORK PROGRAM

2.4 We met initially with the Senior Financial Officer of the Department, the Director, Finance, Personnel and Administration Branch who assists the Deputy Minister and the Secretary in the management of the internal administration. The study commenced with a planning, documentation and familiarization process which provided the necessary basic information to permit us to develop a detailed work program for the study. The study was divided into two major phases. In the first phase the systems, methods and procedures within Finance, Personnel and Administration Branch, Guaranteed Loans Administration, Federal Provincial Relations Division and Municipal Grants Division of the Department and the Estimates Division of the Secretariat were reviewed. The second phase of the study involved analysis of the various branches of the Department and the Secretariat which enabled us to examine the utilization of financial information and determine the type of information required or desired by operational personnel to achieve efficient financial management and control.

INTERVIEWS

2.5 Discussions were held with various personnel including:

Assistant Deputy Ministers,
Deputy Secretaries,
Directors and their support officers,
Director, Finance, Personnel and Administration Branch and his
support staff, and
Executive assistants.

2.6 In addition to fact-finding interviews with senior officials and staff various documents were examined including:

Treasury Board "Guide on Financial Administration",
Manual of Internal Administration,
Financial Management and Accounting Procedures Manual,
Program Forecasts and Estimates,
Public Accounts,
Narratives of Accounting Procedures,

Organization Charts,
Position Descriptions,
Municipal Grants Act,
Canada Student Loans Act,
Farm Improvement Loans Act,
Small Businesses Loans Act,
Fisheries Improvement Loans Act,
Financial Administration Act,
Official Languages Act,
British North America Act,
Federal-Provincial Fiscal Arrangements Act,
Public Utilities Income Tax Transfer Act,
Established Programs Act,
Federal-Provincial Fiscal Revision Act, 1964,
International Development Association Act,
Bank Act,
Quebec Savings Bank Act, and
Loan Agreements.

APPROACH

2.7 The intention of the study was to provide an outside viewpoint to financial management and control activities. We worked with Department and Secretariat personnel to arrive at positive solutions for improvement of the financial function.

DEPARTMENT CO-OPERATION

2.8 All personnel gave generously of their time and we would like to thank those members with whom we had discussions for their co-operation and willingness to discuss the issues at hand. Genuine interest was shown in our findings and we have noted that steps have already been taken to rectify some of the weaknesses.

III GENERAL EVALUATION AND LISTING OF RECOMMENDATIONS

GENERAL EVALUATION

3.1 Financial Services Division (FSD) has grown in size and structure over the past two years as a result of increased financial responsibilities and acquiring the Public Debt Program and other accounts formerly maintained by other government departments or within the divisions of the Department and the Secretariat. Some aspects of the accounting systems and procedures are still in process of development and improvement.

3.2 The need for improvement in many areas of accounting systems and paperwork management has been recognized by FSD. Steps have been taken to identify through systems flow-charting and associated techniques the specific areas and procedures which are in need of improvement and the manner in which they can be improved. To accomplish these goals a project planning board system was introduced to chart the course of each project to ensure that the target dates set for the accomplishment of individual tasks are met.

3.3 FSD are constantly implementing changes to overcome recognized weaknesses in their accounting systems and within other areas of financial management. The implementation of the recommendations contained in this report will, in our view, contribute substantially to the overall effectiveness of the Department's and the Secretariat's financial management and control function.

3.4 While we believe that all of the recommendations should be implemented we feel that the major areas of concern are the Guaranteed Loans Program, Loans Receivables, Financial Reporting and Supplementary Accounting Systems. //

3.5 The Department's Finance, Personnel and Administration Branch provides joint administrative and financial services to the Department and the Secretariat. Consequently, the recommendations are divided into three areas of responsibility. These are detailed in the body of the report as recommendations that are common to the Department and the Secretariat, those that apply only to the Department and those that apply only to the Secretariat.

LISTING OF RECOMMENDATIONS

Organization

3.6 *Either the position of Director, Finance, Personnel and Administration Branch or one of the positions of Assistant Director should be filled by a person with a qualified accounting background.*

Functional Responsibilities

3.7 *The responsibility of the Financial Services Division for giving functional guidance and direction in financial matters should be defined and communicated through the Manual of Internal Administration.*

Training and Development

3.8 *Financial Services Division's training and development program should be extended to cover administrative officers having financial responsibilities within the branches.*

General Analysis of Financial Officers

3.9 *Because of the special nature of their work, consideration should be given to establishing a separate category for the Secretariat's program analysts.*

Accounting Control of Expenditures

3.10 *The procedure of batching cheque requisitions for submission to the Department of Supply and Services paying offices should incorporate a control, as a precaution against fraud and error, whereby a responsible financial officer of Financial Services Division independent of the payment officer, as the final procedure before submission, ensures that payment documents are properly authorized under Sections 26 and 27 of the Financial Administration Act.*

Payroll

3.11 *Financial Services Division should exercise a functional responsibility for financial controls over payroll and periodically should distribute the payroll cheques.*

Revenues

3.12 *Consideration should be given to charging interest on past-due instalments relating to amortized loans.*

Remittances by Mail

3.13 *Arrangements should be made to ensure adherence to the requirements of the Receipt and Deposit of Public Money Regulations with respect to mail opening.*

3.14 *A specific endorsement stamp should be used by the Central Mail Room to stamp all cheques and negotiable instruments as the mail is opened to prevent cashing by unauthorized persons.*

3.15 *Financial Services Division should institute a review of the mail opening procedures to determine whether cash blotters should be maintained in the Records Offices.*

Furniture and Equipment

3.16 *The accounting system, now being developed should be implemented in 1975 to ensure that all furniture and equipment acquired by the Department and the Secretariat are accounted for on a quantitative basis.*

3.17 *Program and responsibility centre managers should be held accountable for all furniture and equipment located within their areas.*

Inventories of Materiel

3.18 *The Finance, Personnel and Administration Branch should set up an appropriate system to monitor the implementation of the new inventory control system to ensure its completion by 1975.*

3.19 *The Finance, Personnel and Administration Branch should establish quantitative controls over all stocks of furniture, equipment and supplies.*

Guaranteed Loans Receivable

3.20 *A fully oriented computerized system of accounts that will produce a continuous running balance of each loan as transactions occur should be developed and implemented to meet the accounting and financial reporting requirements with respect to defaulted student and economic business loans.*

3.21 *Control accounts should be established by class of loan.*

3.22 *Provision should be made in the accounts to include the interest which is recoverable on all defaulted loans.*

3.23 *As part of its program the computerized system of accounts should produce a separate listing of all inactive defaulted loans, including loans written off with proper authority, for the purpose of follow-up and continued control.*

3.24 *Periodic checks should be made to establish the existence of persons with student and economic business loans.*

3.25 *All loan accounts including defaulted student loans without Social Insurance Numbers should be appropriately identified and included in the computerized system of accounts.*

3.26 *Periodic or monthly statements should be produced showing the class and the total amount of loans outstanding including interest receivable on student and economic business loans and the defaulted loans awaiting finalization of costs.*

3.27 *Financial Services Division should exercise functional responsibility for the Guaranteed Loan Program's accounting system.*

3.28 *Lending institutions should be reimbursed for defaulted student loans taken over from them only when a claim supported by adequate loan documentation is submitted.*

3.29 *A suited and appropriate method of aging accounts should be devised to determine the collectible and non-collectible status of defaulted loans from the date the lending institutions are reimbursed.*

3.30 *The system should provide controls which prevent persons who do not honour their loan obligations from receiving further loan assistance under the Program's other loan plans and from loan assistance programs that are sponsored by other government departments.*

Loans Receivable

3.31 *A suitable system of computerized accounts complete with reconcilable control accounts, presently in development, should be completed by the summer of 1975.*

3.32 *The system should incorporate features which will produce, as part of the monthly or periodic statements, information showing all overdue payments of principal and interest on amortized loans, and interest payable on unamortized loans.*

3.33 *Collection procedures should be documented and a suitable follow-up system devised whereby all loan recovery actions are systematically and properly recorded on file for future collection and reference purposes.*

Internal Audit

3.34 *An internal audit section should be established for the purpose of auditing and reporting on all programs and activities of the Department and the Secretariat.*

Program Forecasts/Main Estimates

3.35 *The Department's and the Secretariat's Program Forecasts should disclose selected activity priorities, and actual resource requirements.*

3. 36 *In order to encourage greater commitment to their budgets, program and responsibility centre managers should play a more positive role in the preparation of the Main Estimates and operating budgets.*

Manpower Resources

3. 37 *Manpower resources indicated in the Estimates should reflect the limitations imposed by hiring procedures and the projected market for skilled employees.*

Operating Budgets

3. 38 *The responsibility centres should be reduced in number either to the branch level or to a level that will provide the most effective control over the use of financial resources.*

3. 39 *Financial Services Division should provide responsibility centre managers with comparative analyses between budgeted and actual man-years and expenditures so as to hold them accountable for initiating corrective measures and to assist them in the preparation of future budgets.*

3. 40 *Salary reserves and cost-of-living salary increases should be shown in budgetary reports as soon as they are known and become operative.*

Management Reports

3. 41 *Financial Services Division should take steps to overcome the deficiencies of the Department of Supply and Services Management Reports to provide a more meaningful report for the use of program and responsibility centre managers.*

3. 42 *Material errors accumulating in the Department of Supply and Services Invalid Code Statements and other recognized errors that affect the reported results of responsibility centre performance should be recorded manually on the Department of Supply and Services Management Reports before distribution.*

3. 43 *Reconciliations between Financial Services Division reports and those of the Department of Supply and Services should be reviewed and initialled by a senior official of Financial Services Division.*

Supplementary Systems

3.44 *Financial Services Division should institute a review of supplementary accounting systems and memorandum records maintained in the Department and the Secretariat to ensure that financial controls are adequate and the systems are not duplicated.*

3.45 *The supplementary detailed ledger accounting systems maintained by Financial Services Division to control the Loans Program and the Public Debt Program should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

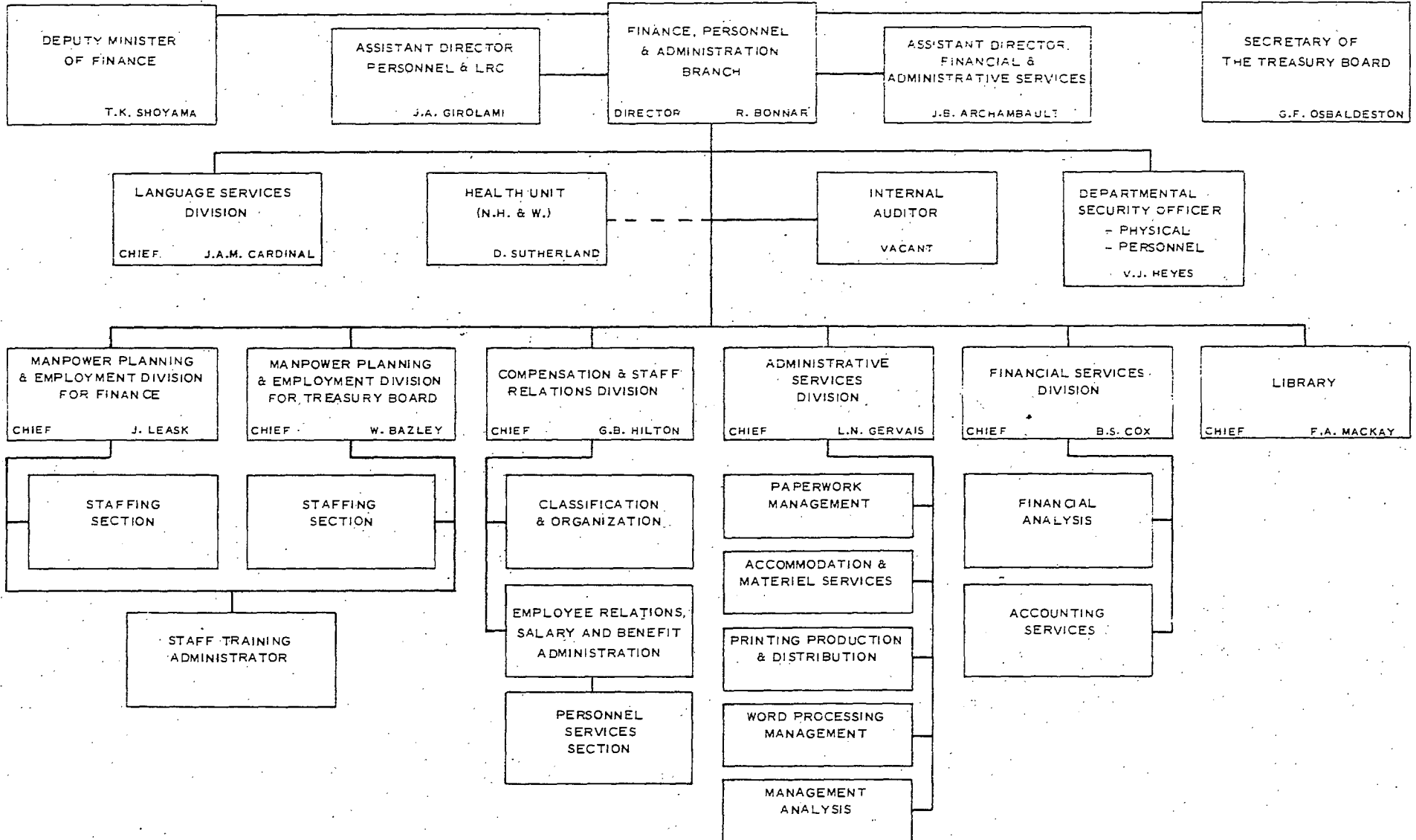
3.46 *The supplementary detailed statistical and accounting system maintained by Financial Services Division with respect to the Hospital Insurance Outside Canada Account should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

3.47 *The supplementary accounting system maintained by the Department's Federal Provincial Relations Division should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

3.48 *The supplementary accounting system maintained by the Department's Municipal Grants Division and the memorandum grants payment record cards compiled by Financial Services Division should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

3.49 *The statement listing of municipal grants payments produced for the Public Accounts should be designed to show the taxation year to which the individual grant payments relate and the amounts paid on behalf of local improvements and for other purposes.*

3.50 *The independent memorandum records and accounting systems maintained by the Secretariat's Pensions and Insurance Division should be transferred to Financial Services Division and similarly reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*



IV ORGANIZATION OF THE FINANCIAL FUNCTION

ORGANIZATION

4.1 Financial Services Division (FSD) of the Department's Finance, Personnel and Administration Branch officially came into existence in 1970 with a staff of eight employees. Since that time FSD has expanded to its present size of thirty-three employees. The Finance, Personnel and Administration Branch, as a part of the Department's organizational structure, is responsible for providing guidance on the many facets of program forecasting, preparation of the Main and Supplementary Estimates and financial management and reporting as they affect the many and varied programs and divisions of the Department and the Secretariat.

Background

4.2 For the most part, the directives and guidelines related to the organization of the financial function, contained in the Treasury Board Guide on Financial Administration, are being adhered to and applied by FSD. The Director, Finance, Personnel and Administration Branch, is the Senior Financial Officer (SFO) responsible for the Department's and the Secretariat's systems of financial administration. The SFO also actively gives functional direction on behalf of the Deputy Minister and the Secretary to program and responsibility centre managers. In his capacity as senior financial advisor he also serves as a full member of the Department's and the Secretariat's Executive and Management Committees.

4.3 The main financial control function is centralized within the Finance, Personnel and Administration Branch.

4.4 Exhibit 1 depicts how the Assistant Directors and Chiefs of the Branch report to the Director. In the absence of the Director, the Chiefs report functionally to the related Assistant Director.

Analysis

4.5 In our opinion the functional responsibility of the SFO is conducive to sound financial administration.

4.6 However, the lines of communication within the Branch organization suggest that structurally FSD functions in a subservient capacity in exercising its financial responsibilities.

4.7 The functions and responsibilities of the SFO and the Assistant Director of Finance and Administration appear to be more heavily oriented and concentrated on matters associated with the personnel and administrative function of the Department and the Secretariat. Consequently, the SFO's financial role and that of the Assistant Director of Financial and Administrative Services may only take secondary precedence in relation to personnel and administrative responsibilities. The effect of the relationship suggests that the Chief FSD, under the SFO's direction, is the catalyst for ensuring that the financial role is effectively carried out. The position of the Chief of Financial Services in the Branch organization indicates that the Division is not at a level appropriate to its role and degree of responsibility for providing financial services and guidance to the Department and the Secretariat. One way to arrive at a higher degree of attention to financial matters is to ensure that either the Director or Assistant Director has a qualified accounting and financial background which is not the case presently. An alternative would be to upgrade the position of Chief of Financial Services to the Assistant Director level.

Recommendation

4.8 *Either the position of Director, Finance, Personnel and Administration Branch or one of the positions of Assistant Director should be filled by a person with a qualified accounting background.*

FUNCTIONAL RELATIONSHIPS

Background

4.9 Personnel whose position partly entails financial responsibilities report directly to their own operational line manager.

4. 10 Services supplied by Financial Services Division (FSD), as well as systems, methods and procedures developed by them are primarily communicated to persons involved in these matters through manuals, directives and other written instructions. Informal contacts are maintained to answer queries and to respond to problem situations.

Analysis

4. 11 Within the Department and the Secretariat functional financial administrative responsibilities have not been adequately defined. The Treasury Board Guide on Financial Administration stipulates that functional direction shall be given by the Senior Financial Officer (SFO).

4. 12 Functional direction may be indicated by either organization charts or through position descriptions. At present neither organization charts nor position descriptions clearly define functional relationships.

4. 13 FSD staff report to the SFO or the Assistant Director, Financial and Administrative Services. Part of their function is to act in a service capacity for the operational divisions of the Department and the Secretariat.

4. 14 Functional guidance and direction should be defined for the positions responsible for giving functional direction. The method in which this guidance or direction is to be given should be documented and the positions expected to receive the guidance should be identified.

4. 15 We found that a representative number of program and responsibility centre managers did not fully understand the purpose and use of the Department of Supply and Services Management Reports and their support statements indicating a need for increased functional guidance and direction.

Recommendation

4. 16 *The responsibility of the Financial Services Division for giving functional guidance and direction in financial matters should be defined and communicated through the Manual of Internal Administration.*

TRAINING AND DEVELOPMENT

Background

4.17 Financial Services Division (FSD) has implemented a systematic training and development program within the Division. The program ensures that each employee's individual training and development needs are identified and planned.

4.18 Once a year, usually at annual appraisal time when employees are rated and interviewed, a priority list is made up of the courses and activities in which employees are expected to participate or in which they express a desire to participate.

4.19 Based on FSD's short-term and long-term requirements, individual employee preferences and budgetary constraints on spending, a detailed training and development program is instituted for the purpose of ensuring that staff members are given every opportunity to improve their efficiency and effectiveness as well as to enhance their career opportunities.

Analysis

4.20 This approach to employee training and development provides an incentive which tends to satisfy and raise the competency of staff.

4.21 The fact that the training program applies only to FSD employees and not to administrative officers with financial responsibilities in the Department's and the Secretariat's program and responsibility centres represents, in our opinion, a weakness in the financial management function. While the latter employees have an opportunity for training and development through their own programs, we believe that because of other priorities which may take precedence over matters in financial areas, their training and development might not receive the attention it warrants or be financially oriented.

4.22 The decision for the specific training and development of employees should remain with the Branches of the Department and the Secretariat. FSD should ensure that appropriate financial training is provided to all employees performing functions of an accounting and financial nature.

Recommendation

4. 23 *Financial Services Division's training and development program should be extended to cover administrative officers having financial responsibilities within the branches.*

GENERAL ANALYSIS OF FINANCIAL OFFICERS

Background

4. 24 There are currently fifteen Financial Administration Officers (FI's) in the Financial Services Division. The average number of months spent by FI's in their present position amounts to approximately ten months.

4. 25 Within the Secretariat there are 42 program analysts classified within the FI group. The positions located in the Program Branch are not, in the true sense, positions which are related to the duties performed by Financial Officers. The turnover of employees in the group is very high.

4. 26 The reasons for leaving were analysed and in almost all cases they consisted of transfers to other departments and central agencies where opportunities within the financial and administration field offered higher remuneration and classification than the ones they held within the Secretariat.

Analysis

4. 27 The program analysts of the Secretariat, while exercising an interplay and decisive role in the approval of new and on-going expenditure programs and activities within the programs of departments and central agencies, are performing a unique specialized evaluation function. This function presupposes that once classified as Financial Administrators within the FI group they possess the knowledge and capabilities for "the planning, execution and control of accounting, budgetary and financial management practices, systems and procedures required for the efficient operation and conduct of government programs and activities". The effect of the classification enables them to capitalize on the numerous opportunities offered to members of the FI group. This results in individuals obtaining positions within government enterprise which require a more advanced accounting knowledge and greater financial experience than they often possess.

Recommendation

4.28 *Because of the special nature of their work consideration should be given to establishing a separate category for the Secretariat's program analysts.*

V CONTROL OF EXPENDITURES AND REVENUES

ACCOUNTING CONTROL OF EXPENDITURES

Background

5.1 Spending authority is exercised by the program and responsibility centre managers within the various Branches and Divisions of the Department and the Secretariat while payment authority is exercised centrally by Financial Services Division (FSD).

5.2 Within Financial Services Division the batching or grouping together of similar cheque requisitions to the Department of Supply and Services (DSS) paying offices is performed after completion of the pre-audit function and after Section 26 authority has been obtained with the result that the approved payment documents are available to the clerk responsible for establishing batch control and to other employees prior to processing by DSS.

5.3 DSS examines only the Section 26 approval and therefore it is critical that effective control be exercised over the batching procedure and the approval and payment authorities. Since the batching of cheque requisitions for submission to DSS is performed after Section 26 approval, it is possible for fictitious documents to be inserted into the DSS payment system and public funds could be misappropriated. Batching controls should be established prior to obtaining the final payment authority under Section 26 from a responsible financial officer of Financial Services Division before submission of the payment documents to DSS to ensure that the approved payment documents are not accessible to the batching clerk and other employees prior to processing by DSS. The batching procedure should incorporate a control whereby a responsible financial officer independent of the payment officer ensures that the payment documents are properly authorized under Section 26 and 27 of the Financial Administration Act as the final procedure before submission to DSS.

Recommendation

5.4 *The procedure of batching cheque requisitions for submission to the Department of Supply and Services paying offices should incorporate a control, as a precaution against fraud and error, whereby a responsible financial officer of Financial Services Division independent of the payment officer, as the final procedure before submission ensures that payment documents are properly authorized under Sections 26 and 27 of the Financial Administration Act.*

PAYROLL

Background

5.5 The Compensation Staff Relations Division of the Department's Finance, Personnel and Administration Branch is responsible for classification, organization, employee relations and provides payroll input. Paylists and cheques are prepared by the Department of Supply and Services (DSS) and are forwarded directly to the Division's Personnel Services Section. Payroll cheques are released to officers of the branches of the Department and the Secretariat for distribution to employees. A copy of the paylists is sent to Financial Services Division (FSD).

5.6 When the Department's and the Secretariat's paylists and cheques are received, the Manager of the Personnel Services Section turns them over to personnel clerks responsible for the examination and distribution of cheques to Branch Heads. Some preliminary examination is made of supplementary pay cheques that are received but little, if any, checking and verification is performed in respect to the regular paylists and cheques.

Analysis

5.7 The combination of functions performed and exercised by the Compensation Staff Relations Division with respect to payroll input, classification, employee relations and the distribution of payroll cheques is not conducive to good internal control.

5.8 An unauthorized name or improper salary rate could be introduced into the system and remain undetected for some time.

5.9 The payroll system is basically a system designed by DSS whereby the procedures for the safeguarding of pay cheques and the controls that apply to payrolls are left up to the departments and central agencies to implement. The result is that the controls over payrolls and issuance of pay cheques may not be applied effectively to safeguard against abusive practices because the

payroll procedures are not followed properly, lack proper accounting controls, contain internal control weaknesses and do not provide for periodic and independent payroll distribution check-offs by a senior financial officer.

5. 10 FSD does not have any functional responsibility over the methods and systems that are currently practised with respect to payroll controls and the distribution of pay cheques.

5. 11 Consideration should be given to the advisability of having FSD:

- institute a review of the existing payroll procedures and controls to ensure that they provide adequate safeguards against abusive practices and errors; and
- periodically distribute the pay cheques to individual employees within the Department and the Secretariat after the cheques have been compared with the paylists.

Recommendation

5. 12 *Financial Services Division should exercise a functional responsibility for financial controls over payroll and periodically should distribute the payroll cheques.*

REVENUE

Background

5. 13 Revenue generated by the Department consists primarily of interest received from the various loan programs, fees received for services provided by the Inspector General of banks and profits arising from transactions related to the bullion and coinage working capital advance accounts.

5. 14 It is an unwritten policy of the Department to not charge interest on past due loan instalments of principal and interest. Provision should be made for the charging of interest on overdue payments. The practice in addition to collecting additional revenues would speed up the collection process and serve to identify delinquent accounts.

Recommendation

5.15 *Consideration should be given to charging interest on past-due instalments relating to amortized loans.*

REMITTANCES BY MAIL

Background

5.16 The recording of money received, issue of receipts and the safe-keeping of public money are subject to Section 11(3) of the Financial Administration Act and the Receipt and Deposit of Public Money Regulations.

5.17 All mail is picked up at the Post Office by an employee of the Central Mail Room. Unidentified mail is opened. Correctly addressed mail is distributed unopened to Records Offices located on each floor where it is opened. Cash blotters are used by the Central Mail Room but not by the Records Offices.

5.18 The opening of the mail and the entry in the cash blotter is performed by one person. The cash blotters together with monies are taken to Financial Services Division (FSD) where the cheques are compared to the cash blotters and initialled by the Revenue Control Clerk. At this point the cheques are endorsed "For deposit only paid to Bank of Canada for credit to Department of Finance, Receiver General Account". The volume of remittances is substantial and amounts to approximately \$130,000,000 per month.

Analysis

5.19 Procedures for the handling of remittances through the mail are not in accordance with the Receipt and Deposit of Public Money Regulations which stipulates: "Where money is received through the mails, arrangements must be made for two persons to be present at the mail opening and for an immediate record to be made of receipts both in those instances where the receipts are in the form of cheques, money orders or other such instruments and where actual cash is received".

5.20 The Central Mail Room does not employ a specific endorsement stamp to stamp all cheques and negotiable instruments as the mail is opened and recorded on the cash blotter to prevent encashment by unauthorized persons.

The endorsements on cheques and instruments are made by FSD after the cash blotters have been delivered to them by the Central Mail Room.

5.21 It is impossible under the present system to prevent the Records Offices from receiving cheques and other forms of negotiable instruments which should have been opened and processed by the Central Mail Room.

5.22 Technically, all mail should be opened unless it is of a personal or confidential nature. Failing the ability to open all letters which are directed to the Department and the Secretariat, FSD should institute a review of the mail opening procedures to determine whether cash blotters should be maintained in the Records Offices.

Recommendations

5.23 *Arrangements should be made to ensure adherence to requirements of the Receipt and Deposit of Public Money Regulations with respect to mail opening.*

5.24 *A specific endorsement stamp should be used by the Central Mail Room to stamp all cheques and negotiable instruments as the mail is opened to prevent cashing by unauthorized persons.*

5.25 *Financial Services Division should institute a review of the mail opening procedures to determine whether cash blotters should be maintained in the Records Offices.*

VI CONTROL OF ASSETS AND LIABILITIES

6.1 In addition to responsibility for the control of furniture, fixtures, and equipment, the Department and the Secretariat exercise a very important responsibility with respect to some of the major assets and liabilities appearing in the Statement of Assets and Liabilities of Canada.

6.2 The Department and the Secretariat apply the policy of charging all office supplies and furniture and equipment directly to the Administration Program.

6.3 The total value of all furniture and equipment and stocks of furniture and equipment, and supplies held by the Department and the Secretariat is estimated at \$2 million.

FURNITURE AND EQUIPMENT

Background

6.4 There is no accounting system to control the furniture and equipment acquired and paid for by the Department and the Secretariat.

6.5 The furniture, fixtures and equipment located on the floors of the Department and the Secretariat were physically counted in March 1975. The items have been marked with capital asset identification numbers. All items located on the floors have been recorded on capital asset record cards showing quantity on hand and their location. No costing of the items have been done. This is in process.

Analysis

6.6 The furniture and equipment listings, including subsequent purchases and disposals, have not been recorded in appropriate memorandum control accounts to provide the essential quantitative and dollar controls over the furniture and equipment located in responsibility centres and storerooms.

6.7 Some responsibility centre managers refuse to assume any accountable responsibility for the furniture and equipment located within their program areas because of the open office landscape concept.

Recommendations

6.8 *The accounting system, now being developed should be implemented in 1975 to ensure that all furniture and equipment acquired by the Department and the Secretariat are accounted for on a quantitative basis.*

6.9 *Program and responsibility centre managers should be held accountable for all furniture and equipment located within their areas.*

INVENTORIES OF MATERIEL

Background

6.10 The Department and the Secretariat recognize that Materiel Management under present procedures are not adequate. Arrangements have been made with the Department of Supply and Services to review the entire Materiel Management System with a view to improving and setting up a new supply system which will conform with the requirements of Treasury Board Circular M1-1-65.

6.11 The study commenced in February 1974 and is still in progress.

Analysis

6.12 A number of tasks have been completed. However, a considerable amount of work remains to be done. The materiel located in the basement storeroom has not been counted.

6.13 Certain items of materiel in the basement storeroom are in excess of the Department's and the Secretariat's requirements. The extent of the surplus stock will not be known until a complete inventory is taken and an appraisal is made of the items on hand.

6. 14 When the new system and procedures are established it should provide satisfactory control, if appropriate control accounts are set up within the Financial Service Division Accounting System.

Recommendations

6. 15 *The Finance, Personnel and Administration Branch should set up an appropriate system to monitor the implementation of the new inventory control system to ensure its completion by 1975.*

6. 16 *The Finance, Personnel and Administration Branch should establish quantitative controls over all stocks of furniture, equipment and supplies.*

GUARANTEED LOANS RECEIVABLE

Background

6. 17 The Guaranteed Loans Administration Unit of the Department's Government Finance Loans Investments and Guarantees Division, among its other responsibilities, is responsible for the day-to-day administration of the several guaranteed lending programs designed to assist students, farmers, fishermen and small businesses in obtaining loans through the chartered banks and other approved lending institutions. In the pursuit of its responsibilities the Unit is responsible for the administration and collection of \$43 million in defaulted loans. The receivables consist of approximately \$37 million in student loans which are controlled via a computerized system of accounts and the balance of \$6 million in economic business loans which are accounted for by manual accounting records. The Division employs an international collection agency to assist in the collection of defaulted student loans.

6. 18 The only statement produced in respect to the student and economic business loans is a monthly computer statement for the Canada Student Loans Plan. The statement, which is the accounts receivable record, is referred to as the "Master File Listing of Claims" and is produced for the internal needs of the Guaranteed Loans Administration Unit. The statement produces specific loan data in respect to individual loans and their current status. It summarizes the total principal outstanding, the recoverable costs and the total amount of the accounts that are in suspense.

6.19 The master file listing of receivables is not a complete updating of the accounts receivable at month-end because of the suspense account transactions, constraints which arise from the collection and monthly remittance of payments by the international collection agency, the inability to process certain account transaction data because of incomplete or lack of suitable payment identification data and the inclusion in accounts receivable of accounts which have been written off with proper authority over the years. The monthly payments received from the international collection agency around the middle of each month are generally processed within days of their receipt. However, monthly payments which relate to suspense accounts for which loan documentation has still not been received and payment data which cannot be properly identified may not actually be reflected in the accounts receivable until the month following and even months later, or alternatively, until proper identification is obtained for the payments and the appropriate loan documents are received for the accounts in suspense. The lack of suitable payment identification data is beyond the immediate control of the Guaranteed Administration Unit since it originates from either the international collection agency or from other sources. The Unit is constantly taking steps to improve upon this lack of information even though it is difficult, in most situations, to overcome.

6.20 The Guaranteed Loans Administration Unit has stated that the procedure of having the international collection agency remit collections on a monthly basis and the process of classifying defaulted loans in suspense until the loan documentation is received is practical since it is more economic to receive the payments this way and that they have no other alternative than to place the reimbursed loans in suspense as the lending institutions will not willingly relinquish their loan documentation until they receive payment for their guaranteed claims.

6.21 A report on each loan plan's activities is prepared annually for the Minister of Finance. The information in the Annual Report is mainly statistical showing the total value of loans outstanding, number and amount of loans made by lending institution and province, a summary of operations from the plan's inception and statistical information in respect to borrowers and the purpose of the loans.

Analysis

6.22 Our examination indicated a number of significant weaknesses in the accounting for the loans:

- The accounting system is a combination of a computerized system of accounts and manually maintained records, neither of which appear to be adequately meeting the minimum requirements of accountability in that interest recoverable on defaulted loans is not included in the loan accounts and the transaction data in the student loan accounts is not the most current data.
- No control accounts are maintained against which the total of the student and economic business loans can be verified. The situation has prevailed for years.
- Defaulted student loans taken over from lending institutions are included in the master listing of receivables as suspense account transactions until the costs associated with their transfer are verified by post-audit. While in suspense some payments received against defaulted loans cannot be applied against their suspense account balances until the appropriate loan documents are obtained, the account is audited, and the accounts are set up in the receivables listing itemized as to loan principal and recoverable costs. Over \$3 million in defaulted loans were included in suspense at April 30, 1975. In some cases payments received against suspense account transactions go back months before they can be applied against their loan balances. The loan accounts in suspense are, in effect, the reimbursements to the lending institutions and do not reflect the loan balances which may be outstanding at any time. There is generally a two-month post-audit backlog of 2,000 or more claims which are recorded in receivables as suspense account transactions because of the inability to obtain loan documents from the lending institutions.
- No provision has been made within the defaulted student loans system of accounts to separately identify those loans which are of doubtful value and cannot be collected because of death, bankruptcy and for other reasons. The "Master File Listing of Claims" includes student loans which have been written off over the years with appropriate legislative and executive authority. As a result the student receivables listing not only does not identify the number and amount of inactive loans and the reasons for their non-collection, it also includes bad debts which, over the years, have been written off with proper authority.
- There is no method of identifying the collectible and non-collectible status of defaulted loans to determine whether the collection of certain inactive loans should be pursued.

- There are no adequate periodic or monthly statements produced showing the class and the total amount of defaulted loans outstanding including interest receivable on student and economic business loans and the relative position of the defaulted loans awaiting finalization of costs.
- No periodic inspection is made of individual loan accounts at the lending institution and the international collection agency levels, nor are confirmation letters sent to students who have loans with lending institutions and to students who have defaulted on their loans to establish the legitimacy of the guaranteed loans and to confirm the balances of their outstanding loans. The addresses of students who have made loans under the plan are retained by the lending institutions and the international collection agency. The addresses are not retained by the Guaranteed Loans Administration Unit as part of its regular accounting procedures although addresses are available on file. There are cases on record where students have received more than one loan under the plan concurrently. The confirmation procedure is not only essential but is warranted in view of the large number of lending institutions and the diversified branch operations of the international collection agency which are involved in the loan and collection process.
- Persons with defaulted economic business loans are not periodically sent confirmation letters to confirm the balances of their loans.
- Defaulted student loans not identified by a Social Insurance Number are maintained on individual ledger accounts separate from the computerized system. The accounts number from 40 to 50 individual loan accounts.
- Lending institutions are reimbursed for defaulted loans taken over from them on the strength of a signed claim without support documentation to substantiate the validity of the claim. The practice results in accounting and administrative difficulties as payments to the institutions must be classed as suspense account transactions until the defaulted loans are audited and costs are determined, before they are categorized as receivable. Some lending institutions have not been co-operative in forwarding loan documentation on receipt of payment with the result that they must be pursued to ensure that the essential documents are obtained.

- The system does not incorporate a control feature which precludes persons who do not honour their loan obligations from receiving further loan assistance under the Program's other loan plans and from loan assistance programs that are sponsored by other government departments.
- The memorandum accounts receivable records are maintained independently of Financial Services Division (FSD). FSD does not exercise a direct responsibility over the financial information produced by the accounting records to ensure that the system is adequately designed as an effective measure of control over collectible loans and for financial reporting requirements.

6.23 A computer program is now in process of development for the separate identification of all inactive defaulted student loans from the main receivables listing, including those defaulted loans which have been properly authorized for deletion from the accounts over the years. The inactive loans listing, when produced, is to be used for the purpose of obtaining appropriate legislative and executive authority for write-off and as a permanent record of all deleted loans in the event of further payment and collection.

Recommendations

6.24 *A fully oriented computerized system of accounts that will produce a continuous running balance of each loan as transactions occur should be developed and implemented to meet the accounting and financial reporting requirements with respect to defaulted student and economic business loans.*

6.25 *Control accounts should be established by class of loan.*

6.26 *Provision should be made in the accounts to include the interest which is recoverable on all defaulted loans.*

6.27 *As part of its program the computerized system of accounts should produce a separate listing of all inactive defaulted loans, including loans written off with proper authority, for the purpose of follow-up and continued control.*

6.28 *Periodic checks should be made to establish the existence of persons with student and economic business loans.*

6.29 *All loan accounts including defaulted student loans without Social Insurance Numbers should be appropriately identified and included in the computerized system of accounts.*

6.30 *Periodic or monthly statements should be produced showing the class and the total amount of loans outstanding including interest receivable on student and economic business loans and the defaulted loans awaiting finalization of costs.*

6.31 *Financial Services Division should exercise functional responsibility for the Guaranteed Loan Program's accounting system.*

6.32 *Lending institutions should be reimbursed for defaulted student loans taken over from them only when a claim supported by adequate loan documentation is submitted.*

6.33 *A suited and appropriate method of aging accounts should be devised to determine the collectible and non-collectible status of defaulted loans from the date the lending institutions are reimbursed.*

6.34 *The system should provide controls which prevent persons who do not honour their loan obligations from receiving further loan assistance under the Program's other loan plans and from loan assistance programs that are sponsored by other government departments.*

LOANS RECEIVABLE

Background

6.35 *Financial Services Division's (FSD) Accounts Receivable Section is responsible for maintaining the subsidiary accounts receivable records and for effecting collection of loans made to the Provinces and Municipalities under the following major loan programs:*

Municipal Development and Loan Fund

Special Development Loans Program, Vote L13c, 1970-71

Federal-Provincial Employment Loans Program, Vote L19a, 1971-72

Winter Capital Projects Fund, Vote L12A, 1972-73.

6. 36 Once loan indebtedness under the individual programs is established, the Accounts Receivable Section is responsible for ensuring that payments are received in accordance with the terms and conditions under which the loans are made. In carrying out its responsibilities the Section maintains a subsidiary accounting system consisting of accounts, registers, due date-books, repayment schedules, debenture data books, cash receipts registers and files in which it records and traces overdue payments against individual loans. The subsidiary accounts and records form the support backup to forty-one general ledger control accounts (FSD Accounting System) to which the total of the subsidiary loan accounts can be verified.

Analysis

6. 37 Not all loans made under the programs are necessarily amortized. In some cases they may simply be conditional upon repayment of the loan principal by some future date with interest payable during the interim. The accounting records only reflect the interest payments received and not the interest that is outstanding and payable.

6. 38 Where loans are amortized the loan repayment schedules represent the only chronological accounting record of the principal and interest payments received. As loan instalment payments are collected they are annotated on the schedules and cross-referenced to the cash receipts records to provide an accounting and audit trail of the accounting transaction data.

6. 39 Overdue payments of principal and interest on amortized loans and interest payable on unamortized loans must be established by visual examination and manual calculation of individual loan accounts. Schedules of overdue payments of principal and interest in respect to the loans are only prepared and referred to senior officials of FSD when collection difficulties are experienced.

6. 40 Various types of records and transaction data, consisting in some cases of manual ledger accounts, in other cases of annotated loan repayment schedules, representing an interdependent system of subsidiary accounting records and file support data, are relied upon to account for the loans and instalment payments under the respective loans programs.

6. 41 The inflexibility of the subsidiary accounts as a viable source of loan balances, outstanding balances of principal and interest, and interest that is due and payable, indicate that not only are the subsidiary accounts not conducive to reconciliation with their general ledger control accounts but that reconciliation is a time-consuming process. Consequently, while a reconciliation of the accounts is carried out yearly, no monthly or periodic reconciliation is made. The loan accounts which now number from 4,000 to 5,000 have become more difficult to manage as a manual system of accounts.

6. 42 The present system is not readily and conveniently reconcilable to the general ledger control accounts and may result in error and possible oversight in respect to the collection of some loan accounts.

6. 43 For the most part collection procedures are carried out by telephone with a scrap paper memorandum kept on file of the dates that the calls are made with occasional mention of the officials contacted and the reasons given for the non-payment of overdue instalments. The loan procedure specifies the use of a standard form as a past-due reminder notice. Other than that there appears to be little else in the way of a collection procedure. Except for isolated cases there is no evidence on the loan files to suggest that the past-due reminder notice is used consistently for all payments which fall into arrears. There is need for a properly documented collection procedure, complete with appropriately designed follow-up forms, outlining the steps to be taken over specified time intervals in pursuing the collection of overdue loans, including instructions on the forms to be retained on file as evidence of collection and payment difficulties, and the circumstances under which overdue loan payments are to be reported for further action to a senior official of FSD.

6. 44 No periodic or monthly statements are produced showing the total loans outstanding by program in respect to current balances and overdue payments of principal and interest and interest that is due and payable.

6. 45 The development of a computer system for the Loans Receivable accounts is discussed in 9. 18.

Recommendations

6. 46 *A suitable system of computerized accounts complete with reconcilable control accounts, presently in development, should be completed by the summer of 1975.*

6. 47 *The system should incorporate features which will produce, as part of the monthly or periodic statements, information showing all overdue payments of principal and interest on amortized loans, and interest payable on unamortized loans.*

6. 48 *Collection procedures should be documented and a suitable follow-up system devised whereby all loan recovery actions are systematically and properly recorded on file for future collection and reference purposes.*

VII INTERNAL AUDIT

Background

7.1 There is no internal audit section to carry out the financial audits of all programs and activities in the Department and the Secretariat.

7.2 The services of the Audit Services Bureau were utilized to perform an operational audit of the Department's Olympic Coin Program's financial operations. The audit was carried out in the summer of 1974. This represents the only time that the Bureau was called in to examine and report on a financial activity operating in the Department and the Secretariat.

7.3 Audit functions are generally carried out by the Chief Financial Services Division (FSD), and FSD's Head, Financial Programs and Systems Implementation. The audits relate to activities of the Loans Programs which contain a "Forgiveness of Indebtedness" clause.

7.4 The proposed internal audit section would come under the auspices of the Director, Finance, Personnel and Administration Branch.

Analysis

7.5 The specialized audit examinations carried out by the Chief FSD and FSD's Head, Financial Programs and Systems Implementation, while of a type that would normally be carried out by the internal audit section, consist mainly of a review of individual project transactions to verify forgiveness entitlements under the provisions of the Loans Programs. The audit function has not been extended to cover the many diversified accounting activities, financial systems, programs, asset and liability accounts maintained in the Department and the Secretariat.

7.6 The diversity, magnitude, and specialized nature of the numerous programs and accounting activities in the Department and the Secretariat warrant the establishment of an internal audit section.

7.7 As the Director, Finance, Personnel and Administration Branch will exercise direct control over the internal audit section, consideration should be given to alternatives to provide greater independence to the internal audit function. The establishment of a committee of senior departmental and Secretariat officers, in our opinion, would offer definite advantages. Their primary functions would be to:

- review and approve the annual audit plan and the supporting detailed audit assignments; and
- review an annual summary of reports prepared by the internal audit section.

7.8 The internal audit section would be required to prepare an annual summary of the section's activities including audit observations that have not been satisfactorily resolved as well as significant changes in financial procedures and operational practices which have resulted from his audits.

Recommendation

7.9 *An internal audit section should be established for the purpose of auditing and reporting on all programs and activities of the Department and the Secretariat.*

VIII BUDGETARY CONTROL

PROGRAM FORECASTS/MAIN ESTIMATES

Background

8.1 Constitutionally the Department and the Secretariat, because of the unique role which they play within government enterprise, are part of the central core of government. As central agencies of the executive they provide, in addition to other responsibilities, advice on the economic and financial affairs of Canada, policy advice and co-ordinate and examine the proposed spending programs of all government ministries, departments and agencies.

8.2 The program and responsibility centre budgets are of secondary importance when compared to the overriding economic responsibilities and regulatory functions of the Department and the Secretariat.

8.3 The resources allocated to program and responsibility centre managers consist mainly of manpower resources.

8.4 Salaries, wages and other direct personnel costs amount to approximately 70% of the Department's and the Secretariat's annual expenditures.

8.5 Except for the impact of inflation and rising prices, the resources allocated to each program and responsibility centre do not fluctuate all that greatly from year to year to warrant a sophisticated resource allocation procedure.

8.6 In principle the responsibility for resource planning and the management of resources allocated to program and responsibility centre managers lies with the Deputy Heads and the heads of Branches and Divisions of the Department and the Secretariat.

8.7 It is the Senior Financial Officer's (SFO) role to advise if the planned dollar resources and man-years are adequate for the proposed programs and conversely, if the planned proposals, as submitted, exceed the program and responsibility centre managers resource requirements based on the previous year's utilization of dollar and man-year resources.

8.8 As part of his responsibilities the SFO through Financial Services Division (FSD) acts as budget co-ordinator and prepares the Department's and the Secretariat's Program Forecasts, the Main and Supplementary Estimates, with all supporting detail, for submission and review by the Program Branch of the Secretariat.

Analysis

8.9 Prior to the resource planning stage the SFO communicates in writing with the Assistant Deputy Ministers of the Department and the Deputy Secretaries of the Secretariat advising them that the Chief, FSD, will be approaching them for their planned proposals for the preparation of the Program Forecasts for the forthcoming fiscal year. At the same time they are informed of the Deputy Minister's and the Secretary's views on what they are prepared to generally support in the way of resource increases for the Department and the Secretariat.

8.10 During the resource planning stage the Chief, FSD, and budgetary personnel from FSD, meet with the individual program and responsibility centre managers to discuss their future resource requirements in relation to the current year's approved budget and the present utilization of their dollar and man-year resources. Program and responsibility centre managers are informed by FSD of executive priorities and budgetary limitations on dollar and man-year resources for the Department and the Secretariat.

8.11 Once the proposed program plans of the program and responsibility centre managers are formulated and gathered they are consolidated in schedule form by FSD for the Department and the Secretariat. The schedules summarize the proposed increases in dollar and man-year resources in comparison with the previous year's approved budgets. Coupled with this information detailed analyses by branch and responsibility area are prepared by FSD of the proposed man-year increases showing man-year usage in the previous year and the man-years lapsed by each branch and responsibility centre. The combined data is used by the SFO for his review of the proposed increases with the Deputy Minister and the Secretary to determine if they reflect the Department's and the Secretariat's programs plans and whether they are reasonable and realistic in relation to past year's utilization of resources.

8.12 Once approved by the Deputy Minister and the Secretary, the revised program proposals comprise the data which is used to prepare the Department's and the Secretariat's Program Forecasts.

8.13 Program and responsibility centre managers have a limited involvement in the planning of their resource requirements since a major part of this work is done for them by FSD based initially on an updated version of a resource plan, approved some eighteen months earlier, modified slightly to compensate for increased growth, rising prices, reallocation and adjustment of resources. A procedure which in essence encourages program and responsibility centre managers to base their resource requirements on what was approved in the previous year rather than on future requirements planned according to need and the capability of carrying out program plans. This has the effect of building up significant buffers in the resources requested by program and responsibility centre managers to more than meet their future resource requirements. The reserves are used as "contingency resources" available for reallocation to other program and responsibility centre areas. They have also been used to finance task forces and other activities without having to specifically provide for their resource requirements.

8.14 Program and responsibility centre managers are not involved in all aspects of the planning of their resources to ensure that they are based on realistic resource requirements.

8.15 The technique of basing future resource requirements on past year Main Estimates is not unique to the Department and the Secretariat. It is a general practice common to many government departments and central agencies. It devolves from the resource allocation process which is made up of a number of inflexible rules for the preparation of the Program Forecast and the Main Estimates. It is encouraged and perpetuated by a fear that major lapses of dollar resources in a fiscal year substantially weaken one's case for an increase in resources no matter how valid the need.

8.16 The resource allocation process is primarily regulated by the SFO through FSD as intermediary. The SFO exercises considerable influence over the resource proposals put forth in the planning stage and plays a very important role in the processes by which resources are allocated to program and responsibility centre managers.

8.17 The effective interplay of program and responsibility centre managers in the resource planning stage is limited to the extent of the parameters communicated by FSD which are established by the SFO in prior consultations with the Deputy Minister and Secretary.

Recommendations

8.18 *The Department's and the Secretariat's Program Forecasts should disclose selected activity priorities, and actual resource requirements.*

8.19 *In order to encourage greater commitment to their budgets, program and responsibility centre managers should play a more positive role in the preparation of the Main Estimates and operating budgets.*

MANPOWER RESOURCES

Background

8.20 Salaries, wages and other direct personnel costs represent a major portion of the total resource base allocated to program and responsibility centre managers in the Department and the Secretariat. The Department lapsed approximately 7.2% of its authorized man-years in 1974-75. During the same year the Secretariat lapsed approximately 10.8% of its authorized man-year resources.

Analysis

8.21 Inasmuch as the resource base consists mainly of manpower resources, overallocation of man-years and arbitrary budgetary projections can have a significant effect on the overall effectiveness of the budgetary process as the means of setting the Department's and the Secretariat's expenditure limits. The effect is to reduce the importance of the budgetary planning and control activity. The excess funds derived from the process in addition to providing program and responsibility centres with a protective cushion also expand a program's latitude and flexibility as the funds can be used for a variety of purposes and activities not originally envisaged in the resource plan.

8.22 The following factors, in our view, are contributing to the traditional lapsing of man-year resources in the Department and the Secretariat:

- Planned increases in personnel are budgeted for a full man-year with the knowledge that they cannot conceivably be totally filled by April 1. The budgeted increases in man-year resources suggest that individuals with the required skills will be immediately available for employment. The staffing process in government is a long and arduous task complicated by many considerations and procedural requirements, all of which delay the hiring process;
- The traditional overallocation of man-year resources in the Program Forecasts to provide for flexibility and contingencies.

8.23 A projection of the future employment market would be useful in assessing the feasibility of the hiring plans on which budgets are based.

Recommendation

8.24 *Manpower resources indicated in the Estimates should reflect the limitations imposed by hiring procedures and the projected market for skilled employees.*

OPERATING BUDGETS

Background

8.25 The Department's and the Secretariat's Main Estimates are used essentially for two purposes: submission to Treasury Board in support of the resources requested in the Program Forecasts and for the purpose of developing the internal budgets for the program and responsibility centres which correspond with the structural organization or activity elements of the Department and the Secretariat.

8.26 The input for the monthly budgets is prepared for the Department of Supply and Services (DSS) by Financial Services Division (FSD).

Analysis

8.27 The Main Estimates are prepared in a very strict format, using a number of inflexible rules to conform with the Treasury Board's requirements.

It follows that the operating budgets prepared from the Main Estimates cannot be relied upon to regulate the expenditures of program and responsibility centre managers since they lack the degree of flexibility and adaptability needed to meet changing circumstances. The two uses of the Main Estimates are not compatible. The form and content of the Main Estimates will be the subject of further studies in other departments and central agencies.

8.28 In addition, we noted that the salary reserve and the \$500 across the board cost-of-living salary increase were not included in the monthly and the year-to-date budgeted resources in the DSS Management Reports until approval was obtained for the release of these amounts from Treasury Board. The approval was obtained some time in December. Consequently, for approximately nine months of the year, expenditures were recorded against budgetary provisions that did not reflect the full costs of increased salaries negotiated through collective bargaining and the cost of living salary increase approved in the 1974-75 "B" Estimates. The problem with respect to the salary reserve stems from the fact that the Program Branch of the Secretariat encourages departments and central agencies, generally, to not request drawdowns of resources from the government's general salary reserve until there is absolute need for the dollar resources.

8.29 As a result of the above factors and other contributory budgetary resource and expenditure causes, the majority of monthly budgets are not accurately prepared by period, are incomplete and tend to be misleading in respect to the monthly and year-to-date budgetary resources and the comparison of these resources with their appropriate expenditures.

8.30 We noted that periodic and monthly variance analyses are often prepared by branch for the Senior Financial Officer's periodic discussions with the Deputy Minister and the Secretariat's Management Committee and that unless requested to do so by responsibility centre managers no variance analyses are prepared for their use by FSD.

8.31 While the usefulness of variance analyses may be somewhat negated by the above practices, we feel that major differences and the reasons for the differences should be reported in writing to responsibility centres by FSD as a means of providing an information base to take corrective action and to assist in the preparation of future budgets.

8.32 Operating budgets can be made more meaningful by departing somewhat from the limitations used to prepare the Main Estimates while still remaining within the constraints of the vote structure by providing for a number of modifications including:

- the incorporation of realistic salary reserves and price increases to reflect the impact of inflation and anticipated salary contract settlements; and
- the up-dating of the Main Estimates for changes during the approximately one-year period between preparation of the Program Forecasts, on which the Main Estimates are based and the start of the New Year.

8.33 Program and responsibility centre managers under the present budgetary system are informed by FSD to treat their monthly budgets as a measure of performance and not control.

8.34 The monthly management reports appear to serve FSD's needs more than the financial requirements of some program and responsibility centre managers.

8.35 Management reports and support statements are distributed monthly to 95 responsibility centres throughout the Department and the Secretariat. The structural organizations of the Department and the Secretariat consist of 15 Branches and the Offices of the Minister of Finance, Deputy Minister of Finance, President of the Treasury Board and the Secretary of the Treasury Board. Our examination revealed that because of the relatively small size of some responsibility centres and the amount of their dollar resources that the monthly management reports were of little use to a number of responsibility centres receiving them.

Recommendations

8.36 *The responsibility centres should be reduced in number either to the branch level or to a level that will provide the most effective control over the use of financial resources.*

8.37 *Financial Services Division should provide responsibility centre managers with comparative analyses between budgeted and actual man-years and expenditures so as to hold them accountable for initiating corrective measures and to assist them in the preparation of future budgets.*

8.38 *Salary reserves and cost-of-living salary increases should be shown in budgetary reports as soon as they are known and become operative.*

IX FINANCIAL REPORTING

PRINCIPAL FINANCIAL SYSTEMS AND REPORTS

Background

- 9.1 The Department's and the Secretariat's financial transactions are recorded in three separate financial systems. The systems consist of the General Ledger Control Accounts (Financial Services Division Accounting System), Department of Supply and Services (DSS) Cash Management Reports and the DSS Management Reports.
- 9.2 The General Ledger Control Accounts consist of approximately 400 individual ledger accounts. The ledger accounts are a duplication of the Department's and the Secretariat's program expenditure, asset, liability and revenue account totals produced in the DSS Cash Management Reports. The Financial Services Division Accounting System (General Ledger Control Accounts) is maintained principally for the day-to-day financial accounting requirements of Financial Services Division (FSD), acts as a "control" over program expenditures, assets, liability and revenue accounts and serves as a check on the reliability of the data produced in the DSS Cash Management Reports.
- 9.3 The DSS Cash Management Reporting System is the Department's and the Secretariat's principal accounting system. It is used to control appropriation accounts and allotments, asset, liability and revenue accounts and is the system to which subsidiary accounting records and activities are reconciled. The system is maintained on a cash basis and is compatible with the reporting needs of fiscal accounts.
- 9.4 The DSS Management Reporting System consists of a Manpower and Expenditure Analysis Report and supporting statements which are distributed monthly to program and responsibility centre managers in the Department and the Secretariat. The system is designed to control program expenditure activities approved by annual appropriations. The three-part report format consists of:

Manpower and Expenditure Analysis Report

Manpower Usage Statement

Detail Expenditure Support Statement.

9.5 The DSS Management Reporting System is designed to advise all levels of management, on a monthly basis, of the manpower and expenditure resources charged to responsibility centre operating budgets including indirect, administrative, common services and accrued liability costs.

9.6 The manpower section of the DSS Management Report provides man-year utilization data in comparison with budgeted information firstly, by professional and service category of employment and secondly, by sub-activity elements that correspond essentially to the division and branch structural organization of the Department and the Secretariat.

9.7 Similarly, the expenditure section of the DSS Management Report provides resource utilization data in comparison with budgeted information firstly, by standard object of expenditure, with a separate line for accrued liability costs, and secondly, by sub-activity elements that again correspond essentially to the division and branch structural organization of the Department and the Secretariat.

9.8 The services of the Financial Reporting Services Division of the Government of Canada Accounting Branch of the Department of Supply and Services are utilized to process accounting data and to produce the monthly DSS Cash Management Reports and the DSS Management Reports.

9.9 A comparison of the features of the three financial systems is shown in Exhibit 2.

COMPARISON OF FEATURES OF FINANCIAL SYSTEMS AND REPORTS

	FSD Accounting System	DSS Cash Management Reports	DSS Management Reports
<u>Principal Transaction Input</u>			
1) Expenditure	Duplicate cheque requisitions	Original cheque requisitions	DSS Magnetic tape of original cheque requisitions data
	Duplicate journal vouchers	Original journal vouchers	DSS Magnetic tape of original journal vouchers data
	Central pay office (CPO) paylists	Direct feed from CPO	DSS Magnetic tape of direct feed data from CPO
2) Commitments and accruals	No commitment information	No commitment information	Accrual data prepared from commitment records indicating the cost of services rendered
3) Budget	Annual and supplementary budget data and special funding provisions from the Contingencies Votes	No budget data	Annual, supplementary, and monthly budget data including special funding provisions from the Contingencies Votes
4) Revenue	Validated vouchers and cash receipts statements	Original vouchers and cash receipts statements	None

Principal Output

1) Expenditure

Roll-ups

Timing

FSD Accounting System	DSS Cash Management Reports	DSS Management Reports
<p>No reports - information is recorded for the purpose of maintaining a day-to-day control over program expenditure accounts, asset, liability and revenue accounts - system serves as an audit and accounting control function and acts as a check on the reliability of the DSS Cash Management Reports</p>	<p>Monthly cash reports - provides detailed expenditure by line and standard object to lowest level of responsibility and cost centre and information on class of revenue by program</p>	<p>Monthly Management Reports - Information is summarized with supporting detail on manpower utilization and expenditure transactions - provides data on manpower utilization by class and on expenditures by standard object sub-activity on a monthly and year-to-date basis compared to annual and monthly budgets - accruals are identified as separate line item</p>
<p>None</p>	<p>None</p>	<p>Monthly management Reports - all levels showing activity or activity element depending on the division and branch</p>
<p>None</p>	<p>Received from DSS on approximately 18th to 20th of month following - limited distribution to some divisions such as the Department's Municipal Grants Division and Guaranteed Loans Division</p>	<p>Received from DSS on approximately 18th to 20th of the month following - received by program managers on dates ranging up to 30th of month - in some cases 10 days later</p>

Principal Output

1) Expenditure (con't)

Other use data

FSD Accounting System	DSS Cash Management Reports	DSS Management Reports
Data is a condensation of the information produced by the DSS Cash Management Reports - not integrated with the DSS Cash Management Reports and the Accounts of Canada	Data base integrated with the general ledger accounts of the Government of Canada	Data base provides manpower and expenditure information for Program Forecasts
None	Cumulative monthly revenue and year-to-date data for each class of revenue showing current month detailed transactions	None

2) Revenue

Analysis

9.10 The FSD Accounting System contains essentially the same data as the DSS Cash Management Reporting System and the DSS Management Reporting System except that the data is in summary form since it is basically a system of control accounts. The DSS Management Reporting System is confined primarily to the administration of the Department's Financial and Economic Policies Program and the Secretariat's Central Administration of the Public Service Program whereas the FSD Accounting System and the DSS Cash Management Reporting System are concerned with all aspects and facets of expenditure and revenue control including statutory expenditure programs such as the Public Debt Program, Fiscal Transfer Payments Program, Contracting-Out Payments Program, Guaranteed Loans Program, Winter Capital Projects Fund Program, Government Contingencies and Centrally Financed Programs and Employer Contributions to Employee Benefit Plans Program. The FSD Accounting System and the DSS Cash Management Reporting System also exercise control over transactions relating to the loans and investments accounts, current and demand liabilities, deposit and trust accounts, reserve for losses on realization of assets and other deferred and special accounts which are part of the Accounts of Canada and appear in the Statement of Assets and Liabilities. The FSD Accounting System in conjunction with the Commitment Accounting Records is used primarily by FSD as a medium of control and for audit requirements. In our opinion, FSD justifies the existence of the duplicate control accounting system, with its data limitations, by the following criticism of the DSS financial reporting systems:

- DSS reports and financial data input are not available on a day-to-day and timely monthly basis;
- the DSS system is inflexible and unresponsive to the needs of the Department and the Secretariat;
- commitment/free balance information is not available on a daily basis to allow the Department and the Secretariat to exercise Section 25 and Section 26 authority; and
- DSS does not produce suitable year-end management reports.

9.11 DSS Management Reports are received by the Department's and the Secretariat's program and responsibility centre managers approximately ten working days later than FSD. They are generally received by FSD from the 18th to the 20th of the month following.

9.12 Approximately 70% of the Department's and the Secretariat's budgetary expenditures are direct salary or salary related costs.

9. 13 The reliability of the DSS Year-End Management Report was upset by the automatic introduction of a 13th month budgetary provision that rendered the report useless as a final performance indicator. Consequently, it was not distributed by FSD.

9. 14 The flexibility and responsiveness of DSS and the usefulness of DSS Year-End Reports will be the subject of further study in our examination of other departments and the central agencies. DSS theoretically is capable of producing all the reports needed for an effective management control of budgetary, legislative non-budgetary expenditure programs and special accounting activities, except for daily reports.

9. 15 At present FSD issues no reports on commitment and free balance information to program and responsibility centre managers for the purpose of exercising Section 25 and 26 authority. All contacts between FSD and responsibility centre and program managers concerning the status of commitments and the availability of dollar resources are communicated verbally by telephone as the need arises.

9. 16 While some program and responsibility centre managers expressed confidence in the report format and said they make use of the monthly DSS Management Reports, a representative number of those interviewed stated they were of little use in the management of resources for the following reasons:

- the reports are generally received 30 days after the month-end and in some cases up to 40 days;
- the general constraints on budgetary manpower and expenditure resources imposed by the resource allocation process and the limited size of some responsibility centres tend to debilitate the effectiveness of the reports;
- in the main, monthly budgetary provisions consist of simply an allocation of 1/12th of the annual budget;
- more emphasis seems to be placed on the year-to-date figures in the reports than the monthly projections which are considered unreliable because of the difficulty of predicting realistic spending patterns in areas where they have application;

- the reports and their associated manpower and expenditure detail support statements are not fully understood or considered as an effective management tool for a meaningful utilization by some program and responsibility centre managers; consequently program resources in these areas are controlled in a pragmatic manner with little, if any, reliance placed on the reports;
- not all responsibility centres are supplied with detail support statements - these are forwarded on an exception basis where they are considered of use;
- the incidence of error and the inability to effectively reconcile and obtain satisfactory explanations and timely corrections for improper manpower and expenditure budgetary resources and costs tend to reduce managerial confidence in the reports;
- within some programs, primary concern appears to be concentrated on the control of specific expenditure line items such as computer services and professional and special services, than on the total resource base with the result that the programs are maintaining their own personal commitment and expenditure records; and
- the DSS Management Reports are viewed, at most, by some program and responsibility centre managers as nothing more than an indicator of total expenditures in relation to the total resource base.

9.17 In three of its branch areas the Department and the Secretariat purchase computer services from DSS as well as maintain their own data processing sections through the medium of computer terminals which in one section has direct access to eight outside computer systems for a great many specialized functions relating to economic and fiscal policy analyses and forecasting.

9.18 One of the data processing sections provides a limited but useful service for FSD in issuing monthly sales summaries and interest calculations on working capital advances for the Olympic Coins Program and in producing amortized loan repayment schedules for the Federal-Provincial Employment Loans Program and the Winter Capital Projects Fund Program. The section is currently working on the development of computer systems and programs which will up-date the Public Debt Program and Loans Receivable Accounts systems in

order that they may be more responsive and current with present-day accounting requirements. FSD's relationship with the data processing section appears to be working very effectively.

Recommendation

9.19 *Financial Services Division should take steps to overcome the deficiencies of the Department of Supply and Services Management Reports to provide a more meaningful report for the use of program and responsibility centre managers.*

INPUT TO FINANCIAL SERVICES DIVISION AND
DEPARTMENT OF SUPPLY AND SERVICES SYSTEMS

Background

9.20 Under the present system, all cheque requisitions and journal entries are posted and keypunched separately as input to the Financial Services Division (FSD) Accounting System and the Department of Supply and Services (DSS) financial reporting systems. In addition, the FSD Accounting System posts salary information input from paylists received from DSS and revenue data on a daily basis from FSD cash receipts records, while DSS keypunches revenue information from monthly batch inputs provided by FSD. Differences in the form and content of the input to each system frequently combine to cause material differences between total receipts, revenue and expenditures in the FSD Accounting System and the DSS Cash Management and Management Reporting Systems.

Analysis

9.21 Among the most significant sources of discrepancies between the FSD Accounting System and the two sets of DSS financial reports are the following:

Journal Entries

Journal entries affecting the Department's and the Secretariat's accounts are prepared both inside and by other departments and central agencies. As a result, journal entries prepared outside the Department and the Secretariat not only could be included but are sometimes keypunched into the DSS financial reports and not posted in the FSD Accounting System. Conversely, they may not be included in the DSS financial reports in time when initially directed to FSD for processing to DSS.

Coding Errors

Coding errors by FSD staff and responsibility centre and program staff often occur and go undetected until identified by a program or responsibility centre manager. Where errors are identified by FSD they are corrected because the data is posted to the FSD Accounting System before it is released to DSS for keypunching.

Keypunching Errors

Keypunching errors by DSS are the most difficult to locate and generally take considerable time to identify and correct because of the lateness of the DSS financial reports and the fact that specific coding errors do not lend themselves to ready identification.

Paylist transfers and salary adjustments

FSD inputs transfers of manpower resources and salary adjustments into the DSS Management Reporting System via a Personnel Pay Input form. The forms sometimes contain errors in respect to program and responsibility centres and are not generally received until two to three months after the effective date of the transfers and salary adjustments. In some cases promotional salary increases are retroactive to the date of promotion. The effect of retroactivity and other delays could result in the issuance of incomplete DSS Management Reports to some responsibility centres until the associated resources and costs are included in the reports.

9.22 Errors and/or omissions can originate from within the FSD Accounting System or the two DSS financial reporting systems. The sources of differences noted above and several other minor sources may be the cause of misleading reports being generated by the two DSS financial reporting systems.

9.23 Responsibility centres at the activity and activity element levels receive financial statements generated by the DSS Management Reporting System. Due to cost and the difficulty of verifying expenditure items charged to responsibility centres no reconciliation of this input source is made by FSD. Once or twice during the year FSD reviews manpower resources and costs with responsibility centres to determine if they are being input correctly. In general, FSD relies upon program and responsibility centre managers to notify them of any discrepancies in the management reports.

9.24 We noted that errors accumulating in the DSS Invalid Code Statements with respect to manpower and expenditure resources and costs are not recorded on the DSS Management Reports before they are distributed by FSD.

9.25 Sizable unexplained differences in the management reports may be instrumental in confusing financial statement users and weakening their confidence in all of the financial information which they receive.

9.26 Monthly reconciliations of the FSD Accounting System, the DSS Cash Management Reports and the DSS Statement of the General Ledger Accounts of Canada provide in addition to the program administration expenditures a means of reconciling the asset, liability and revenue accounts. The reconciliations are not systematically reviewed by a senior FSD financial official. Differences in the systems are only reported to the senior financial official when considered material. A systematic review, in our opinion, would ensure that reconciliations were conscientiously performed on a timely basis and would serve to highlight any recurring sources of discrepancies for follow-up. In addition, the review would identify any errors or omissions in either the FSD Accounting System or the DSS financial reports which were of such a magnitude that could lead to incorrect management decisions.

9.27 Errors resulting from DSS keypunching constitute one of the major reasons for differences in the DSS Management Reports. At present, the FSD Accounting System and the DSS Cash Management and Management Reporting Systems are not compatible for exchange of information in machine readable format because of the different accounting functions which they serve. We believe that if the data were exchangeable in machine readable format the differences between the FSD Accounting System and the DSS financial reporting systems would be eliminated since the systems would be working from data bases containing the same information. This will be subject to further study on a government-wide basis.

Recommendations

9.28 *Material errors accumulating in the Department of Supply and Services Invalid Code Statements and other recognized errors that affect the reported results of responsibility centre performance should be recorded manually on the Department of Supply and Services Management Reports before distribution.*

9.29 *Reconciliations between Financial Services Division reports and those of the Department of Supply and Services should be reviewed and initialled by a senior official of Financial Services Division.*

SUPPLEMENTARY SYSTEMS - GENERAL

Background

9.30 A wide variety of independent, supplementary and complimentary accounting systems and memorandum records are maintained within the Department, the Secretariat and Financial Services Division (FSD). The systems and records vary from simple to extensive accounting records to meet the operational requirements of the Divisions maintaining them.

Analysis

9.31 The accounting systems and memorandum records range from simple commitment and expenditure records to special types of guaranteed loans receivable accounts, special statutory expenditure payments records, special municipal grants payments records and special loans expenditure records. With the exception of the guaranteed loans receivable accounts which are memorandum receivable accounts, they are in some respects a virtual duplication of the principal accounting records maintained by FSD.

9.32 A number of responsibility centres maintain totals of commitments and expenditure records independently of FSD's commitment account records because they stress the need for commitment information which is available daily and close at hand to control special types of expenditures and contractual services.

9.33 The guaranteed loans receivable accounts, administered independently of FSD by the Department's Guaranteed Loans Administration Unit, represent the only available record of the amounts that are recoverable from loan recipients who have defaulted on the payment of their loans. We have commented on the inadequacies of the accounting system in the section dealing with assets and liabilities.

9.34 In addition to the special loans which are also reported as receivables in the Statement of Assets and Liabilities of Canada, FSD's Accounts Receivable Section is responsible for maintaining the subsidiary accounts receivable records for loans made to the provinces and municipalities under four major loan programs administered by the Department. The loans consist of some 4,000 to 5,000 individual accounts and represent the major portion of the loans that are accounted for by FSD. Our comments on the inadequacies of the loan accounts system and records are set out in the section dealing with assets and liabilities.

9.35 The wide range of independent, supplementary and complimentary accounting systems stems from a need for accounting data which is readily available, accounting information produced in a manner or format to best serve the control of on-going payments and for financial forecasting and reporting requirements; information and accounting data that is not presently or readily available from either the FSD Accounting System or the DSS financial reporting systems. In a number of cases it also results from a lack of confidence in the reliability of the DSS Cash Management Reports or dissatisfaction with the format and nature of the information produced by the system of reporting.

9.36 Program and responsibility centre managers are left on their own to develop accounting systems and memorandum accounts without regard as to whether the information is already available or can be produced in a manner or on a timely basis to meet the needs of their programs.

9.37 The effect of the interplay of the FSD Accounting System and the DSS financial reporting systems on the management of special program activities and accounts is minimal.

9.38 The memorandum commitment records maintained by several responsibility centres can be eliminated considering the daily information which is readily available from FSD.

9.39 The independent, supplementary and complimentary accounting systems maintained within the Department, the Secretariat and FSD can also be eliminated by securing the services of DSS and adapting the DSS financial reporting systems to meet the daily information and accounting requirements of the special programs and accounts.

9.40 Failing the availability of daily information from DSS the duplicate accounting systems can be alternatively eliminated through outside computer service arrangements that will provide the degree of service and data on a daily basis. The DSS accounting data can be dispensed within those areas where it is not required leaving DSS responsible for the cheque issue function, except that DSS will only produce information in respect of cheque issue amounts and totals for control purposes.

Recommendations

9.41 *Financial Services Division should institute a review of supplementary accounting systems and memorandum records maintained in the Department and the Secretariat to ensure that financial controls are adequate and the systems are not duplicated.*

SUPPLEMENTARY SYSTEMS - FINANCIAL SERVICES DIVISION

9.42 The following supplementary accounting systems are maintained by Financial Services Division (FSD) as subsidiary accounts of the FSD Accounting System and the Department of Supply and Services (DSS) Cash Management Reporting System.

Loans Program

Background

9.43 Detailed ledger accounting records are maintained to control advance payments to the provinces and municipalities under the Federal-Provincial Employment Loans Program and the Winter Capital Projects Fund Program. The Federal-Provincial Employment Loans Program has more or less come to an end except for a number of accounts and advance payments that remain to be finalized. The activities of the Winter Capital Projects Fund Program involve major expenditures which could, before the loan program terminates, reach a level of \$350,000,000. The program includes an element of loan forgiveness which can amount to either 50% or 100% of labour content depending on when projects are carried out during the year.

9.44 Once loan forgiveness is determined and the appropriate security is obtained for the approved loan FSD's Accounts Receivable Section is assigned the responsibility for its collection. At this point no further entries are made in the accounting records except to indicate that the loan records have been transferred to the Accounts Receivable Section. Consequently, the detailed ledger accounting records do not record the full accounting transaction cycle from the time advance payments are made to the time that the loan assistance is eventually repaid.

9.45 Payments under the program are controlled by province and territory based on specific allotments from the \$350,000,000 which has been made available for loan assistance.

9.46 The detailed ledger accounting records are posted manually from copies of original transaction data. The records are designed to show all essential detail including project number, description and type of project, name of municipality, approved amount of loan, interest rate, interest amount to be capitalized, total assistance advanced and the amount of loan assistance which has been forgiven. In essence, the records are the subsidiary data to the accounting entries that have been posted to the FSD Accounting System and included in detail in the DSS Cash Management Reports. In the latter system of reporting the data is not sufficiently informative, or available on a daily basis, to be of use for the effective management of the Loans Program.

9.47 A periodic summary statement, with project detail in support schedules, is issued from time to time on the activities of the Winter Capital Projects Fund Program. The statement is prepared from the detailed ledger accounting records. The data in the statement and the supporting schedules are periodically reconciled to the data in the FSD Accounting System and the DSS Cash Management Reports. The final statement is also reconciled at year-end before it is released to the Department. No systematic or regular reconciliation is made of the data in the detailed ledger accounting records with the data in the FSD Accounting System and the DSS Cash Management Reports.

9.48 Cheque requisitions authorizing advance payments are processed through the DSS Sparks Street Division paying office who in turn instructs the DSS paying offices in the provinces to issue the cheques. While appropriate security is obtained in exchange for the cheques, sizeable payments on occasion have not been recorded in the DSS Cash Management Reports for months, until they were eventually tracked down by FSD. The missing cheque entries may result from DSS keypunch errors or DSS Sparks Street Division's method of communicating its instructions to the DSS field offices.

Analysis

9.49 The detailed activities and responsibilities associated with the program support the need for detailed accounting data which serves as a control over the advance payments and acts as a base for calculating interest before the final amount of loan assistance is determined and approved.

9.50 The accounting records presently maintained by FSD for the administration of the Loans Program could also serve as the medium through which the loans could be accounted for and collected. We believe, because of the number of projects involved, that a suitably designed computer system of accounting could be developed to meet both the needs of program administration and the accountability associated with the collection of the loan accounts. DSS is theoretically capable of producing the accounting reports needed for the control of the program and to account for the loans except for daily reports.

Recommendation

9.51 *The supplementary detailed ledger accounting system maintained by Financial Services Division to control the Loans Program should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

Public Debt Program

Background

9.52 A detailed manual record system of ledger accounts is maintained to calculate interest and annual amortization of bond discount, premiums and commissions, interest on unmatured debt, interest on trust, annuity and other liability accounts and for the purpose of determining the servicing costs of all government borrowings and issues and the cost of issuing new loans.

9.53 The accounting records, which are posted manually, consist of post binder ledgers with subsidiary and control accounts, index cards which record loan and other pertinent data and miscellaneous records which show the obligations that have been cancelled over the years by transfer to the Consolidated Revenue Fund as credits to Non-tax Revenue. The latter records which are the only available records of the obligations that have been cancelled are not recorded or stored in a permanent type of accounting record.

9.54 The accounting records are posted from copies of cheque requisitions, cash receipt record entries and journal vouchers. The data in the accounting records are reconciled monthly to the data in the DSS General Ledger of Canada Report which is reconciled to the FSD Accounting System and the DSS Cash Management Reports.

9.55 An annual statement of matured and unmatured debt, unamortized loan flotation costs, interest on Public Debt, accrued interest, deposit and trust liabilities and other accounts data is prepared on a comparative basis at year-end. The statement is prepared from the manual system of accounts and is used to verify the data reported in the Public Accounts of Canada and by the Bank of Canada.

Analysis

9.56 Essentially the accounting data in the detailed accounting records is a duplication of the information in the DSS General Ledger of Canada Reports and the DSS Cash Management Reports.

9.57 The management of the Public Debt Program is a very detailed and onerous responsibility. It involves the daily recording of transactions that affect the public debt position, the determination of loan and servicing costs on a regular basis and the monthly calculation of interest accruing on outstanding government borrowings, securities and other forms of obligations. The accounting must be carried out continually, be accurate and recorded immediately in the detailed ledger accounts for constant reference purposes. It must be up to date and available at all times to the Department for financial forecasts and for information periodically published in the Canada Gazette.

9.58 FSD is currently studying the requirements of the Public Debt Program and the manual accounting system to determine if the needs of the program are being met and whether the system can be adopted effectively to a computerized system of accounting operated by the Data Services Unit of the Department's Economic Analysis Division. DSS is theoretically capable of producing a system of reporting that will eliminate the duplicate accounting system and meet the Program's administrative and reporting requirements except for daily reports.

Recommendation

9.59 *The supplementary detailed ledger accounting system maintained by Financial Services Division to control the Public Debt Program should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

Hospital Insurance Outside Canada

Background

9.60 The Hospital Insurance Outside Canada account is reported as a liability in the Statement of Assets and Liabilities of Canada. Contributions withheld from government employees, members of the regular forces, the RCMP, employees of Crown corporations and employees on loan to organizations, all of whom are serving outside of Canada, are credited to the account. The cost of participants claims for hospitalization services received outside Canada, or inside Canada immediately following the participants return, are charged to the account.

9.61 The accounting function is the first of a number to be transferred to FSD from the Secretariat's Pensions and Insurance Division.

9.62 A detailed manual system of accounts is maintained to account for the costs incurred and premiums collected under the Plan. The accounting records consist basically of a statistical claims register of costs showing in-patient and out-patient services, a cumulative record of premiums received from participants and a memorandum control account.

9.63 The accounting records are simple in construction and are posted manually from copies of original transaction data. The accounting system is used primarily to compile statistical information and costs with respect to the various groups of participants by geographical location and to record the premiums collected on behalf of employees and their dependants.

9.64 The data in the accounting system is reconciled monthly to the data in the FSD Accounting System and the DSS Cash Management Reports. The data in the accounting records, except for the statistical data, is a duplication of the detailed data produced in the DSS Cash Management Reports.

9.65 An annual report of the Hospital Insurance Plan's activities is prepared for the Director of the Pensions and Insurance Division. The report summarizes information in respect of the number of contributors and participants, provides data on the number of claims processed, the number of hospital days and out-patient visits and the cost of services for each fiscal year since the plan was first introduced in 1959-60. It shows the average stay in hospital, the cost per claim and the cost per claimant. The report includes a statement of the receipts and disbursements under the Plan for each fiscal year from 1959-60 and information on the balance of funds remaining in the account at year-end. A financial forecast of the number of contributors likely to be participating in the Plan and the estimated premium income and cost of claims is also provided in the report.

9.66 The Plan is subsidized by annual government contributions which amount to approximately two-thirds of the annual cost of hospitalization services. The annual costs amount to slightly in excess of \$1,000,000.

Analysis

9.67 The detailed statistical data and cost information required in respect of the Hospital Insurance Plan's annual operations support the necessity for an independent accounting and statistical system of accounts.

9.68 DSS is theoretically capable of producing the type of statistical information and accounting reports to eliminate the duplicate accounting system except for daily reports.

Recommendation

9.69 *The supplementary detailed statistical and accounting system maintained by Financial Services Division with respect to the Hospital Insurance Outside Canada Account should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

SUPPLEMENTARY SYSTEMS - FEDERAL-PROVINCIAL RELATIONS DIVISION

Background

9. 70 The Department's Federal-Provincial Relations Division is responsible for payments to provincial governments under the British North America Act, the Federal-Provincial Fiscal Arrangements Act, the Public Utilities Income Tax Act, the Established Programs (Interim Arrangements) Act, the Federal-Provincial Fiscal Revision Act, statutory subsidies and the Provincial Tax Collection Agreements.

9. 71 In carrying out its responsibilities the Division maintains a simple but formidable set of memorandum accounting records independent of the FSD Accounting System and the DSS Cash Management Reporting System. The accounting and financial records are prepared from copies of original transaction data to produce a continuous and cumulative record of payments to the provinces under the statutory expenditure programs and the Tax-Collection Agreements. The information is recorded on a statement type format by province, by legislative program and agreement, showing the fiscal year to which the payments apply. All payments including adjustments for over and under payments are recorded to the last day of the month.

9. 72 The financial data in the Division's statement record may not always be in agreement with the transaction data in the DSS Cash Management Reports because the cut-off date of input to the DSS Cash Management Reporting System precedes the month-end and because of DSS keypunch errors.

9. 73 The Division's records are not reconciled monthly to either the FSD Accounting System or the DSS Cash Management Reports.

9. 74 A special statement, "Schedules of Income Tax Transfers from Revenue Less Provincial Tax credits and Payments under the Provincial Tax Collection Agreements" is periodically provided by the DSS Central Accounting Policy and Control Division. The statement is used by the Division to reconcile their records in respect to the payments under the Tax Collection Agreements. Consistent with other DSS statements it generally contains DSS keypunch errors that cause reconciliation difficulties for the Division.

9.75 No monthly reports depicting the progress and state of the obligations under the various enactments and agreements are produced for management purposes.

9.76 An annual report "Final Statement of Payments During the Fiscal Year" is prepared by the Division. A copy of the statement is sent to FSD who use it for the Program Forecasts and Main Estimates. FSD reconciles the statement with the FSD Accounting System and the DSS Cash Management Reports.

Analysis

9.77 The Division justifies the existence of its memorandum records because the information in the FSD Accounting System is limited and the DSS Cash Management Reports are not available in a form or produced in a manner to meet the Program's administrative and operational requirements.

9.78 The information in the Division's memorandum records is a duplication of the data in the FSD Accounting System and the DSS Cash Management Reports.

9.79 FSD could provide the required accounting information to the Division on a daily basis through the medium of the FSD Accounting System by redesigning the appropriate accounts records to accommodate the needs of the various payment programs. Alternatively, DSS is theoretically capable of producing the reports needed by the Division to effectively control the varied statutory expenditures and agreements except for daily reports.

Recommendation

9.80 *The supplementary accounting system maintained by the Department's Federal-Provincial Relations Division should be reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

SUPPLEMENTARY SYSTEMS - MUNICIPAL GRANTS DIVISION

Background

9.81 The Department's Municipal Grants Division is responsible for administering the grant payments to municipalities in lieu of taxes and grants to the provinces in respect of federal property.

9.82 The Division maintains memorandum accounting records in respect of all grants paid independent of the FSD Accounting System and the DSS Cash Management Reporting System. The data in the memorandum records system is used to record and control the grant payments made progressively to individual taxing authorities and the provinces over the years.

9.83 The memorandum records are a continuous and cumulative record of the payments made to individual taxing authorities and provincial governments. Information in respect to grant overpayments and the amounts recovered are recorded in the accounting records. The memorandum records are used to account for intalment payments made against grant entitlements. The transaction data in the memorandum record system is verified monthly to the data in the DSS Cash Management Reports.

9.84 The Division's memorandum accounting system is compiled manually from copies of original transaction data. The system is not fully integrated with the FSD Accounting System and the DSS Cash Management Reporting System.

9.85 FSD maintains two control ledger accounts in the FSD Accounting System to show the total grants paid to municipalities and the total grants paid to provinces during the fiscal year. Over 3,000 or more grant payments are made annually.

9.86 FSD also maintains a detailed payment card record compiled from a special selected statement produced from the DSS Cash Management Reporting System. The detailed card record shows all grants paid during the fiscal year by municipality and province. It is used by FSD to prepare a listing of all grants of \$5,000 and over that have been paid under the Municipal Grants Program. The listing of payments appear in the Public Accounts under, "Selected Miscellaneous Payments and Federal-Provincial Shared-Cost Programs by Province".

Analysis

9.87 The responsibilities and detailed activities associated with the Municipal Grants Program support the necessity for the memorandum accounting records which serve as a control over the grants payments.

9.88 The input into the Division's memorandum accounting System does not occur simultaneously with the input into the FSD Accounting System and the DSS Cash Management Reporting System as different data bases are relied on to produce the information in the three systems.

9.89 We believe that if the data were exchangeable it could provide, through an appropriate computer system of accounts and record keeping, the detailed and cumulative information required by the Division to effectively manage the Municipal Grants Program. DSS is theoretically capable of producing all the reports and data needed by the Division except for daily reports.

9.90 The municipal grants payments listing produced for the Public Accounts can be misleading in that individual grant payments often relate to more than one taxation year and include payments that are made on behalf of local improvements and for other purposes. There is a need for a more informative statement to serve the Division's financial requirements and the many other purposes for which the statement is used.

Recommendations

9.91 *The supplementary accounting system maintained by the Department's Municipal Grants Division and the memorandum grants payment record cards compiled by Financial Services Division should be similarly reviewed in conjunction with the Financial Services Division Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

9.92 *The statement listing of municipal grants payments produced for the Public Accounts should be designed to show the taxation year to which the individual grant payments relate and the amounts paid on behalf of local improvements and for other purposes.*

SUPPLEMENTARY SYSTEMS - PENSIONS AND INSURANCE DIVISION

Background

9.93 The Pensions and Insurance Division of the Secretariat maintains a variety of independent memorandum accounting records in respect of pension and insurance plans for locally-engaged employees in foreign countries and in relation to the employees of the Government.

9.94 In administering the plans the Division relies on the audit of payments performed by Financial Services Division (FSD) and the Department of Supply and Services (DSS) paying offices. The Division accumulates statistical information with respect to each of the plans for a variety of needs.

Analysis

9.95 The accounting functions performed by the Administrative Unit are incompatible with the Division's defined responsibilities which are essentially to develop and advise on policies related to pensions, social security and insurance benefits for employees of the Public Service.

9.96 The accounting procedures could be administered by FSD with payment authority remaining with the Division. Reports on the financial activities of the pension and insurance plans and the employer's matching contributions could be periodically supplied to the Division by FSD.

Recommendation

9.97 *The independent memorandum records and accounting systems maintained by the Secretariat's Pensions and Insurance Division should be transferred to Financial Services Division and similarly reviewed in conjunction with the Financial Services Accounting System and the Department of Supply and Services Cash Management Reporting System to eliminate duplication.*

APPENDIX A

FINANCIAL MANAGEMENT AND CONTROL STUDY

1. This memorandum is arranged under the following headings:

	<u>Paragraph Nos.</u>
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I OBJECTIVES AND TERMS OF REFERENCE

2. The Auditor General proposes to undertake a government-wide study to evaluate the adequacy of financial management and financial controls in all departments and agencies of Government of which he is the auditor. The study which is expected to extend over a period of approximately two years will include reviews at headquarters, regional and local offices of the 29 departments and 23 agencies listed at the end of this Appendix. The study will not initially include Crown Corporations listed in Schedules C and D of the Financial Administration Act.

3. The study will be directed to an examination of:

- (a) the statutes and Treasury Board regulations, policies, directives and guidelines relevant to financial management and control, and the extent of compliance therewith in departments and agencies;
- (b) financial systems and procedures in departments and agencies including budgetary controls, accounting for revenues, expenditures, assets, liabilities, commitments, and financial reporting systems;
- (c) the integration of the departmental and agency accounting processes and systems with the central systems;
- (d) the extent to which the financial systems and procedures are monitored and audited by internal and/or operational audit groups;

- (e) the type, accuracy, timeliness, purpose and use of financial information and reports currently prepared;
- (f) the extent of decentralization following on the recommendations of the Royal Commission on Government Organization (GLASSCO) and its impact on overall financial control;
- (g) the duties, responsibilities and functions of financial and accounting managers and staff with special reference to the system of financial and accounting control and the relationships of their functions with central financial/accounting agencies.

II REPORTING

4. It is expected that the findings and recommendations arising from the study will be reported upon under headings which will include the following:

- (a) the organization of the finance/accounting function (with special reference to financial and accounting controls);
- (b) expenditure and revenue control including the pre-audit function;
- (c) accounting control procedures relating to assets and liabilities;
- (d) commitment control;
- (e) budgetary control;
- (f) internal audit;
- (g) financial reporting.

5. It is intended that the 1974 Report of the Auditor General to the House of Commons will make reference to this study and comment on its progress to date.

6. A detailed point-form report will be issued to each department reviewed outlining findings and recommendations within the framework of the overall study. These "first-tier" reports are to be issued promptly upon completion of the review of each department usually on the basis of meetings with the Deputy Head and the appropriate members of the department or agency.

7. A "second-tier" report (or a series of reports) will be issued setting out an overview of the findings and recommendations for improvements, including action that may already have been taken at the departmental level. These reports will be issued when the coverage has been adequate to identify a sufficient number of significant matters on which major recommendations are to be made. It is the intention that the Treasury Board Secretariat would be kept in touch with the study as it progresses and that "second-tier" reports would be reviewed with the Treasury Board staff so that recommendations could be considered progressively during the course of the study and action initiated on approved recommendations of a government-wide nature.

8. Highlights of the consolidated overall ("second-tier") report(s) will be included in the Annual Report of the Auditor General to the House of Commons (or by Special Report if this arrangement appears more suitable).

III ORGANIZATION OF THE STUDY

9. The Auditor General will be personally involved in the key phases of the study, as will be the Director General, Special Audits/Inquiries.

10. The study will be under the overall direction of a Director General (who will be a senior partner of a major public accounting firm) assisted by a Deputy Director General. The staff will comprise the audit directors and audit managers of the Auditor General's Office and professionally qualified personnel drawn from outside the Government.

11. Project teams will undertake the review of departments primarily through the techniques of fact-finding interviews with key officials and staff, followed by further more detailed investigation and analysis where appropriate.

12. The appointment of the Director General of the study and designation of staff, the announcement of the study, selection of departments and agencies and the key personnel to be interviewed, and other aspects of detailed planning should be completed by July 1, 1974, after which pilot studies will be commenced, including fact-finding interviews, information gathering, analysis and assessment of procedures. The full study would commence about September 1, 1974.

13. The study will be monitored by a Steering Committee which will include the Auditor General, the Director General, Special Audits and Inquiries, the Director General of the study, and several highly qualified independent advisors.

14. The success of the study will be dependent in large measure on the understanding and co-operation throughout the review of Heads and Deputy Heads and their staffs. Departments and agencies will be fully informed of the nature of the program and its objectives through correspondence and meetings with Deputy Heads and senior officials.

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This study is considered to be the essential foundation for the development, application and maintenance of adequate and effective audit programs and activities which will reflect fully the results of the study and which, collectively, will constitute the heart and core of the duties and responsibilities of the Auditor General of Canada to Parliament as set out in the Financial Administration Act.

Ottawa, May 9, 1974.

DEPARTMENTS

Agriculture
Communications
Consumer and Corporate Affairs
Energy, Mines and Resources
Environment
External Affairs
Finance
Governor General and
Lieutenant-Governors
Indian Affairs and Northern
Development
Industry, Trade and Commerce
Justice
Labour
Manpower and Immigration
National Defence
National Health and Welfare
National Revenue
Parliament
Post Office
Privy Council
Public Works

AGENCIES

Atomic Energy Control Board
Canadian International Development
Agency
Canadian Radio-Television Commission
Canadian Transport Commission
Chief Electoral Officer
Commissioner of Official Languages
Food Price Review Board
Immigration Appeal Board
Information Canada
International Joint Commission
Law Reform Commission of Canada
Medical Research Council
National Energy Board
National Library
Public Archives
Public Service Commission
Public Service Staff Relations Board
Representation Commissioner
Royal Canadian Mounted Police
Statistics Canada

DEPARTMENTS

Regional Economic Expansion

Science and Technology

Secretary of State

Solicitor General

Supply and Services

Transport

Treasury Board

Urban Affairs

Veterans Affairs

AGENCIES

Tariff Board

Tax Review Board

Unemployment Insurance Commission