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FINANCIAL MANAGEMENT AND CONTROL STUDY
REPORT ON
THE GOVERNMENT OF THE
NORTHWEST TERRITORIES
JULY 1977

Auditor General
of
Canada

Vérificateur général
du
Canada

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I INTRODUCTION

1.1 A memorandum setting out the objectives, the terms of reference, the reporting format, and the organization of the Financial Management and Control Study is attached as Appendix C to this report. In accordance with that memorandum we have completed an evaluation of the effectiveness of the present financial management and control systems in the Government of the Northwest Territories (NWT).

1.2 This report includes an overall evaluation of the existing system of financial management and control in the NWT, a description of various parts of this system, and an analysis of the deficiencies revealed by our review, including their impact on the effectiveness of the system of financial management and control.

1.3 The deficiencies included in this report are those which we believe are within the authority of the Government of the NWT to correct. Recommendations for corrective action have been made where appropriate.

II SCOPE

2.1 The study encompassed the financial management and control practices of departments and agencies comprising the Government of the Northwest Territories, including the Worker's Compensation Board and the Northwest Territories Housing Corporation. It did not include an examination of the municipal governments in the NWT or any of the housing associations which are not audited by the Auditor General of Canada.

2.2 The study consisted primarily of fact finding interviews with key officials and staff, followed by detailed investigation and analysis where appropriate. We reviewed the Financial Administration Ordinance, the Treasury Manual and other selected manuals, position descriptions, organization charts and other supporting documentation as we considered necessary.

2.3 The study focused on evaluating the adequacy of existing systems, and our examination of financial records and individual financial transactions was limited to that necessary to understand and document information obtained in interviews and discussions. Our report, therefore, contains observations and recommendations on the system of financial management and control and is not concerned with irregularities or inaccuracies in detailed transactions.

2.4 This type of review is the initial step in a planned transition to a systems-based audit approach. In future, greater weight will be given to the degree of reliance which can be placed on the internal system of control. Thus, this report concentrates on those aspects of this system that appear to offer scope for improvement rather than those that appear to be operating satisfactorily.

2.5 We would like to express our appreciation to the officers and staff of the NWT for the assistance and co-operation extended to the study team. Those with whom we came in contact showed an interest in improving financial management and control and we observed instances where action had already commenced on matters identified by the study.

III GENERAL EVALUATION AND LISTING OF RECOMMENDATIONS

GENERAL EVALUATION

3.1 Responsibility for financial management and control in the Government is vested primarily in the Assistant Commissioner who is recognized as the Senior Financial Officer. He is supported in this role by the Director of Finance. As might be expected of a relatively young government, the Government of the Northwest Territories has experienced, and is continuing to experience, significant changes in its organizational structure, including the assignment of responsibility for financial management and control. The possibility of further organizational changes and reassignment of financial responsibilities increases the need for maintaining a clearly defined senior position in which responsibility for all aspects of financial management and control in the Government can be centered.

3.2 To accomplish this, the study concluded that:

- the Senior Financial Officer should continue to report to the Commissioner and should have direct input to the Executive Committee of the Government;
- his responsibilities should encompass all matters relating to the financial affairs of the Government including the financial aspects of planning and program evaluation, and developing and monitoring financial policies and standards in Territorial corporations;
- his responsibilities should be formally documented and communicated; and
- he should be qualified by training and experience.

3.3 We acknowledge the fact that a number of the financial control deficiencies identified in this report had already been recognized by the financial officers in the Government and improvements have already commenced in some of these areas. However, there exists considerable scope for futher improvement. Increased audit tests and monitoring activities by the Auditor General of Canada are not an adequate substitute for the management action required to improve the existing systems of financial management and control.

3.4 Other recommendations of this report deal with the following needs, as identified by our study:

- better definition and documentation of responsibilities relating to the financial and accounting functions throughout the Government;
- more effective control over the determination of revenue, improved evidence of account verification procedures and tighter control over grants and contributions;
- improved accounting and control procedures relating to assets;
- closer control of the data processing function, primarily to prevent unauthorized entries to computer programs and accounting transactions;

- more effective internal audit, to monitor the adequacy of and compliance with documented control procedures;
- more effective budgetary control to improve the accountability for financial resources and to ensure that funds are expended in accordance with approved program objectives; and
- better financial reporting to improve the visibility and disclosure of financial results.

3.5 The effectiveness of the financial management and control system of a decentralized and diverse organization the size of the Government of the Northwest Territories can be greatly increased if systems requirements are adequately documented and communicated to all persons involved. Many of the deficiencies discussed in this report can be attributed to a lack of adequate documentation and communication. As a result, the financial management and control responsibilities of financial staff and operating managers with financial responsibilities are not well enough defined or clearly understood.

3.6 These comments relate not only to the lack of documentation of the specific accounting control systems but also to the lack of documentation and communication of Government policy concerning such areas as regional and departmental responsibilities for program operations and financial management, the relationship between program departments and service departments and the roles of the numerous committees which have been established to manage the affairs of the Government.

LISTING OF RECOMMENDATIONS

Senior Financial Officer

3.7 *The Senior Financial Officer's responsibilities should encompass all matters relating to the financial affairs of the Government including developing and monitoring financial policies and standards in Territorial corporations and the financial aspects of planning and program evaluation.*

3.8 *The responsibilities of the Senior Financial Officer should be formally documented and communicated, and the Financial Administration Ordinance should be amended accordingly.*

3.9 *The position of the Senior Financial Officer should be maintained at a level at least equal to a senior director and should continue to report directly to the Commissioner.*

3.10 *The terms of reference and operating arrangements of the Executive Sub-Committee on Finance should be formulated, documented and implemented to ensure that financial management and control concerns will continue to be adequately expressed at senior management meetings.*

Relationship with Departmental and Regional Financial Staff

3.11 *The Senior Financial Officer of the Government, or officers in the Department of Finance acting on his behalf, should provide functional guidance to departments and regions in developing or revising financial organization structures, in assigning financial responsibilities, in selecting individuals to fill financial positions, and in subsequently evaluating their performance.*

Staff Training

3.12 *The financial training program recently introduced by the Government should be expanded and accelerated to meet the requirements of financial staff, as well as of operating managers with financial responsibilities.*

Communication of Policy and Procedures

3.13 *A comprehensive financial manual covering all aspects of financial administration within the Government should be prepared by the Director of Finance and issued under the approval of the Commissioner. Procedures should be implemented to ensure that the manual is kept up to date and is distributed to all staff with financial responsibilities. The Senior Financial Officer should approve all sections of operating manuals containing procedures relating to financial systems.*

Delegation of Financial Signing Authority

3.14 *The Government's financial manual should outline the policies and procedures to be followed by all departments for the delegation of signing authorities, with particular emphasis on:*

- *the proper segregation of spending and payment authority;*
- *the designation of the appropriate organizational levels to exercise the various types of delegated authority;*
- *the establishment of appropriate levels of authority;*
- *the use of specimen signature cards;*
- *periodic review of existing authorities and their updating where necessary; and*
- *review by the Senior Financial Officer and approval by the Commissioner of delegated financial authorities within all departments.*

Account Verification

3.15 *To ensure that financial controls over expenditures are appropriate and operating at all times, the responsibility for the specific verification procedures should be clearly documented and communicated and each verification procedure should be evidenced on the document.*

3.16 *Criteria should be established and documented covering the circumstances under which invoices may be paid before confirming evidence is obtained that the goods were received. Where practical, procedures should be implemented to ensure that a proper receiving report is ultimately received.*

Manual Cheque Issue

3.17 *To reduce use of manual cheques to a minimum, formal policies regarding the exceptional circumstances under which they may be issued should be developed and enforced.*

Monthly Reconciliations

3.18 *All monthly reconciliations should be completed and approved promptly. The status of these reconciliations should be reported to the Territorial Treasurer and delays should be reported immediately to the Director of Finance.*

Revenue

3.19 *The Executive Committee should establish a general policy to indicate the type of service for which fees are to be charged. Specific policies stating the basis of fee or rate determination should be established for each source of revenue. Departmental fees and rates for services provided to the public should be subject to review and approval by the Executive Committee at least annually. Departmental submissions should contain details of the related costs of the services so that the Executive Committee will be aware of the financial implications of its decisions.*

3.20 *An in-depth review of the present systems of internal control over revenue should be undertaken under the direction of the Senior Financial Officer. Effective systems should be implemented to define responsibility for control clearly and to ensure that all revenue is recorded and accounted for.*

Grants and Contributions

3.21 *To improve financial control, criteria covering the approval and payment of grants and contributions should be documented and approved by the Executive*

Committee. Such criteria should include clarification of the eligibility of proposed recipients, minimum evaluation and review procedures before approval of the payment. For contributions, they should define eligible expenditures and requirements for audit.

3.22 *Details of significant grants and contributions made during the year should be published annually in the Territorial Accounts to disclose more fully the nature and extent of assistance provided to the various classes of recipients eligible for such assistance.*

Accounts Receivable

3.23 *Credit and collection policies should be established, approved and implemented in all departments, and then enforced.*

3.24 *Procedures for billing and collecting accounts receivable should be documented, approved and implemented to ensure that funds are collected as promptly as possible for all goods and services provided. Particular emphasis should be placed on determining the most appropriate division of responsibilities between the operating departments and the Revenue Section.*

Inventories and Revolving Funds

3.25 *Specific accounting and control procedures relating to revolving funds and inventories should be documented, implemented and monitored to ensure that:*

- *revolving fund limits are reviewed at least annually and are not exceeded;*
- *all supplies and merchandise inventories are counted at least annually, agreed to subsidiary records and reconciled to the general ledger on a regular basis; and*
- *adjustments to inventory records are properly authorized.*

3.26 *Policies and procedures for establishing and operating each of the revolving funds should be documented and communicated to the respective fund managers. These policies and procedures should include:*

- *the approved purposes for which the fund was established, i.e., the types of activities that can be financed;*
- *accounting and control procedures designed to meet the needs of the operation for which the fund was established; and*
- *monthly reporting requirements to enable regular monitoring of operations.*

Capital Assets

3.27 *To improve the control over the purchase, use and eventual disposal of capital assets, individual assets should be numbered and capital asset ledgers should be maintained, reconciled with capital expenditures each year and verified by physical inspection of the assets on a regular basis.*

Data Processing

3.28 *The data processing installation should be critically reviewed and the results of this review should form the basis for:*

- *segregation of the operator and programmer functions and establishment of library control procedures to reduce the possibility of unauthorized and undocumented changes to programs or processing of unauthorized information;*
- *strengthening controls to prevent unauthorized use of terminal input facilities;*
- *strengthening data processing by developing controls to ensure that all input data is processed;*
- *establishing a log for the remote access system to monitor computer operations including the use of specialized procedures to amend programs and data files; and*
- *strengthening physical safeguards over the computer unit's programs and data files against fire, water damage or similar disaster.*

Internal Audit

3.29 *Before approving the annual audit work schedule, the Internal Audit Committee should ensure that adequate resources are allocated to the internal audit function and that all significant areas of the financial system are covered annually.*

Program Goals and Objectives

3.30 *Efforts to establish clearly articulated program objectives and operational goals should be continued and such efforts should be more closely related to the budget preparation and review process.*

Preparation of Program Memoranda and Main Estimates

3.31 *The Government should continue its efforts to improve the budget preparation process by using program memoranda to provide more specific information on the actual or planned departmental work to be carried out and to provide a basis for measuring the effectiveness of programs and activities.*

3.32 *The Main Estimates should be derived from a detailed buildup of planned costs and output data to provide a basis for establishing and maintaining the accountability of managers.*

3.33 *Guidelines should be issued to departments and regional offices outlining the budget responsibilities of both operating and financial staffs to ensure a clear understanding of their responsibilities and appropriate involvement in the budgetary exercise.*

Format of the Estimates

3.34 *The format of the Main Estimates should be reviewed and amended to ensure that information is presented so it will effectively establish the accountability of the responsible managers in terms of planned costs and operational performance. In particular:*

- *more emphasis should be placed on clearly stating the objectives, proposed actions and desired results of departmental activities;*
- *total costs of programs should be shown where this is likely to contribute to improved resource allocation decisions or improved accountability of managers;*
- *the reliability and amount of information on capital projects should be improved; and*
- *the relationship of revenue to the corresponding expenditure should be clearly stated.*

Variance Reporting

3.35 *A formal, timely and effective variance reporting system should be implemented, which would require:*

- *managers to explain significant variances between planned and actual costs and planned and actual volumes of output and to indicate the corrective action to be taken; and*
- *central monitoring of results in departments and regions by the Assistant Commissioner with exception reports to the Executive Sub-Committee on Finance and the Executive Committee.*

Internal Financial Reporting

3.36 *In conjunction with the current development of the financial management information system, steps should be taken to clarify the responsibilities of the* *departmental financial officers for analysing and interpreting financial information for operating managers, and courses should be developed for instructing operating managers on the use of the financial reports.*

External Financial Reporting

3.37 *The Senior Financial Officer should develop the modifications to the Government's financial statements needed to improve their completeness, accuracy and clarity, with particular reference to the various users.*

Appendix A
Northwest Territories Workers' Compensation Board

3.38 *Financial and accounting policies and standards for the Workers' Compensation Board should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government. He should ensure that these policies comply with the applicable legislation.*

3.39 *Relationships and the division of responsibilities on financial matters between the senior staff of the Workers' Compensation Board and that of the Territorial Government should be clarified.*

3.40 *The financial management and control systems should be reviewed and upgraded so that they will be sound, comprehensive and effective.*

Appendix B
Northwest Territories Housing Corporation

Relationship with the Government of the Northwest Territories

3.41 *The Northwest Territories Housing Corporation and the Government of the Northwest Territories should continue their efforts to reach a working agreement to clarify the roles of the two organizations in the management of the Corporation. This agreement should make specific reference to the financial affairs of the Corporation including:*

- *the treatment of the Corporation's surpluses and deficits; and*
- *the preparation and submission of annual budgets.*

3.42 *Financial and accounting policies and standards for the Housing Corporation should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government.*

Senior Financial Officer

3.43 *The Corporation should accelerate its efforts to recruit a Manager, Finance and Administration whose responsibilities should include the financial aspects of corporate planning.*

Communication of Financial Policy and Procedures

3.44 *The financial manual should be expanded to include all financial procedures in the Corporation. The accounting manual designed for the use of the housing associations should be amended by the Manager, Finance and Administration, with the policies governing its application being approved by the Managing Director before implementation.*

Staff Training

3.45 *A financial training program should be developed and implemented under the direction of the Senior Financial Officer. This program should be integrated where practicable with the training programs in the Government of the Northwest Territories and should include all persons with financial responsibilities and in particular program assistants and housing association managers.*

Budgetary Control

3.46 *To provide a basis for accountability to the Government for expenditures in the Corporation:*

- *the supplementary information presented to the Council by the Corporation at the time of Main Estimates approval should be subjected to review by the Department of Finance; and*

- *the Corporation should be required to account annually to the Government for all unexpended or lapsed funds.*

3.47 *To improve the budgetary control of expenditures:*

- *the Corporation should prepare an operating budget, including all anticipated expenditures for the year in addition to the cash budget required for Government funding;*

- *a system should be developed for analysing variances between budgeted and actual costs in relation to output with a view to corrective action; and*

- *the financial information on capital projects presented monthly to the Managing Director and Board of Directors should include details of actual costs and costs to complete, compared to budget, on a project by project basis.*

Operating Grants to Housing Associations

3.48 *The Corporation should continue its efforts to hold housing associations receiving operating grants accountable by:*

- *requiring all associations to enter into agreements with the Corporation establishing the responsibilities of the associations and the conditions under which the funds are provided; and*

- *developing and documenting proper procedures for reviewing their annual budgets.*

Internal Audit

3.49 *The Corporation should provide for an internal audit to test the system of financial administration annually. The internal auditor's reports should be reviewed by an audit committee to ensure adequate consideration of, and effective action on, the audit findings and recommendations.*

Fixed Assets

3.50 *A complete inventory of all housing units should be taken to ensure that rent is being collected on all units where applicable.*

Analysis

4.4 The responsibilities of the Assistant Commissioner, as outlined above clearly indicate that the incumbent of this position must possess appropriate qualifications and a high level of competence and experience in the financial field if his financial duties are to be performed properly. This is critical under the present organizational arrangements and will continue to be of great importance as the present process of decentralization continues. Assigning these duties to a lower level of management under an Assistant Commissioner who does not have a financial background could result in a deterioration in the quality of the direction being given to financial officers and staff. Such a move could also deprive the Executive Committee and the Commissioner of expert advice, on a continuing basis, concerning the financial implications of proposed courses of action.

4.5 The position of the Senior Financial Officer should continue to be at a level at least equal to a senior director and should continue to report directly to the Commissioner as a means of ensuring that financial management and control concerns are adequately expressed at meetings of senior management, and that adequate systems of financial control are maintained in all departments and regional offices. The senior financial officer should be a member of the Executive Sub-Committee on Finance and a member of key management committees.

4.6 Because of the close relationship between accounting, financial reporting and budgetary control, the responsibility for these functions should be clearly assigned to one senior officer in the Government. Such an assignment of responsibilities cannot be accomplished under the present legislation which requires two financial officers to share financial responsibilities.

4.7 While the Assistant Commissioner is generally recognized as the Senior Financial Officer in the Government, the present organizational arrangements preclude him from having a direct involvement in matters dealing with planning and program evaluation. This direct involvement is essential because of the close relationship between planning and program evaluation and the resource allocation and budgetary process. To ensure that financial management and control concerns will be adequately expressed at meetings of the Executive Committee, a Sub-Committee on Finance, consisting of the Director of Finance and Executive Committee members, other than the Commissioner, is being established. While the need for a Sub-Committe on Finance has been recognized, the specific terms of reference and operating arrangements with the Executive Committee and Government departments have not been developed, and the Sub-Committee has not yet held its initial meeting.

4.8 The recommendations of this section of the report are made to emphasize the importance of a clearly defined and recognized position of Senior Financial Officer with the responsibility for all matters relating to the financial affairs of the Government. This will ensure that as personnel changes and possible organizational changes occur, the responsibility for financial management and control throughout the

Government will continue to be focused on a senior position in the organization and that the incumbent of that position will have the experience, qualifications, reporting relationships and authority to provide effective leadership to the financial function and financial advice to senior management.

Recommendations

4.9 *The Senior Financial Officer's responsibilities should encompass all matters relating to the financial affairs of the Government including developing and monitoring financial policies and standards in Territorial corporations and the financial aspects of planning and program evaluation.*

4.10 *The responsibilities of the Senior Financial Officer should be formally documented and communicated, and the Financial Administration Ordinance should be amended accordingly.*

4.11 *The position of the Senior Financial Officer should be maintained at a level at least equal to a senior director and should continue to report directly to the Commissioner.*

4.12 *The terms of reference and operating arrangements of the Executive Sub-Committee on Finance should be formulated, documented and implemented to ensure that financial management and control concerns will continue to be adequately expressed at senior management meetings.*

RELATIONSHIP WITH DEPARTMENTAL AND REGIONAL FINANCIAL STAFF

Background

4.13 While the Department of Finance has adequate involvement in the staffing of financial positions in regional offices, a similar situation does not exist with respect to operating departments. The classification and reporting relationships of financial positions within operating departments are determined by officials in the department in conjunction with the Department of Personnel, without advice or guidance from the Department of Finance.

4.14 At the present time there is no policy requiring the operating departments to consult with officers in the Department of Finance when determining the financial organization and the duties and responsibilities of financial positions in the department, or in selecting individuals to fill these positions and subsequently evaluating their performance. As a result:

- many operating departments do not have a departmental financial officer in whom financial responsibilities for the department are vested and who reports to the department head. In other departments, the departmental financial officers do not have a clear understanding as to their relationships with other financial staff, both within their own departments and within the Department of Finance;

departments and regions in developing or revising financial organization structures, in assigning financial responsibilities, in selecting individuals to fill financial positions, and in subsequently evaluating their performance.

STAFF TRAINING

Background and Analysis

4.19 Many of the deficiencies in financial management and control outlined in other chapters of this report can be attributed to a lack of training in financial management and the concepts of budgetary and internal control as they apply to operations of the Government of the Northwest Territories.

4.20 In the past, educational sessions for financial staff in the Department of Finance or operating departments were seldom held and the staff received little direction and/or training relative to the Government's financial practices. There are few formal in-house courses, or professional development or career planning programs needed to train personnel in the specialized financial environment of the Territorial Government. In most cases, many of the staff having financial responsibilities are given only on-the-job training by persons who may not be thoroughly familiar with the current responsibilities and duties.

4.21 In addition, many program managers with financial responsiblities have had little formal exposure to the general requirements of financial administration. There is a strong need for them to be knowledgeable in the concepts and applications of financial management and control in order to effectively carry out their responsibilities.

4.22 Training sessions, particularly covering the budgetary process, have recently been instituted by the Finance Department to rectify some of the above-noted deficiencies. These efforts need to be intensified and expanded to cover all financially related responsibilities.

Recommendation

4.23 *The financial training program recently introduced by the Government should be expanded and accelerated to meet the requirements of financial staff, as well as of operating managers with financial responsibilities.*

COMMUNICATION OF POLICY AND PROCEDURES

Background

4.24 A comprehensive manual containing government policies and procedures for all matters of financial administration does not exist. Financial policies and procedures may be found in several documents, for example:

- a Treasury Manual which contains regulations approved by the Commissioner and directives and orders approved by the Territorial Treasurer. The manual is incomplete and, in some cases, out of date;
- departmental procedures manuals and "user guides";
- regional policy directives; and
- executive policy directives and recommendations.

Formal procedures do not exist to ensure that all financial policies and procedures are integrated, comprehensive, subject to adequate review and communicated to the appropriate personnel.

4.25 The NWT's financial system for account processing and the production of accounting reports is centered in the Department of Finance. However, significant financial functions, in addition to the shared responsibility for financial planning and budgetary control, are performed by operating departments, both at headquarters and in the regions. For example:

- certain accounts payable invoice verification functions are performed in departments;
- some departments have responsibility for the billing and collection of revenue;
- social welfare cheques are issued by field welfare workers;
- medicare cheques prepared by Finance for the payment of accounts are returned to the requisitioning department for verification and distribution; and
- several imprest bank accounts are operated by departments.

Analysis

4.26 Current financial systems are not documented and adequately communicated to those responsible for making the systems work. A comprehensive financial management manual would be a major factor in ensuring the integrity of financial management systems in an operation as diverse and decentralized as the NWT.

4.27 Issuance of such a manual will not, in itself, guarantee the achievement of desired results. Departmental officers need to be made aware of the contents of the manual and encouraged to use it. The manual must also be kept up to date. In addition, a thorough review of existing financial systems in all departments should be undertaken and documented, to ensure that inadequate practices are identified and revised and that all departmental systems are integrated with central systems.

4.28 Due to the importance of financial management, operating manuals containing procedures relating to financial systems in headquarters, the departments and the regions should be subject to approval by the Senior Financial Officer of the NWT. This approval is necessary in order to ensure standardization and consistency of systems (where appropriate), the adequacy of the internal control features of the systems, and their integration with the central financial system.

4.29 A comprehensive financial manual would include, as a minimum, the following subjects:

- policies establishing an appropriate division of responsibilities for financial matters between program departments and central departments, and between regions and departments;

- description of the system of financial administration including its role in serving both departments and government requirements;

- descriptions and charts of financial organizations, showing their relationships with other departmental organizations, and identifying responsibilities of both financial officers and operating managers for financial administration;

- procedures for the preparation of planning and program memoranda and estimates;

- commitment procedures;

- cash forecasting procedures;

- codes of accounts and coding procedures;

- methods for verification of accounts and requisition of payments, with special procedures for such items as travel and removal claims;

- instructions for accounting control of inventories, equipment and other assets;

- procedures for accounting control of all revenues and receipts;

- financial reporting and variance analysis procedures;

- cost accounting for products and services;

- revolving funds, working capital advances and special accounts;
- grants and contributions;
- federal-territorial financial arrangements; and
- loans and advances.

Recommendation

4.30 *A comprehensive financial manual covering all aspects of financial administration within the Government should be prepared by the Director of Finance and issued under the approval of the Commissioner. Procedures should be implemented to ensure that the manual is kept up to date and is distributed to all staff with financial responsiblities. The Senior Financial Officer should approve all sections of operating manuals containing procedures relating to financial systems.*

DELEGATION OF FINANCIAL SIGNING AUTHORITY

Background

4.31 The Financial Administration Ordinance authorizes the Commissioner to delegate financial signing authority to officers within the Government. Under current practice, the Commissioner delegates signing authority to departmental and regional directors who are authorized to redelegate authorities within their own departments or regions up to specified limits.

4.32 Formalized or standardized procedures do not exist regarding the preparation, approval and distribution of signing authority delegations. The forms presently used to communicate delegations by directors are in some cases out of date and do not provide details regarding the nature of authorities to be exercised.

Analysis

4.33 Effective control over the disbursement of public funds requires that duties and responsibilities associated with delegated financial authority be properly defined, communicated and enforced. Policies defining these duties and responsibilities should be developed to ensure that the nature of "approval" authority is properly understood and that the exercising of such authority is evidenced on "approved" documents in order to affix responsibility and indicate that required approvals have been obtained. These policies should require a proper division of signing responsibilities. For example, the exercising of spending and payment authority by the same officer in respect of a particular payment should be prohibited. In addition, policies should clearly prohibit redelegation of authority within a department or region, except in accordance with government policy.

4.34 In order to ensure that signing authority delegations are monitored for compliance with policy and regulations, and the level to which the delegation has been made is appropriate, all delegations should be in accordance with a predetermined policy, which would be approved by the Senior Financial Officer and the Commissioner prior to being issued. Formal distribution procedures should also be developed to ensure that properly approved amendments are received promptly from directors, are subjected to proper review and approval, and are distributed to the appropriate personnel. As a means of facilitating this process, directors' delegations should be in such a format as to make specific references to the policy under which authority is being delegated.

Recommendation

4.35 *The Government's financial manual should outline the policies and procedures to be followed by all departments for the delegation of signing authorities, with particular emphasis on:*

- *the proper segregation of spending and payment authority;*
- *the designation of the appropriate organizational levels to exercise the various types of delegated authority;*
- *the establishment of appropriate levels of authority;*
- *the use of specimen signature cards;*
- *periodic review of existing authorities and their updating where necessary; and*
- *review by the Senior Financial Officer and approval by the Commissioner of delegated financial authorities within all departments.*

V FINANCIAL CONTROL OF EXPENDITURES AND REVENUES

ACCOUNT VERIFICATION

Background and Analysis

5.1 The responsibility for the verification and pre-audit of expenditure documents is divided among the operating departments, the Supply Services Division and the Territorial Treasurer's office. Current practices being followed in both the account verification and pre-audit processes have not been formally documented. In addition, the specific steps involved in the process are not evidenced on the documents by the persons performing the steps.

5.2 For example, the Supply Services Division performs the following functions on suppliers' invoices:

- matches invoices to purchase orders and receiving slips or bills of lading;
- checks pricing and extensions; and
- enters the financial coding on the invoice.

5.3 The only evidence that all of these important control procedures have been satisfactorily completed is the initial of the invoicing clerk approving the invoice for payment. In addition, a general description of the duties to be performed in this connection is included in the invoicing clerk's job description, but the specific procedures to be performed are not documented in the job description or the procedures manual. This lack of evidence is particularly important as the current practices allow for the approval of invoices for goods ordered, based on receiving slips for goods received by the Supply Services Division headquarters warehouse, memos or telexes from region offices or proof of receipt at a marshalling area. These various procedures are applied because of the varied transportation and delivery patterns used. However, the circumstances under which each procedure is appropriate have not been documented or communicated to persons responsible for the verification and pre-audit functions.

5.4 In the case of invoices not covered by a purchase order, the operating department attaches an approved cheque requisition before submitting to the Treasurer's office for payment. The specific responsibilities for checking prices, coding and evidence of receipt of goods, which are to be performed in the operating department have not been documented or communicated, nor are these procedures evidenced on the invoice.

5.5 Thus, in the case of invoices supported by either purchase order or cheque requisition, there is a need for clearer evidence, before these invoices are paid, that appropriate account verification procedures have been performed.

5.6 There is also a need, where invoices are paid prior to proof of receipt of goods, for evidence to be provided that the goods were subsequently received in all cases. It is recognized that shipments to remote locations can result in considerable time lags between time of shipment and ultimate delivery and that, in some instances, it may be necessary to pay the invoice prior to evidence of delivery of goods. However, compensating controls should be established, including clearly documenting and enforcing the circumstances under which this payment procedure is allowed and implementing procedures to ensure a proper receiving report is utlimately obtained, where practical.

Recommendations

5.7 *To ensure that financial controls over expenditures are appropriate and operating at all times, the responsibility for the specific verification procedures should be clearly documented and communicated and each verification procedure should be evidenced on the document.*

5.8 *Criteria should be established and documented covering the circumstances under which invoices may be paid before confirming evidence is obtained that the goods were received. Where practical, procedures should be implemented to ensure that a proper receiving report is ultimately received.*

MANUAL CHEQUE ISSUE

Background and Analysis

5.9 Current payment practices require that cheque requisitions be submitted to the Territorial Treasurer's office for pre-audit and cheque preparation and issue. The system provides for these requisitions to be subjected to computer edit checks, such as checking for duplicate payments and checking for availability of funds, prior to preparation of a cheque on the computer. However, in many cases, such as travel advances and suppliers without a computer code number, cheques are manually prepared, thus temporarily bypassing the computer edit checks. At the time of our study, approximately 4,000 cheques per month, or one-half of all cheques issued, were manually prepared.

5.10 The issuance of manual cheques is now being monitored by the Assistant Chief Accountant-Disbursements with a view towards reducing the number of manually issued cheques. However, formal policies restricting the circumstances under which manual cheques may be issued have not been prepared.

Recommendation

5.16 *All monthly reconciliations should be completed and approved promptly. The status of these reconciliations should be reported to the Territorial Treasurer and delays should be reported immediately to the Director of Finance.*

REVENUE

Background and Analysis

5.17 Revenue policies concerning the types of service for which fees are to be charged and the basis of determining the fee rates have not been documented. Many operating department officers interviewed, including those in the Department of Local Government, Public Service, Natural and Cultural Affairs and Economic Development, were not aware of how fees and rates charged by their departments were determined and had not been asked to prepare cost information.

5.18 Where it is intended that the rates are to be determined in relation to the cost of supplying the service, there is no regular review by operating departments to determine whether fees and charges to the public for services provided are realistic in light of changes in the cost of such services. All rates should be reviewed from time to time to ensure that they are current and reduce the possibility of large increases.

5.19 There is no evidence that rates and fees set by operating departments are reviewed and approved by the Executive Committee on a regular basis. Departments should be required to submit at least annually to the Executive Committee written proposals for setting fees and charges for services they provide. The proposals should include the related costs of supplying the services. To ensure there is some consistency in their preparation, guidelines should be issued by the Department of Finance as to the services for which charges are to be made and the nature of costs to be included, e.g. administration costs if appropriate, and the proposals should be reviewed by the Department of Finance to ensure all applicable costs are included. In this manner, if the Executive Committee indicates that it does not wish to raise fees it will be aware of the financial implications of its decision.

5.20 The systems which are used to capture revenue data are not documented. Although the Finance Department is responsible for ensuring that departmental systems for recording and collecting revenue are operating effectively, there is little evidence of their review or approval of departmental procedures. As a result, present systems and controls do not ensure that all revenue is accounted for. For example:

(1) There have been instances where the Revenue Section has received payments from customers for goods which have not been billed.

(2) There are no formal procedures covering the timing and responsibility for the preparation of claims on federal cost-sharing programs.

(3) In some instances operating department finance officers are not clear as to their responsibility for revenue systems or controls. They are not familiar with their departmental systems or controls and do not attempt to verify that all funds forwarded to the Revenue Section were received or credited properly.

(4) In the past year, the review of submissions for fuel and gas tax was limited to a check of clerical accuracy of the returns. No attempt was made to audit the taxpayer's records. We understand that it is now the intention of the Fuel Tax Auditor to perform field audits. Because audit procedures have not been documented it is not possible to determine their adequacy.

Recommendations

5.21 *The Executive Committee should establish a general policy to indicate the type of service for which fees are to be charged. Specific policies stating the basis of fee or rate determination should be established for each source of revenue. Departmental fees and rates for services provided to the public should be subject to review and approval by the Executive Committee at least annually. Departmental submissions should contain details of the related costs of the services so that the Executive Committee will be aware of the financial implications of its decisions.*

5.22 *An in-depth review of the present systems of internal control over revenue should be undertaken under the direction of the Senior Financial Officer. Effective systems should be implemented to define responsibility for control clearly and to ensure that all revenue is recorded and accounted for.*

GRANTS AND CONTRIBUTIONS

Background and Analysis

5.23 Grants and contributions represent a significant portion (ranging up to 50%) of the operating expenditures of certain departments. There are, however, no clearly defined and approved criteria for the approval and payment of these items. Each department should be required to prepare a submission, for approval of the Executive Committee, outlining the terms and conditions under which grants and contributions can be made. Such submissions should contain:

(a) A clear definition of the class of recipients to whom such payments may be made, indicating the relationship of the grants and contributions to the department's program objectives.

(b) The nature and extent of the supporting material required with any application from a prospective recipient.

(c) The evaluation procedures used to determine the degree to which a prospective payment meets the departmental criteria for making such payments.

(d) The nature ~~and extent of the~~ departmental review procedure that takes place prior to a decision being made with respect to an application.

(e) The departmental official who will be authorized to approve each payment.

(f) The maximum amount payable to any recipient.

(g) For each type of contribution, the types of expenses incurred by the recipient which will be eligible for cost-sharing.

(h) The audit arrangements to be made in the case of contributions.

5.24 Since departments normally do not know the specific individuals or organizations to whom grants and contributions will be made, it may be impractical to list them in the Estimates. However, generic descriptions of the recipients and the conditions for payment should be disclosed as precisely as is feasible in the Estimates, and details of significant grants and contributions should be published annually in the Territorial Accounts in order to disclose more fully the type and amount of assistance provided to various elements of the public and private sector during the year.

Recommendations

5.25 *To improve financial control, criteria covering the approval and payment of grants and contributions should be documented and approved by the Executive Committee. Such criteria should include clarification of the eligibility of proposed recipients, minimum evaluation and review procedures before approval of the payment. For contributions, they should define eligible expenditures and requirements for audit.*

5.26 *Details of significant grants and contributions made during the year should be published annually in the Territorial Accounts to disclose more fully the nature and extent of assistance provided to the various classes of recipients eligible for such assistance.*

VI ACCOUNTING CONTROL PROCEDURES RELATING TO ASSETS AND LIABILITIES

ACCOUNTS RECEIVABLE

Background and Analysis

6.1 Territorial Government credit and collection policies have not been formally documented or approved. Thus, operating departments have not been given adequate direction on the establishment of credit limits or the collection of overdue accounts. In addition, there has been no clear delineation of responsibility for these matters. These factors have contributed to a deterioration in the status of the collectibility of the accounts and some major collection problems. For example, approximately $980,000 or 32% of the petroleum (P.O.L.) accounts and $745,000 or 25% of the general accounts are over 90 days old. Although this represents a significant reduction from previous periods, the current status of the accounts reflects a serious collection problem and a significant carrying cost.

6.2 Controls are not adequate to ensure that accounts receivable billings are issued whenever cash is not collected prior to the provision of goods or services, and to ensure that amounts billed are correct as to quantities and prices for such goods or services. Customer billings are prepared by the Revenue Section from various source documents forwarded from the operating departments. No controls are established prior to submission of the data to the Revenue Section and there is no follow-up by the operating departments to ensure that the data have been received and billed.

Recommendations

6.3 *Credit and collection policies should be established, approved and implemented in all departments, and then enforced.*

6.4 *Procedures for billing and collecting accounts receivable should be documented, approved and implemented to ensure that funds are collected as promptly as possible for all goods and services provided. Particular emphasis should be placed on determining the most appropriate division of responsibilities between the operating departments and the Revenue Section.*

INVENTORIES AND REVOLVING FUNDS

Background and Analysis

6.5 In many instances, effective internal control over revolving funds and inventories of supplies, raw materials and finished goods is lacking. This is evidenced by the following:

- At March 31, 1977 , the inventories in two revolving funds exceeded their authorized limits - Inuvik Sewing Centre ($24,786) and the Central Merchandising Warehouse ($226,446).

- A large portion of the inventory at Frobisher Bay had not been counted for 2 years and subsidiary records had not been reconciled with the general ledger control accounts.

- No record has been maintained of artifacts accumulated for display in the new Territorial museum.

6.6 The Financial Administration Ordinance states that payments may be made out of the Consolidated Revenue Fund for revolving fund purposes, "subject to such terms and conditions as the Commissioner may prescribe". We were unable to obtain documentation which sets out these terms and conditions. In some instances, there is no documentation outlining the purpose of the revolving funds or the procedures to be followed for their operation and control. This has led to confusion in the minds of those responsible for their operation as to the specific activities that can be financed by the fund. The authorized limits of revolving funds should be reviewed at least annually to ensure they are appropriate in the circumstances.

6.7 The Financial Administration Ordinance requires that the deletion from inventory records of obsolete, lost or destroyed stores in an amount exceeding $5,000 must be recommended by a Board of Survey and approved by an Ordinance. The annual adjustment to the Consolidated Revenue Fund from operations of the P.O.L. revolving fund is a net entry which includes numerous adjustments to inventory for overages and shortages, many which exceed $5,000. These adjustments are not subject to the review or approval of any official outside the Supply Services Division of the Department of Finance.

Recommendations

6.8 *Specific accounting and control procedures relating to revolving funds and inventories should be documented, implemented and monitored to ensure that:*

- *revolving fund limits are reviewed at least annually and are not exceeded;*

- *all supplies and merchandise inventories are counted at least annually, agreed to subsidiary records and reconciled to the general ledger on a regular basis; and*

- *adjustments to inventory records are properly authorized.*

6.9 *Policies and procedures for establishing and operating each of the revolving funds should be documented and communicated to the respective fund managers. These policies and procedures should include:*

- *the approved purposes for which the fund was established, i.e., the types of activities that can be financed;*
- *accounting and control procedures designed to meet the needs of the operation for which the fund was established; and*
- *monthly reporting requirements to enable regular monitoring of operations.*

CAPITAL ASSETS

Background

6.10 Capital asset ledgers are maintained in the Supply Service Division of the Department of Finance as well as in some operating departments, including the Department of Public Works. However,

(i) these ledgers are not reconciled with capital expenditures for the year;

(ii) the physical location of all items is not known;

(iii) while tests checks are performed by the internal auditors, there is no coordinated plan to verify the accuracy of the ledgers by physical inspection of the assets on a regular basis; and

(iv) numbering procedures to identify individual assets are not applied to all cases of moveable assets.

Analysis

6.11 Adequate capital asset ledgers are necessary if managers are to be held accountable for capital assets under their control. Any independent monitoring of the use of capital assets, cannot be effective unless there is a record of the assets in question and a regular review of their physical existence and condition. Such a listing will also aid in making capital asset expenditure decisions and in ensuring that there is a timely disposal of an asset which has been replaced.

6.12 As part of the decentralization process, more responsibility for the purchasing of capital assets will be transferred to the regional offices, thus increasing the importance of proper capital asset control. There should be a standardized approach to the system of capital asset control to ensure that the most appropriate system and records are used in all locations.

Recommendation

6.13 *To improve the control over the purchase, use and eventual disposal of capital assets, individual assets should be numbered and capital asset ledgers should be maintained, reconciled with capital expenditures each year and verified by physical inspection of the assets on a regular basis.*

VII DATA PROCESSING

Background and Analysis

7.1 The Systems and Computer Services Division of the Department of Finance is responsible for the processing of the major accounting data, including the general ledger, payroll and accounts payable. The accounts payable computer system will utilize remote terminals for input of information into the system.

7.2 We recognize that certain problems are inevitable in the development and maintenance of a complex data processing system and appreciate that the Computer Services Division has had to make the practical operation of the system its top priority. However, we feel the matters outlined below are important and should be given consideration immediately. The findings of our review of the computer system disclosed significant weaknesses in the following areas:

- restricted access to computer facilities;
- terminal input facilities;
- computer operations; and
- physical safeguards.

Restricted access to facilities

The Computer Services Division does not have a librarian to control access to program documentation and to data files. This increases the risk that an operator may manipulate programs and data files since he is not prohibited from obtaining the program documentation or accessing any data files. Also, there are no procedures to ensure that only authorized programs are executed. This could result in the use of unapproved programs or test programs. In addition, programmers and analysts frequently have access to the computer room without adequate supervision. This allows programmers the opportunity to access data files, to make unauthorized entries, or to make unauthorized changes to operating programs. It is fundamental to internal control that the segregation of operator and programmer duties be maintained to provide an effective control over the accuracy and propriety of computer programs and data files.

Terminal input facilities

As previously noted, accounts payable transactions will be input to the system through remote terminals. A password is the key control to restrict access to data files and programs to authorized individuals to whom the password is known. The present password procedure permits the possibility of unauthorized access because the password is displayed on the terminal screen when the program is accessed unless specifically depressed by the user, the terminal does not disconnect after a pre-determined number of invalid attempts to access and there are no procedures to ensure the password is changed at regular intervals. Also, there is no unique terminal identification to determine by which terminal data has been input nor is a terminal disconnected after it has been inactive for a specified period of time. These deficiencies increase the possibility of an unauthorized user having complete access to and manipulating all records and programs for which the required password is known.

The terminal input facilities do not provide for a method of informing the terminal operator of possible lost messages or main computer failure. This can lead to incomplete processing of data. These weaknesses become increasingly important if the input facilities are decentralized, requiring data to be communicated over long distances.

Computer operations

There is no computer log printed for the accounts payable system. A log is necessary to monitor computer operations for such things as unsuccessful attempts to access the system, the use of overrides, aborted runs, etc. The log should be reviewed by the operations manager and initialled as evidence of his review. In addition, there is no formalized procedure to ensure that only authorized amendments are made to the operating systems. Modifications to certain programs and data files are possible without ensuring their documentation and approval by a responsible official.

Physical safeguards

The computer room is not adequately protected against fire. There are no non-combustible partitions between the computer room and the rest of the building; nor are there combustion detectors within the computer room. Also, the machines are not protected against water damage which would be caused by sprinkler malfunction. At the present time, duplicate files for the accounts payable system are not being stored off premise. Consequently, total reconstruction of data files and programs would be required in the event of a fire or similar disaster.

Recommendation

7.3 *The data processing installation should be critically reviewed and the results of this review should form the basis for:*

- *segregation of the operator and programmer functions and establishment of library control procedures to reduce the possibility of unauthorized and undocumented changes to programs or processing of unauthorized information;*

- *strengthening controls to prevent unauthorized use of terminal input facilities;*

- *strengthening data processing by developing controls to ensure that all input data is processed;*

- *establishing a log for the remote access system to monitor computer operations including the use of specialized procedures to amend programs and data files; and*

- *strengthening physical safeguards over the computer unit's programs and data files against fire, water damage or similar disaster.*

VIII INTERNAL AUDIT

Background and Analysis

8.1 The status and reporting relationships of the Territorial Auditor have recently been changed. His position is now that of "Executive Manager of the Audit Bureau" reporting directly to the Commissioner and an Internal Audit Committee, composed of the Assistant Commissioner, the Director of Finance, three operating department directors and the Executive Manager of the Audit Bureau. The Internal Audit Committee is responsible for review and approval of the annual work schedule, quality of audit reports and effective action on audit findings.

8.2 In the past, inadequate emphasis has been placed on audits of systems, procedures and internal control in the Department of Finance. A review of the proposed work schedule for the current year indicates that the Department of Finance will now be included in the audit coverage. We feel additional emphasis needs to be placed on this key area where there must be a high degree of assurance that vital controls are operating and are effective.

8.3 Considerable time is spent by the audit staff on legislation audits, certification of federal cost-sharing claims, audits of housing associations and other specifically assigned tasks which are outside of the normal internal audit function. Steps should be taken to ensure that in performing these functions sufficient priority is given to the basic responsibility for internal audit.

Recommendation

8.4 *Before approving the annual audit work schedule, the Internal Audit Committee should ensure that adequate resources are allocated to the internal audit function and that all significant areas of the financial system are covered annually.*

IX BUDGETARY CONTROL

PROGRAM GOALS AND OBJECTIVES

Background

9.1 The approach to the development and periodic reassessment of program goals and objectives lacks co-ordination within the government. As a result, program goals and objectives have not been developed to the extent necessary for effective financial planning or to provide an adequate basis for establishing the accountability of managers. Recently a separate Department of Planning and Program Evaluation was established to assist in this area and several evaluation studies have been conducted on specific programs. However, there is little evidence to indicate that the activities of this Department have been effectively co-ordinated with the financial planning and budgetary review functions carried out by the Budget and Fiscal Planning Division of the Department of Finance so that planned and actual program inputs and outputs can be compared and corrective action taken where required.

Analysis

9.2 The appropriate allocation of financial and other resources of the government and the ability of the senior executive to establish the accountability of managers in terms of planned resources and operational performance is dependent upon the establishment of clearly articulated program objectives and operational goals. These, in turn, facilitate careful consideration of the costs and expected results of various alternative activities and sub-activities.

9.3 Many of the important aspects of the planning process are closely related to the budgetary cycle. Without clearly defined program goals and objectives, operating managers are less likely to prepare meaningful program memoranda and Main Estimates; financial officers in the Budget and Fiscal Planning Division are unable to effectively assess and challenge information supplied; and the Executive and Council are less able to assess the cost effectiveness of the various program and activity alternatives when voting the funds requested. Therefore, attempts to formulate and assess appropriate program goals and objectives and to use these for management decision-making purposes are likely to be much more effective if they also involve those responsible for the budgetary process. The new procedures for preparation of program memoranda, with emphasis on narrative description rather than numerical detail, are an attempt to assist Directors and the Executive Committee members in establishing these necessary program goals and objectives.

Recommendation

9.4 *Efforts to establish clearly articulated program objectives and operational goals should be continued and such efforts should be more closely related to the budget preparation and review process.*

PREPARATION OF PROGRAM MEMORANDA AND MAIN ESTIMATES

Background

9.5 For the 1977-78 fiscal year and previous years, the resource allocation process included the preparation of program forecasts by individual operating departments, review by the Department of Finance and the Executive, and approval of funding levels by the Federal Government. Main Estimates were then prepared for approval by the Council.

9.6 The preparation of program forecasts has become an incremental exercise involving the addition of the required amount to the previous year's costs, with little narrative description to indicate the actual or planned work to be carried out. In many departments, finance officers prepare the program forecasts, often with little input from operating managers responsible for carrying out the programs. In other departments, these documents are prepared by operating managers with little overall co-ordination within the department. In addition, even though considerable budgetary responsibility has been transferred to the Regional Directors, the program forecasts and Main Estimates continued to be prepared in the individual departments in Yellowknife with little involvement by the Regional Directors.

9.7 For the 1978-79 fiscal year, program forecasts have been replaced by program memoranda, which contain more information on program goals and proposed actions of the departments. An accountability measurement pilot study for the Department of Finance will be presented to the Executive Sub-Committee on Finance to determine its suitability for government wide application and to obtain Executive approval to continue the approach throughout the Government of the NWT.

Analysis

9.8 The purpose of the initial stage of the budget exercise, i.e. the preparation of program forecasts, or more recently program memoranda, is to determine the programs and activities to be carried out and to establish levels of funding for each. While program costs cannot be ignored, detailed budgets should not be attempted at this stage because the results of the current year's operations are not available and such items as price increases are not known. At the same time, the process of merely adding an amount to the previous year's costs to determine the current level of funding does not provide a basis for ensuring that activities are consistent with the program objectives and does not require a continuing assessment of the effectiveness of the activities in achieving the desired results. Thus, ineffective activities may well continue and inefficiencies in operations in previous years may be carried forward from year to year resulting in higher levels of funding than necessary.

9.9 The use of the program memoranda procedures which, as proposed, will require an annual assessment of continuing programs and anticipated costs is a positive step toward correcting these problems.

9.10 Of more direct concern to this study, the processes leading up to the Main Estimates do not ensure that budgets are supported by operational data such as the anticipated units of service to be provided for a given level of funding, so as to provide a basis for establishing and maintaining the accountability of managers.

9.11 The preparation of departmental program memoranda and Main Estimates should be the joint responsibility of operating managers and financial staff in each department - managers being primarily responsible for assessing and advising on activity content and for providing supporting narrative, and financial staff in each department being primarily responsible for co-ordinating, evaluating and assembling financial data and advising both their respective program managers and the Assistant Commissioner. All managers who are assigned budgetary responsibility should be involved in all aspects of the preparation of their budgets to ensure their commitment to the budgets and to ensure they can be held accountable both for planned and actual performance. We endorse the concept of active participation by Regional Directors in the budget preparation exercise, particularly in relation to assessing the need for various types of government services in their regions and the anticipated cost of providing them.

Recommendations

9.12 *The Government should continue its efforts to improve the budget preparation process by using program memoranda to provide more specific information on the actual or planned departmental work to be carried out and to provide a basis for measuring the effectiveness of programs and activities.*

9.13 *The Main Estimates should be derived from a detailed buildup of planned costs and output data to provide a basis for establishing and maintaining the accountability of managers.*

9.14 *Guidelines should be issued to departments and regional offices outlining the budget responsibilities of both operating and financial staffs to ensure a clear understanding of their responsibilities and appropriate involvement in the budgetary exercise.*

FORMAT OF THE ESTIMATES

Background and Analysis

9.15 Financial resources are allocated by the Council to various programs and activities based on information contained in the Main Estimates. While generally the Estimates are prepared in a format to provide meaningful and reliable information to Council and the Executive Committee, there are certain specific deficiencies which detract from their usefulness. The more significant deficiencies are:

(i) The narrative explanation of an activity is not always sufficiently detailed to enable the Council to obtain a clear understanding of the objectives and proposed actions of the department concerned. For example, the explanation supporting activity 4043 Child Welfare Services with a budget of $2,800,000 for the 1977-78 fiscal year is, "to provide counselling services to parents and children and an appropriate range of child welfare services for children who are in our care whether by parental agreement or court order".

(ii) The cost of a program shown in the Estimates is not always all-inclusive and the basis for determining these costs is not disclosed. For example, the costs of the schools activity shown as $24,000,000 does not include the cost of fuel for heating the school buildings, the maintenance costs of these buildings or staff housing costs for teachers. The fact that these costs are excluded and how much is involved is not readily apparent.

(iii) The information on capital projects included in the Estimates is not always current or reliable. The Department of Public Works prepares rough estimates for other operating departments to assist in their long-term planning. These rough estimates are not always replaced in the Main Estimates by more detailed estimates based on more detailed specifications and there is no way of knowing when it is only a rough estimate that is being used.

(iv) Information on capital programs continuing more than one year does not include total costs to date, percentage completion or anticipated costs to complete. Thus, figures on the total anticipated costs of such programs are not available.

(v) Revenue and recoveries are shown by source for the Government as a whole, while the related expenditures are shown by activity, causing difficulty in relating revenue with expenditure to determine the net cost of the applicable activities.

9.16 The Main Estimates submission is the key document in establishing overall financial control in that it establishes the intent of the Council and is the only yardstick against which the operational performance of managers can be measured. The format of the Estimates will, to a large extent, also dictate the standards of control which will be applied in the preparation and review of budgets and in monitoring budget execution within the Government.

9.17 While, at the present time, the Main Estimates contain considerable detail on objects of expenditure, i.e. on what the funds are to be spent, there appears to have been little emphasis on identifying the responsibility for, and the purpose of, the expenditures, thereby reducing the effectiveness of the Main Estimates as a means of communicating departments' intentions and priorities to Council and as a means of clearly establishing the accountability of specific managers in terms of planned costs and performance.

9.18 Similarly, legislative control and accountability is diminished if both the total cost and net cost of programs and activities are not shown. For example, costs recovered via federal-provincial cost sharing programs are not indicated in the expenditure section of the Estimates. For many of the currently unallocated costs, such as the heating and maintenance costs for schools mentioned previously, the detail of the costs is identifiable in the existing chart of accounts but not in the Main Estimates.

9.19 As capital expenditures constitute a significant portion of the annual cash expenditure of the Government, every attempt should be made to improve the reliability and standards of disclosure in the Estimates, particularly as departmental dealings with the Department of Public Works are not consistent in determining the estimated costs for capital expenditures and provide little assurance that accurate cost estimates are included in the Main Estimates. If costs for major continuing capital programs are to be adequately controlled, more extensive and precise information must be presented to Council to enable subsequent monitoring of construction progress and adherence to approved funding levels.

<u>Recommendation</u>

9.20 *The format of the Main Estimates should be reviewed and amended to ensure that information is presented so it will effectively establish the accountability of the responsible managers in terms of planned costs and operational performance. In particular:*

- *more emphasis should be placed on clearly stating the objectives, proposed actions and desired results of departmental activities;*
- *total costs of programs should be shown where this is likely to contribute to improved resource allocation decisions or improved accountability of managers;*
- *the reliability and amount of information on capital projects should be improved; and*
- *the relationship of revenue to the corresponding expenditure should be clearly stated.*

VARIANCE REPORTING

<u>Background</u>

9.21 At the present time, there is no formal reporting process which requires managers to explain variances between budgeted and actual expenditures or revenue.

9.22 While attempts have been made to prepare detailed monthly budgets, and in fact comparisons of actual with budgeted expenditures are included in the monthly reports generated by the Finance Division, a procedure has not yet been developed to analyse or follow up significant variances. Moreover, at the present time, measurements are not made of the differences between planned and used resources and changes in the level of operational performance.

9.23 We were informed that a Status Report is currently under consideration which may satisfy the requirements of a variance reporting system.

Analysis

9.24 For a budgetary control system on a responsibility basis to be effective, each manager should be provided with financial reports comparing his own and his subordinates' operations to date with approved plans. If there are deviations from the plan, their significance should be analysed and explained, and alternative courses of corrective action identified. Variance reports are a positive means of informing senior management of changing situations which, if ignored, may have serious effects on the attainment of program and activity objectives. Variances should therefore be reported not only for changes in the level of input, i.e. the costs incurred, but also for changes in the volume of output.

9.25 To implement an effective variance reporting system, the roles of the operating departmental officers and officers in the Department of Finance must be clearly defined. Finance officers should be responsible for identifying variances which require explanation. Depending on the size of the department, these functions may be performed by departmental finance officers or officers in the Department of Finance. In either case, the Department of Finance should ensure that all variances requiring analysis are properly identified. It is the responsibility of the operating managers to explain the variances and report the corrective actions taken or to be taken. These explanations should be monitored by the Department of Finance and reported in summary form, along with any other significant matters, to the Commissioner and the Executive Committee.

Recommendation

9.26 *A formal, timely and effective variance reporting system should be implemented, which would require:*

- *managers to explain significant variances between planned and actual costs and planned and actual volumes of output and to indicate the corrective action to be taken; and*

- *central monitoring of results in departments and regions by the Assistant Commissioner with exception reports to the Executive Sub-Committee on Finance and the Executive Committee.*

X FINANCIAL REPORTING

INTERNAL FINANCIAL REPORTING

Background

10.1 The existing system of internal financial reporting to the senior executive, operating managers and finance officers consists of several monthly computer-generated financial statements. Expenditures are classified in various combinations by region, program, activity, sub-activity, sub-sub-activity and line object.

10.2 While a great deal of financial information is included in these statements, the information is not presented in a form which can be used easily by operating managers. As a result, operating department personnel are generally dissatisfied with the present reporting process even though many of the reports contain useful information including current month and year-to-date expenditures compared to budget and the free balance available for future expenditures.

10.3 The need for a proper reporting system has been recognized and the Executive Committee instructed the Director of Finance to submit a proposal for the development of a comprehensive Financial Management Information System.

Analysis

10.4 One of the major deficiencies in the current reporting process is that it does not adequately recognize the differences in the needs of the various users of financial information. The reports required by various levels of managers will vary in detail. For example, the reports to senior managers, such as departmental or regional directors, require financial information presented in a manner so that they can review the performance of their subordinates and highlight areas where corrective action is necessary.

10.5 Financial officers normally require detailed listings of transactions to enable them to provide assistance in analysing managers' reports. As well, because they have a responsibility for maintaining allotment control, they require information on disbursements to date, undischarged commitments and free balances available.

10.6 In addition to information for operating managers and finance officers, which should be presented monthly, financial reports should be presented to the Executive Committee at least quarterly throughout the year. To facilitate the Executive Committee's use and understanding of the reports, this information should be in a form consistent with the Main Estimates and Territorial Accounts presentation.

present disclosure and steps should be taken as soon as the results of the CICA study are available.

Recommendation

10.13 *The Senior Financial Officer should develop the modifications to the Government's financial statements needed to improve their completeness, accuracy and clarity, with particular reference to the various users.*

APPENDIX A

NORTHWEST TERRITORIES WORKERS' COMPENSATION BOARD

Background and Analysis

11.1 A new Ordinance establishing the Workers' Compensation Board was proclaimed April 1, 1977 to be effective January 1, 1977. Although the Ordinance indicates that the Workers' Compensation Board is to be an autonomous body, confusion has arisen because of the word "autonomous" and the fact that its implications have not been clearly defined. This has led to confusion as to responsibilities of individuals and some operational problems such as:

- accounting policies and procedures have not yet been documented;
- job descriptions of individuals in the W.C.B. are out of date in only a few months;
- signing authorities have not been appropriately delegated;
- the monthly computer-generated financial statements are received after the monthly Board meeting is held;
- inadequate records are maintained in the W.C.B. to determine whether approved transactions and only approved transactions are recorded; and
- adequate statistical data to determine assessment rates is not available.

11.2 Relationships between the Workers' Compensation Board staff, the Department of Public Services and the Department of Finance have not been clearly defined. The Workers' Compensation Board deals with the Commissioner on policy, with the Department of Public Services on administration and the Department of Finance on financial and accounting matters. These respective department heads are unclear as to the limits of their authority and responsibility.

11.3 Accounting policy and procedure manuals prepared by the Department of Finance for the use of Workers' Compensation Board financial staff were considered by this staff to be impractical and time-consuming. Revised procedures have not been documented and it is therefore difficult to ascertain the accuracy of their accounting system or the adequacy of internal control.

11.4 Although the present financial reporting system is not adequate for the requirements of the W.C.B., little progress has been made in attempts to resolve the problem. Accurate statistical data is vital to the successful operation of the W.C.B. If such information is not available for the determination of assessment rates, serious problems could result.

Recommendations

11.5 *Financial and accounting policies and standards for the Workers' Compensation Board should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government. He should ensure that these policies comply with the applicable legislation.*

11.6 *Relationships and the division of responsibilities on financial matters between the senior staff of the Workers' Compensation Board and that of the Territorial Government should be clarified.*

11.7 *The financial management and control systems should be reviewed and upgraded so that they will be sound, comprehensive and effective.*

APPENDIX B

NORTHWEST TERRITORIES HOUSING CORPORATION

RELATIONSHIP WITH THE GOVERNMENT OF THE NORTHWEST TERRITORIES

Background and Analysis

12.1 The Northwest Territories Housing Corporation was established by Ordinance on October 13, 1972, to develop, maintain and manage housing in the Territories. The Ordinance provides for a Board of Directors to conduct the affairs of the Corporation on behalf of the Commissioner.

12.2 The working relationship between the Corporation and the Government has not been clearly defined. As yet, no working agreement has been entered into to clarify the respective positions and responsibilities concerning such items as the treatment of surpluses and deficits of the Corporation, the preparation of annual budgets and the control to be exercised by the Government over the financial affairs of the Corporation.

12.3 The development of a working agreement has been listed as one of the goals of the Finance Division of the Corporation in the 1977-1978 fiscal year. A report setting out the position of the Corporation on these matters has been approved by the Board of Directors and has been presented to the Commissioner for review.

Recommendations

12.4 *The Northwest Territories Housing Corporation and the Government of the Northwest Territories should continue their efforts to reach a working agreement to clarify the roles of the two organizations in the management of the Corporation. This agreement should make specific reference to the financial affairs of the Corporation including:*

- *the treatment of the Corporation's surpluses and deficits; and*
- *the preparation and submission of annual budgets.*

12.5 *Financial and accounting policies and standards for the Housing Corporation should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government.*

SENIOR FINANCIAL OFFICER

Background and Analysis

12.6 The Chief Executive Officer of the Corporation is the Managing Director. As a result of a recent reorganization, which created the position of Manager-Finance locations. Concern has been expressed that these manuals are too complex to be useful to the housing associations.

12.10 The Manager, Finance and Administration, is responsible for all aspects of financial management and control in the Corporation, including those related procedures which may be performed in the operating divisions. To properly discharge this responsibility, he must have direct involvement in determining the financial procedures to be followed in such areas as housing associations. He therefore has the responsibility for documenting the procedures to be followed and the responsibility for monitoring the activities of the associations and operating divisions to ensure that these procedures are adhered to.

Recommendation

12.11 *The financial manual should be expanded to include all financial procedures in the Corporation. The accounting manual designed for the use of the housing associations should be amended by the Manager, Finance and Administration, with the policies governing its application being approved by the Managing Director before implementation.*

STAFF TRAINING

Background and Analysis

12.12 The program assistants in the Program Division, who carry out the liaison with the housing associations, require accounting knowledge as well as the ability to effectively relate to and communicate with the housing association managers and staff. Because considerable travel is required, the Corporation has had great difficulty in hiring adequately qualified program assistants. As a result, the financial controls in most of the housing associations are deficient, as evidenced by the inability of the auditors to give unqualified opinions.

12.13 To increase the knowledge and ability of program assistants and housing association managers, a training program should be developed and implemented. Officers from the Finance Division should have significant input to these programs to ensure that the finance and accounting functions are covered. Until very recently the Finance Division had little involvement in the limited financial training activities which have taken place.

Recommendation

12.14 *A financial training program should be developed and implemented under the direction of the Senior Financial Officer. This program should be integrated where practicable with the training programs in the Government of the Northwest Territories and should include all persons with financial responsibilities and in particular program assistants and housing association managers.*

BUDGETARY CONTROL

Background and Analysis

12.15 Operating deficits and capital requirements of the Corporation are funded by the Territorial Government. The required funds are included in the Executive Office appropriation in the Main Estimates of the Government. There is insufficient information in the Estimates to adequately inform the Council concerning the operations of the Corporation. For example, the information contained in the 1977-78 Estimates consisted of a breakdown of the total funding between operations and maintenance ($6,105,000) and capital ($5,000,000) with the explanation to "provide for the operating and capital deficits for the NWT Housing Corporation". The Corporation makes a separate presentation to the Council giving more details of the programs administered and reasons for the expenditures. However, this detailed information is not subjected to the same review by the Department of Finance of the Government as are operating departments in the Government.

12.16 Some of the practices followed by the Corporation in accounting for the funds provided by the Government weaken the control over and accountability for such funds. For example, the Government funds all the deficits of the Corporation. However, if the Corporation has a surplus in any year resulting from actual expenditures being less than budget or any other reason, the Corporation is not required to account for or return these surpluses to the Government. This can be particularly important for capital expenditures. All capital funds are placed in a development fund in the Corporation. As the funds are required for particular projects, they are transferred from the development funds and charged to that project. If for any reason the funds for a project are not spent in a given year, either because the project could not be completed or because it was completed at less than estimated cost, the unexpended funds remain in the development fund for use in future periods on the given project or other projects and may escape review by Council.

12.17 The budgets for the Corporation are prepared on a cash basis, which is necessary to determine the net funding required from the Government. However, these budgets do not reflect expenditures to be made from prior years' accumulated lapsed funds such as unexpended capital funds. For example, about $300,000 was obtained for land assembly in 1976. These funds were not spent in 1976 but are expected to be spent in 1977. Because of the principles on which the budgets are prepared, there is no indication in the 1977 budget that this expenditure will occur.

12.18 While financial information on actual revenue and expenditures compared with budget is prepared monthly, the Corporation does not have an appropriate budgetary control system whereby each responsibility manager is held accountable for, and controls the utilization of resources in his budget. Such a system would require:

- cost by activity and type of expenditure budgeted by period in relation to planned output;

- actual costs and output reported by period; and

- variances between budgeted and actual cost in relation to output be analysed with a view to corrective action.

12.19 In addition, the financial information presented to the Managing Director and Board of Directors does not provide a meaningful basis for controlling capital expenditures. This information does not include on a project basis actual costs to date, percentage completion, estimated costs to complete and total budgeted cost.

12.20 As a result of these deficiencies in the budgeting and reporting procedures, the Managing Director and Board of Directors are not supplied with adequate information to hold their subordinates accountable for funds under their control. Similarly, the Government and Council are not in a position to hold the management of the Corporation accountable for its expenditures.

Recommendations

12.21 *To provide a basis for accountability to the Government for expenditures in the Corporation:*

- *the supplementary information presented to the Council by the Corporation at the time of Main Estimates approval should be subjected to review by the Department of Finance; and*
- *the Corporation should be required to account annually to the Government for all unexpended or lapsed funds.*

12.22 *To improve the budgetary control of expenditures:*

- *the Corporation should prepare an operating budget, including all anticipated expenditures for the year in addition to the cash budget required for Government funding;*
- *a system should be developed for analysing variances between budgeted and actual costs in relation to output with a view to corrective action; and*
- *the financial information on capital projects presented monthly to the Managing Director and Board of Directors should include details of actual costs and costs to complete, compared to budget, on a project by project basis.*

OPERATING GRANTS TO HOUSING ASSOCIATIONS

Background and Analysis

12.23 The delivery of the housing programs is accomplished through housing associations established in each settlement. There are approximately 50 such associations, their main functions being the collection of rent and payment of expenses for housing units owned by the Corporation.

12.24 The annual financial deficits for these associations are funded through operating grants from the Corporation, which in turn recovers a portion of the costs from CMHC. The Corporation's share of these costs for the year ending December 31, 1976 was $6,449,891 or approximately two-thirds of the total operating costs of the Corporation.

12.25 The recovery of costs from CMHC is based on annual audited financial statements, from the associations, which are to be submitted by March 31 of each year. Generally, accounting controls within the associations are very poor and there is considerable delay in obtaining audited financial statements, causing substantial delays in recovering costs from CMHC. In early June of 1977, only ten financial statements had been received and for seven of these, the auditors were unable to express an opinion on the statements because of insufficient information and inadequate records.

12.26 Housing associations are required to submit annual budgets prior to the commencement of the fiscal year. It is the responsibility of the programs division to review these budgets and determine the funding required. At the time of our study, procedures for this review had not been documented and did not appear to be formalized in any manner.

12.27 While progress has been made in the last few months, at the time of our study the Corporation had entered into formal agreements with only approximately 20% of the housing associations. Because the responsibilities of the housing associations have not been clearly documented and communicated in an agreement, officers in the Corporation have difficulty holding the housing associations accountable for operating grants received.

12.28 The funds necessary for the operation of the Corporation are included in the Main Estimates of the Government. As such, Council is approving the expenditures on this program within the conditions of the program. One of the conditions of making operating grants to the housing associations is that the association will be accountable for these funds. It is evident from a review of procedures covering the preparation and review of the association budgets and financial statements that the associations are not being held responsible to properly account for the funds they receive. Thus, the Corporation is not in a position to satisfy itself that the funds contributed to the associations are being properly controlled or being used for the purposes intended.

Recommendation

12.29 *The Corporation should continue its efforts to hold housing associations receiving operating grants accountable by:*

- *requiring all associations to enter into agreements with the Corporation establishing the responsibilities of the associations and the conditions under which the funds are provided; and*

- *developing and documenting proper procedures for reviewing their annual budgets.*

INTERNAL AUDIT

Background and Analysis

12.30 The Corporation does not have an internal audit function. Although funds were made available in the 1977-78 Estimates for an internal auditor within the Finance Division, this position has not yet been filled.

12.31 The purpose of an internal audit is to provide management with independent, objective and constructive appraisals of the propriety of expenditures and the effectiveness and efficiency with which financial administration is being performed. The internal audit should test the system of financial administration annually, covering each district office at least once every three years. A schedule of audits to be carried out should be prepared in advance each year with an annual report being submitted to the Managing Director indicating actual coverage and results. To provide for the necessary degree of independence and objectivity the internal auditor should be responsible to the Managing Director who should be Chairman of an audit committee of the Board of Directors. This reporting relationship will provide a basis for ensuring that effective action is taken on audit findings and recommendations.

12.32 Because of the size of the Corporation, it may not be practical to have a separate internal audit group within the Corporation. Consideration may be given to reaching an agreement with the Audit Bureau of the Territorial Government to use their internal audit staff.

Recommendation

12.33 *The Corporation should provide for an internal audit to test the system of financial administration annually. The internal auditor's reports should be reviewed by an audit committee to ensure adequate consideration of, and effective action on, the audit findings and recommendations.*

FIXED ASSETS

Background and Analysis

12.34 The housing units owned by the Corporation and administered by the associations include northern rental houses constructed by the Corporation as well as