

LEGISLATIVE ASSEMBLY OF THE

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Mr. S.M. Hodgson,
Commissioner,
Government of the Northwest Territories.

I herewith transmit the report to the Council of the Northwest Territories on the study of financial management and control in the Government of the Northwest Territories and its two corporations, to be laid before the Council in accordance with the provisions of Section 23(4) of the Northwest Territories Act, R.S., c. N-22.

Rhéal Chatelain
Deputy Auditor General

Ottawa, January 23, 1978



The Council of the Northwest Territories
Yellowknife, N.W.T.

My Office recently issued a report on the examination of financial management and control in the Government of the Northwest Territories, including the Housing Corporation and the Workers' Compensation Board. This was part of a comprehensive review of financial management and control in federal departments, agencies, Crown corporations and the Territorial Governments, of which I am auditor.

The examination was made by professional staff of my Office assisted by a manager from a national firm of chartered accountants. Accompanying this report is a précis of the observations and recommendations the study team made and your Government's response outlining the corrective action taken or contemplated.

Highlights of study findings and recommendations:

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 with responsibility for control, oversight and direction of all aspects of financial management and control in the Government. To accomplish this, the study concluded that:

1. The Senior Financial Officer should continue to report directly to the Commissioner and should have direct input to the Executive Committee of the Government;

2. The Senior Financial Officer should encompass all matters relating to the financial affairs of the Government including developing and maintaining financial policies and standards in Territorial corporations and the special aspects of planning and program evaluation; and

3. All such responsibilities should be formally documented and maintained.

Although a number of the financial control deficiencies identified in the report had been recognized by the financial officers in the Government and improvements had already commenced in some of these areas, the study concluded that there still exists considerable scope for improvement. The more important areas for improvement identified by the study were as follows:

- better definition and documentation of responsibilities relating to the financial and accounting functions throughout the Government;
- more effective control of revenue, better evidence of account verification procedures on expenditures, and improved control over grants and contributions;
- improved accounting and control procedures relating to inventories, revolving funds and other assets;
- closer control of the data processing function to provide better segregation of duties, and to prevent unauthorized entries or access to computer programs, files and equipment;
- strengthening internal audit to ensure that all significant areas of the financial system are examined annually;
- improved Estimates presentation, and more effective budgeting procedures and control to improve the accountability for financial resources and to ensure that funds are spent for approved programs; and
- better financial reporting to improve disclosure of managerial accountability and operating results.

Many of the deficiencies discussed in the report can be attributed primarily to a lack of adequate documentation and communication, an observation which has been made previously in our management letters to Council. As a result, the financial management and control responsibilities of financial staff, and operating managers with financial responsibilities, are subject to differing interpretations or are not clearly understood.

The study team reported a number of significant deficiencies in financial management and control in the two Territorial corporations, with recommendations to correct them:

- For the Workers' Compensation Board and the Housing Corporation:
 - the financial management and control system should be upgraded, and financial and accounting policies and standards should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government.

- For the Housing Corporation:


- the Government should finalize its working agreement with the Corporation to clarify the roles of the two organizations;
- the Corporation should
 - recruit a Manager of Finance and Administration;
 - enter into agreements with all housing associations setting out their responsibilities and the conditions under which funds are provided; and
 - provide for an effective internal audit.

Conclusion

Considerable positive work has been undertaken recently to enhance financial planning, systems, controls and reports. However, our findings indicate that much work still lies ahead to correct the deficiencies. This will require a continuing sense of urgency and commitment by the Government if Council is to be assured that in the near future an effective system of financial management and control will be in place and working satisfactorily.

As shown by the response in the attached précis, the Government basically agrees with all of the recommendations and indicates that some improvements have been implemented and others will be made in the near future. A comprehensive plan of action within a prescribed time frame, combined with strong central leadership, is necessary to complete the work now underway and to correct the deficiencies. In carrying out this plan, the Council may wish to receive progress reports until all our recommendations are fully implemented.

My staff will also continue to monitor the implementation of corrective action and report on it periodically until we are satisfied that the Commissioner and Council are being served by an effective system of financial management and control.


Deputy Auditor General
for the Auditor General of Canada

Ottawa, Ontario
K1A 0G6

January 23, 1976

GOVERNMENT OF THE NORTHWEST TERRITORIES

Observations and Recommendations as at July 1977.

Government's Comments as at November 1977.

INTRODUCTION

This is a summary of the observations and recommendations reported to the Commissioner of the Government of the Northwest Territories following our examination of the financial management and control practices of its departments and Territorial corporations. These are accompanied by the Government's response to each recommendation.

The following matters should be noted:

- since the objective was to identify deficiencies in the financial system and to make recommendations for corrective action, the report concentrated on those matters that appeared to offer scope for improvement rather than on those that appeared to be operating satisfactorily;
- this summary lists the recommendations. Where the recommendation does not explain the problem adequately, an introductory paragraph has been added. Replies concern the recommendations only; and
- no attempt was made to verify that the actions indicated in the response were taken or that they remedy the shortcomings reported in our observations and recommendations.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

SENIOR FINANCIAL OFFICER

As might be expected of a relatively young government, the Government of the Northwest Territories has undergone, and is continuing to undergo, significant changes in its organizational structure. This increases the need for a clearly defined senior position in which the responsibility for all aspects of financial management and control can

OBSERVATIONS AND RECOMMENDATIONS

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

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 distribution of the appropriate responsibilities to exercise the various types of delegated authority;*
- *the assignment of appropriate levels of authority;*
- *the use of appropriate signature modes;*
- *periodic review of existing authorities and their revision if necessary; and*
- *approval by the Senior Financial Officer and approval by the Commissioner of delegated financial responsibilities within all departments.*

GOVERNMENT'S COMMENTS

Agreed. A government manuals system will be outlined in detail by the end of April 1978 and should be virtually complete by the end of November 1978.

A work plan for the financial manual section has been developed. Each finance officer has been assigned responsibility areas and is currently preparing the first draft of an index of items requiring policies and regulations.

A formal policy for the delegation of signing authorities has been developed and will be forwarded for approval by the Commissioner before December 31, 1977. This policy covers all of the items outlined in the recommendation.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

ACCOUNT VERIFICATION

Current practices in both account verification and pre-audit processes have not been formally documented. In addition, the specific steps involved are not evidenced on the documents by the persons performing them.

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.

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

Procedures for the accounts payable process will be documented prior to June 1978. The cheque requisition form will be revised to require initials and/or signatures to evidence required control checks. Until such time as the revised cheque requisition forms are obtained a rubber stamp will be imprinted on each of the cheque requisitions.

Criteria have been established to permit payment of invoices prior to evidence of the receipt of goods. The Supply Services Division will report on or before December 30, 1977 commenting on the practicality of implementing such a procedure, or appropriate alternatives.

MANUAL CHEQUE ISSUE

At the time of the study, approximately one-half of all cheques were prepared manually.

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.

The draft policy outlining the circumstances under which general imprest cheques may be issued has been prepared. This procedure will be formally issued prior to December 31, 1977.

MONTHLY RECONCILIATIONS

The timely and accurate completion of account reconciliations is an important tool for verifying the accuracy of transactions recorded in the accounts.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

INVENTORIES AND REVOLVING FUNDS

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.*

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.*

A monthly reporting procedure has been introduced whereby each revolving fund balance is reported to the Territorial Treasurer together with memo information as to the difference between authorized value and the current balance. Copies of these reports are forwarded to departmental directors responsible for the individual revolving funds.

Present year-end procedures require that all inventories held in revolving funds be counted at least annually. As part of the observation procedure of the Department of Finance the officer responsible for the observation is required to certify that subsidiary records have been adjusted to physical count. General ledger balances are adjusted to physical counts as of the date of the inventories.

All inventory adjustments will be approved by the Territorial Treasurer and/or the Assistant Commissioner in accordance with supply regulations.

Revolving fund policies and procedures, together with an expansion of the appropriate regulations are being developed in accordance with the recommendation. Completion of these procedures and policies is scheduled for December 31, 1977. They will be communicated to responsible managers as soon as approval is received.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

CAPITAL ASSETS

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.

Agreed. A plan has been developed for maintaining control over capital and controllable assets. The policy will be presented to the Executive for approval prior to January 31, 1978 and procedures and forms will be completed prior to February 28, 1978. A physical count of recorded fixed assets will be finalized before December 31, 1978, and controllable, attractive item inventories will be completed during 1979. A transfer of responsibilities to regions will commence April 1, 1978.

DATA PROCESSING

Important control deficiencies exist in the computerized data processing of the major accounting records.

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

Agreed.

- *segregation of the operator and programmer functions and establishment of library control procedures to reduce the possibility of unauthorized and undocumented changes in 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*

The operator and programmer functions are presently segregated and special procedures have been set up for modifying and improving computer systems. A library control procedure has been developed to reduce the possibility of unauthorized changes to programs, or processing of unauthorized information.

Procedures have been set up to strengthen control features surrounding access to terminal facilities and information files on the computer, and to ensure all input data is processed.

A special facility has been implemented to print the daily log from the remote access computer system. The logs are signed daily by the Manager, Computer Services.

OBSERVATIONS AND RECOMMENDATIONS

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

INTERNAL AUDIT

Few audits of systems, procedures and internal control in the Department of Finance have been conducted in recent years.

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

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, depends on the establishment of clearly articulated program objectives and operational goals.

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.

GOVERNMENT'S COMMENTS

A special fire protection system has been ordered to strengthen physical safeguard over the people, computer and program documentation from fire and water damage.

Agreed.

During the summer of 1977, the Budgets and Fiscal Planning Division of the Department of Finance prepared a program budgetary review technique using the Finance Department's programs as a basis. These techniques are being refined and will be used as the basis for developing the 1979-80 budget.

**OBSERVATIONS AND
RECOMMENDATIONS**

GOVERNMENT'S COMMENTS

During the development leading to the preparation of the 1978-79 Main Estimates, a co-ordinated exercise is being carried out between Budgets and Fiscal Planning and the Evaluation Section of the Department of Planning and Program Evaluation. This exercise is aimed at developing program descriptions for each government program which may be used as a basis for evaluation at a later date.

**PREPARATION OF PROGRAM
MEMORANDA AND MAIN ESTIMATES**

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.

The continued use of departmental plans and priorities as a basis for budget development is planned. Improvements to the program memorandum concepts introduced in the 1978-79 budget developments are being made and will be included in budget guidelines for 1979-80. It is planned that the program descriptions annexed to the law will be refined during 1979 and will generally include annual and cumulative performance indicators.

Departmental Estimates should be prepared from an initial budget of program activities and objectives which will serve as a basis for establishing and controlling the accountability of activities.

The 1978-79 Estimates will be developed on a detailed build-up of program activities and where possible, cumulative performance indicators.

Old laws should be passed to departments and regional offices outlining the budget responsibilities of both operating and financial activities, ensuring clear understanding by their responsibilities and operational management of their budget accounts.

This work is well started with the development of program descriptions in annual budget estimates is expected to be completed in 1979 with the 1979-80 budget.

Departmental laws including development of a budget system and delineation of responsibilities and procedures are currently under development. These guidelines will be passed to heads of departments and regional managers in a program of training and will be a major part of the budget part of the training.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

FORMAT OF THE ESTIMATES

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.*

Agreed. The format for the 1978-79 Main Estimates has been substantially changed and includes:

- functional program descriptions;
- improved information on Capital expenditures including total costs of continuing projects; and
- relating revenue to activity expenditure to indicate responsibility.

The use of the "total" cost concept has been reviewed and serious consideration will be given to inclusion of indirect program costs in the 1979-80 Estimates.

VARIANCE REPORTING

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.*

Variance reporting in the form of Status Reports on O & M expenditures has been implemented. The first report was prepared for the quarter ending June 30, 1977. An exception report consolidating managers' explanations was prepared and presented to the Executive Committee by the Assistant Commissioner in October 1977. The status reporting system is currently being refined and expanded to include capital variances beginning in April 1978.

**OBSERVATIONS AND
RECOMMENDATIONS**

GOVERNMENT'S COMMENTS

INTERNAL FINANCIAL REPORTING

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.

A policy is currently under development which will outline the division of responsibility between Department of Finance officers and financial staff in other government departments. The first in a continuing series of seminars has been prepared and has been presented to regional offices on the content and use of financial reports.

EXTERNAL FINANCIAL REPORTING

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.

Agreed. Present financial statement presentation is under review.

**NORTHWEST TERRITORIES WORKERS'
COMPENSATION BOARD**

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.

The Board is in the process of defining its financial responsibilities by way of developing a manual of accounting standards and policies in co-operation with the Department of Finance of the Government of the Northwest Territories. This will be available for review by the Auditor General during the course of his audit of the Board's financial accounts in February 1978. Regular reports to the Commissioner will enable accounting standards and controls to be monitored by the Senior Financial Officer of the Territorial Government.

OBSERVATIONS AND RECOMMENDATIONS

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.

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

NORTHWEST TERRITORIES HOUSING CORPORATION

Relationship with the Government of the Northwest Territories

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.*

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.

GOVERNMENT'S COMMENTS

Working relationships between the Board and the Territorial Government have been clarified since the date of the Auditor General's review. These, along with a division of responsibilities on financial matters will be fully documented before the end of December 1977 in the form of an agreement between the Board and the Commissioner.

The financial systems are being developed and documented by the Board to ensure complete and effective financial management and control.

Agreed. A working agreement has been prepared and will be signed by both parties prior to December 31, 1977.

Financial policies and standards will be prescribed and communicated by the Senior Financial Officer in co-operation with the Board of Directors of the Housing Corporation. Monitoring of the policies and procedures will be the responsibility of the Board of Directors subject to the review by the Senior Financial Officer of the Government of the Northwest Territories.

**OBSERVATIONS AND
RECOMMENDATIONS**

GOVERNMENT'S COMMENTS

Senior Financial Officer

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

The reorganization contemplated at the time of the study has not taken place. A consultant has been engaged to determine the action required to bolster the present financial organization and to charge the Manager of Finance and Administration with the appropriate financial responsibilities of the Corporation.

**Communication of Financial Policy
and Procedures**

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.

Upon completion and implementation of the consultant's recommendations, the present manuals will be revised and expanded to include all financial procedures.

Staff Training

A financial training program should be developed and implemented under the direction of the Manager, Finance and Administration. 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.

Agreed. The Corporation recognizes the need for staff training. A course dealing with housing administration has been organized with full participation of officers in the Finance Division of the Corporation.

Financial training programs will be developed and implemented in 1978 and co-ordinated with the training programs developed by the Government of the Northwest Territories.

Steps will be taken to maintain continuous monitoring of accounting needs for the Housing Associations.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNMENT'S COMMENTS

Budgetary Control

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.*

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.*

Agreed. Accountability requirements of the Corporation to the Government of the Northwest Territories form part of the new working agreement. A review of the detailed estimates by the Finance Committee of the Government of the Northwest Territories forms part of the Estimate procedure.

Agreed.

Agreed. These recommendations will be implemented during the first six months of 1978.

**OBSERVATIONS AND
RECOMMENDATIONS**

GOVERNMENT'S COMMENTS

**Operating Grants to Housing
Associations**

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.*

The Corporation puts a high priority on continued improvement of the property management and accounting skills within the Housing Associations. Most Housing Associations are now working under signed agreements with the Corporation, and steps are being taken to obtain signed agreements with the remaining associations. Present procedures will be reviewed by the Finance Division.

Internal Audit

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.

The Corporation will establish an internal audit program and engage the services of the Government's internal auditor or those of a private firm. A recommendation will be made to the Board of Directors to establish an Audit Committee to define audit responsibilities, establish audit priorities and to monitor action on audit observations.

Fixed Assets

Although detailed records are available on cost and number of units constructed by the Corporation, the records of houses transferred to the Corporation are incomplete.

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

Agreed. A complete housing inventory is in progress and will be completed in early 1978.