



Faint text, possibly a title or header, located in the upper left quadrant.

Faint text, possibly a title or header, located in the upper center.

Faint text, possibly a title or header, located in the upper right quadrant.

report of the  
**AUDITOR GENERAL**  
*for the year ended March 31st. 1980*

Faint, illegible text, likely bleed-through from the reverse side of the page.



**Province of British Columbia**  
Office of the Auditor General

British Columbia Cataloguing in Publication Data  
British Columbia. Office of the Auditor General.  
Report of the Auditor General. -- 1980

Annual.

Report year ends Mar. 31.

ISSN 0708-5222 = Report of the Auditor General  
(Victoria)

1. Finance, Public - British Columbia --Accounting -  
Periodicals.

HJ9921.Z9B73

354'.711'007232





Province of  
British Columbia

Office of the  
Auditor General  
Province of British Columbia

8 Bastion Square  
Victoria  
British Columbia  
V8V 1X4

The Honourable Hugh A. Curtis  
Minister of Finance  
Province of British Columbia

Sir:

I have the honour to transmit herewith my Report  
to the Legislative Assembly for the fiscal year  
ended 31 March 1980 for submission to the Assembly  
in accordance with the provisions of Section 10(1)  
of the Auditor General Act, R.S.B.C. 1979,  
chapter 24.

A handwritten signature in cursive script that reads "Erma Morrison".

Erma Morrison, C.A.  
Auditor General

Victoria, British Columbia  
30 March 1981

Province of British Columbia  
Victoria  
19th March 1961

Province of British Columbia  
Victoria  
19th March 1961

Province of British Columbia  
Victoria  
19th March 1961



Dear Sir,  
I have the honor to acknowledge the receipt of your letter of the 14th March 1961, in relation to the proposed amendments to the Fisheries Act, and in reply to inform you that the same have been referred to the appropriate authorities for their consideration.

I am sure that you will understand the necessity for this procedure, and I am sure that you will be satisfied with the results.

I am sure that you will be satisfied with the results of the proposed amendments to the Fisheries Act, and I am sure that you will be satisfied with the results of the proposed amendments to the Fisheries Act.

I am sure that you will be satisfied with the results of the proposed amendments to the Fisheries Act, and I am sure that you will be satisfied with the results of the proposed amendments to the Fisheries Act.

*John W. ...*  
John W. ...  
Minister of Fisheries

Victoria, British Columbia  
19th March 1961

---

# Table of Contents

Highlights .....	1
PART 1:	
1. Legislation .....	7
2. Accounting Policies and Practices .....	9
3. Report and Comments on the Financial Statements .....	10
4. Comments on Internal Control .....	17
5. Public Bodies .....	22
6. General Matters .....	24
7. Status of Findings and Recommendations Contained in Previous Reports of the Auditor General .....	28
PART 2:	
8. Comprehensive Audit .....	39
PART 3:	
9. Financial Management and Control Audits .....	99
Appendices .....	137

# Table of Contents

Volume 10  
Number 1  
1982



1. *Editorial* .....

1

## PART I

2. <i>Accounting Policies and Practices</i> .....	1
3. <i>Report and Comments on the Study of Statement</i> .....	10
4. <i>Comments on Internal Control</i> .....	11
5. <i>Public Bodies</i> .....	12
6. <i>General Matters</i> .....	14
7. <i>Status of Findings and Recommendations Concerned in Studies</i> .....	15
8. <i>Reports of the Author General</i> .....	18

## PART II

9. <i>Comparative Audit</i> .....	19
-----------------------------------	----

## PART III

10. <i>Financial Management and Control</i> .....	20
---	----

11. <i>Conclusion</i> .....	21
-----------------------------	----

## Highlights

Those who have read my two previous Annual Reports to the Legislative Assembly will recognize the change in focus in the one I now present for the 1980 fiscal year.

My first Report, for 1978, dealt mainly with the responsibilities of my Office and its immediate statutory audit obligations. The main thrust in that year was to establish my organization and to plan and conduct the first external audit of the Government's accounts. In that Report I identified four major areas of concern. These were the urgent needs for:

- replacement of obsolete financial legislation;
- establishment of appropriate and consistent accounting policies;
- improved disclosure of the obligations of the Government for guaranteed debt; and
- improvement and strengthening of financial internal control systems throughout Government.

In my second Report I continued to express my deep concerns in these four major areas and to report on the results of the audit work of my staff. In addition that Report provided background information on the concept of comprehensive auditing and the direction I proposed to take in exploring its potential use and value in my work.

Following the course proposed last year, this 1980 Report presents the results of the first comprehensive audit conducted by my Office. The Ministry of Human Resources was selected for this initial project with one of its largest and most significant programs, the Income Assistance Program, being chosen for concentrated attention. We received the full cooperation of Ministry personnel. The report and recommendations, together with the comments of Ministry officials, are published as Part 2 of this Report. The results of this project and the response it received from the Ministry reinforce my early views of the potential value of this audit approach.

In 1980 my Office further extended its audit applications by conducting financial management and control audits in four Ministries, one of which formed part of the comprehensive audit project referred to in the previous paragraph. Summary reports, together with recommendations and comments from the Ministries concerned, form Part 3 of this Report.

In Section 7, the status of comments and recommendations contained in my Reports for 1978 and 1979 is tabulated and referenced for easy access by the reader. Comments on progress in the major areas of concern are also dealt with in the main body of this Report and are summarized hereunder:

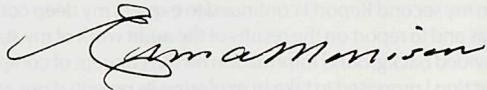
- it is expected that a new *Financial Administration Act* will be introduced to the Legislature in 1981;
- the Government has conducted a thorough review of its accounting policies and

practices, and anticipates that changes arising from this review will be reflected in the financial statements for the 1981 fiscal year;

- the Government has provided for its ongoing commitment to the interest costs and retirement of the British Columbia Railway Company's debt by authorizing funding in the 1981 fiscal year to be applied to the debt servicing charges of the Company; and
- some progress has been made to improve major accounting systems and upgrade internal controls, but further efforts in this regard are required.

While it is gratifying to note that positive initiatives have been undertaken in many areas, I continue to urge that action be taken with the least possible delay. Where corrective action has not yet been undertaken I repeat my observations of prior years.

The comments and recommendations contained in this Report have been reviewed and discussed with the various officials responsible. The cooperation of officials within the Government and the various public bodies audited is recognized with appreciation, as is the strong support, enthusiasm and hard work of the members of my staff.



ERMA MORRISON, C.A.  
Auditor General

Victoria, British Columbia  
28 February 1981

# Table of Contents

PART 1		PART 1	
1. Legislation	7		
2. Accounting Policies and Practices	9		
3. Report and Comments on the Financial Statements	10		
Report on the Financial Statements	10		
Comments on the Financial Statements	12		
4. Comments on Internal Control	15		
General Comments	15		
Specific Control Deficiencies	18		
5. Public Bodies	21		
6. General Matters	24		
Organization and Activities of the Auditor General	24		
Public Account Committee	26		
Canadian Conference of Independent Auditors	26		
Canadian Comprehensive Auditing Foundation	27		
Advisory Council	27		
7. Status of Findings and Recommendations Classified as Precious	28		
Report of the Auditor General	28		

... the ... ..

... ..

... ..

... ..

... ..

*Emmeline*

... ..

... ..

... ..

... ..

... ..

# Table of Contents

## PART 1:

1. Legislation .....	7
2. Accounting Policies and Practices .....	9
3. Report and Comments on the Financial Statements .....	10
Report on the Financial Statements .....	10
Comments on the Financial Statements .....	12
4. Comments on Internal Control .....	17
General Comments .....	17
Specific Control Deficiencies .....	18
5. Public Bodies .....	22
6. General Matters .....	24
Organization and Activities of the Audit Office .....	24
Public Accounts Committee .....	26
Canadian Conference of Legislative Auditors .....	26
Canadian Comprehensive Auditing Foundation .....	27
Advisory Council .....	27
7. Status of Findings and Recommendations Contained in Previous Reports of the Auditor General .....	28

Table of Contents

PART I

1. Legislation ..... 1

2. Accounting Forces and Practices ..... 9

3. Report and Comments on the Financial Statements  
 Report on the Financial Statements ..... 10  
 Comments on the Financial Statements ..... 11

4. Comments on Internal Control  
 General Comments ..... 12  
 Specific Control Deficiencies ..... 13

5. Public Bodies ..... 14

6. General Matters ..... 15  
 Organization and Activities of the Audit Office ..... 16  
 Public Accounts Committee ..... 17  
 Canadian Council of Legislative Auditors ..... 18  
 Canadian Cooperative Auditing Foundation ..... 19  
 Advisory Council ..... 20

Index of Findings and Recommendations Contained in Previous  
 Reports of the Auditor General ..... 21

## Legislation

- 1.1 My comments in this Section are based on the prospect of action by the Government to revise its financial legislation. The existing financial legislation in British Columbia has been one of my most serious concerns since I became this Province's Auditor General.
- 1.2 My Reports for the fiscal years 1978 and 1979 contained recommendations for action to revise the greatly outdated financial legislation of this Province. I recommended that legislative action be taken with the least possible delay to recognize the present needs of the Government's financial administration, with adequate provision for flexibility and change.
- 1.3 Early introduction of legislation appropriate to current and future needs in this area of government administration would provide an authoritative foundation for the requisite financial and control structures.
- 1.4 I commend the action initiated during the past year to meet these needs. In August 1980, the Ministry of Finance released a Discussion Paper on a new *Financial Administration Act*. A Task Force was established to receive and consider public submissions and to recommend appropriate action.
- 1.5 The Discussion Paper and accompanying draft legislation dealt with two principal issues:
  - the financial administration of the Government itself; and
  - the financial control of broadly defined "public bodies".

Because of the urgency I attach to the revision of existing financial administration legislation my comments are primarily directed towards the first principal issue. This emphasis also is consistent with the discharge of my responsibilities under the *Auditor General Act* and with the recommendations made in my previous Reports.

- 1.6 As Auditor General I believe that the public is entitled to the full disclosure of the financial position of its government, embracing both its directly controlled operations and those delegated to Crown Corporations, agencies and other public bodies. The mechanics of providing such disclosure, however, are far from simple. Despite an increasing awareness of the need for public accountability in all senior political jurisdictions of our country and the attempts being made to meet this need, much work remains to be done.
- 1.7 To facilitate early implementation of improved government administrative financial procedures, I suggest that priority be given to the first issue in the draft legislation. Not only would this accelerate the development of an authoritative

foundation for the Government's financial and control structures but also it would provide time for further consideration of the issue of financial control of public bodies.

## Accounting Policies and Practices

- 2.1 In my 1978 and 1979 Reports I referred to deficiencies in the application of stated accounting policies of the Government and suggested the need for an extensive re-evaluation of financial statement presentation and the associated accounting policies.
- 2.2 This should lead to the formulation of a full and clear body of stated accounting policies, to be approved by the Treasury Board and applied consistently in the Government's accounting process and methods of financial statement presentation. I continue to regard those steps as minimum requirements to bring the financial accounts and statements of the Government to an appropriate level of disclosure.
- 2.3 During the 1980 fiscal year the Ministry of Finance undertook a thorough examination of the Government's financial reporting practices and made comprehensive recommendations which, if implemented, would result in improved accounting practices and financial statement presentation.
- 2.4 The notes to the 1980 financial statements make reference to these recommended changes in reporting principles and practices and to their anticipated application in the financial statements of the 1981 fiscal year.
- 2.5 In 1980 the Canadian Institute of Chartered Accountants published a research study, "Financial Reporting by Governments" and, as recommended therein, is now studying the establishment of a committee to provide guidance for accounting and auditing in the public sector.
- 2.6 I look forward to the development of this project to produce a consistent and uniform method of financial reporting for adoption by all senior Canadian governments.

## Report and Comments on the Financial Statements

- 3.1 This Part of my 1980 Report is concerned with two aspects of the Auditor General's responsibilities regarding the financial statements of the Government, namely the Report on the Financial Statements and comments arising from my examination of the financial statements.

### Report on the Financial Statements

- 3.2 Section 7 of the *Auditor General Act* requires the Auditor General to express an opinion as to whether the financial statements are presented fairly in accordance with the stated accounting policies of the Government. The report of the Auditor General on the financial statements required by that section of the Act is included with and forms part of the Public Accounts, and is reproduced hereunder. This report is dated 28 November 1980, the day on which my Office completed the field work on which I based my opinion.

## Report of the Auditor General on the Financial Statements Included in the Public Accounts of the Province of British Columbia for the Year Ended 31 March 1980

*To the Legislative Assembly of the Province of British Columbia  
Parliament Buildings  
Victoria, British Columbia*

I have examined the financial statements of the Government of the Province of British Columbia for the fiscal year ended March 31, 1980 as presented in the Public Accounts, and the related schedules contained in Sections B and C of the Public Accounts. These statements are:

- Statement of assets and liabilities.
- Statement of revenues and expenditures.
- Summary of General Fund revenues.
- Summary of General Fund expenditures.
- Statement of net receipts and payments (combined funds).
- Notes to financial statements.

These statements and schedules in my opinion constitute the statements of financial position, the results of operations and changes in financial position referred to in section 7 of the *Auditor General Act*, R.S.B.C. 1979, Chapter 24.

I did not examine and do not express an opinion on the following statements contained in Section A of the Public Accounts:

Statement of consolidated revenue by major sources for the fiscal years ended March 31, 1975 through 1980.

Statement of consolidated expenditure by major functions for the fiscal years ended March 31, 1975 through 1980.

Statement of consolidated expenditure by objects of expenditure classification (grouped) for the fiscal year ended March 31, 1980.

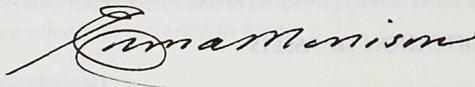
These statements contain mainly supplementary information and do not constitute an integral part of the financial statements on which I am required to report.

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required for the purpose of my examination.

I have relied upon information furnished by the Consulting Actuary for the Public Service Superannuation Plan and the Teachers' Pensions Plan as to the accuracy of Note 7 to the financial statements as presented in the Public Accounts.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these financial statements present fairly the financial position of the Government of the Province of British Columbia as at March 31, 1980 and the results of its operations and changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in Notes 1 and 2 to the financial statements applied on a basis consistent with that of the preceding year.

I emphasize that this report is limited under section 7 of the Act to an opinion on presentation of the financial statements in accordance with the stated accounting policies of the Government. Under section 8 of the Act I report separately on other matters resulting from my examination that I consider should be brought to the attention of the Legislative Assembly. That report will be presented at a future date.



ERMA MORRISON, C.A.  
*Auditor General*

Victoria, British Columbia  
28 November 1980

## Comments on the Financial Statements

- 3.3 The second aspect of the Auditor General's responsibilities with respect to the financial statements is included in section 8 of the Act. This section requires reporting annually to the Legislative Assembly on the work of the Auditor General's office and on matters arising therefrom which should be brought to the Assembly's attention. These matters may include instances where the accounting for public funds has not been complete or accurate, internal control systems have been insufficient, or public money has been expended for purposes other than those intended by the Legislature. The report may also assess whether the financial statements are prepared in accordance with the most appropriate basis of accounting. Such matters which are relative to the financial statements are commented on in this Section, while other matters arising from the work of my Office are detailed in other Sections of this Report.
- 3.4 My staff have brought to my attention numerous individual items to be considered for inclusion in this Report. In reviewing these audit findings I determined that many were of a nature and significance which could be best dealt with at an operational level, and they have been referred to management for appropriate action. Others were additional examples of matters commented on in my previous Reports and did not warrant further individual comment at this time. Of the remainder, some have been reported individually while others have been grouped and reported under the most appropriate general heading in this Section.

### MARKETABLE INVESTMENTS

- 3.5 Marketable securities are held as investments in the General Fund (PA B2 and B5), Special Purpose Funds (PA B9), Superannuation Funds (PA B12/13), and Trust Funds (PA B15). The carrying value of these investments in the financial statements, as stated in note 2 in the Notes to Financial Statements, is the lower of cost or par.
- 3.6 *Good financial statement presentation requires that the quoted value of marketable investments be disclosed and I recommend that such disclosure be made in the future whenever these values can be ascertained.*

### VERIFICATION OF ASSETS

- 3.7 During our audit of the financial statements of the Province we were unable to satisfy ourselves as to the accuracy of the following balances:
- General Fund: Taxes and Other Accounts Receivable – Land sales (principal) \$1,301,642.
  - Special Purpose Funds: Other Assets – Crown Land Fund – Real Estate \$3,996,796.

- 3.8 With respect to the first balance, we examined the systems designed to account for land sales and leases under the *Land Act*, and noted the following accounting deficiencies and control weaknesses:

#### LAND LEASES

- inclusion of 1981 fiscal year billings in the account balances at 31 March 1980;
- improper cutoff of receipts at year end;
- netting of debit and credit balances;
- delays in processing increases in rental rates; and
- delays in billings, or no billings at all for a number of years.

#### LAND SALES

- no control accounts for land sales receivable; and
- incorrect calculations of interest revenue.

- 3.9 As a result of the foregoing and the lack of documented year-end procedures, my audit staff were unable to verify the accuracy of the reported asset balance titled "Land sales (principal)" in the amount of \$1,301,642 at 31 March 1980 (PA B3).
- 3.10 With respect to the second account, my 1979 Report stated that the Crown Land Fund's reported cost for Federal/Provincial projects did not agree with Canada Mortgage and Housing Corporation's records. At 31 March 1980, \$3,996,796 remained in Federal/Provincial project accounts. This amount is not supported by adequate subsidiary records, and the asset value appears to be overstated, as some costs of land sold in previous years had not been removed from the records.
- 3.11 To ensure that these assets are correctly stated, the real estate records should be reconciled and corrected as soon as possible.
- 3.12 The Ministry of Lands, Parks and Housing is aware of the problems identified and is taking steps to improve its practices in these areas. Action should be taken as soon as possible to correct these deficiencies and to ensure that these assets and revenues are properly controlled and recorded in future.

#### INCOME TAX COLLECTION AGREEMENT

- 3.13 The Memorandum of Agreement between the Government of Canada and the Province of British Columbia made under the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 (Canada)* provides that the Government of Canada will collect provincial income taxes on behalf of the Province.

- 3.14 The Agreement also provides that the Auditor General of British Columbia may, subject to certain limitations, examine such books and records as may be relevant in order to permit her to report in respect of the payments made to the Province under the Agreement. These limitations are such as to prevent the Auditor General from examining the income tax data filed with the returns and, therefore, from verifying the calculations of income taxes payable to the Province.
- 3.15 The Legislative Auditors of Canada, at their annual meeting in September 1978, discussed these limitations placed upon the scope of their audits and the function of the Government of Canada in the collection of provincial income taxes.
- 3.16 A task force was formed by the Legislative Auditors in early 1979 consisting of representatives from the offices of the Auditor General of Canada, the Provincial Auditor of Ontario and the Auditor General of Alberta. The purpose of the task force was to review the audit work of the Office of the Auditor General of Canada on income taxation to ensure that it satisfies the audit requirements of the provincial auditors.
- 3.17 Notwithstanding the limitations referred to above, and after discussions with members of the task force and officials of the federal Office of the Auditor General, I have no reason to believe that the relevant revenue from income taxes was incorrectly determined or improperly allocated to the Province of British Columbia.

#### UNEXPENDED BALANCES OF APPROPRIATIONS

- 3.18 The Legislative Assembly provides funds for government programs and operations under the *Supply Act*. Control of these public funds is exercised by the Assembly by providing in the *Supply Act* that "... any part of the money appropriated . . . that may be unexpended at the end of the fiscal year . . . shall not be expended after that date." During our audit we noted two instances where these provisions were not met.
- 3.19 The first instance concerned the Long Term Disability Plan which was established in 1979 under the *Public Service Benefit Plan Act* to provide long term disability benefits for public service employees. The legislation does not provide for a special purpose fund with respect to this plan.
- 3.20 In the fiscal years 1979 and 1980 transfers of \$4,008,433 and \$7,439,953 respectively were made from the Employee Benefits votes of the Ministry of the Provincial Secretary into an account titled "Long term disability fund - Public Service". Disability benefit payments of \$1,113,164 were charged to this account, leaving an unexpended balance of \$10,335,222 at 31 March 1980 shown in Trust Funds-Balances (PA B15).

- 3.21 In the absence of legislative authority to hold these funds for future use, it would appear that the provisions of the *Supply Act* regarding unexpended balances of these monies at each year-end were not followed and accordingly these funds should not have been treated as part of the annual expenditures. The effect is an overstatement of Trust Assets amounting to \$10,335,222 and a corresponding understatement of Revenue Surplus at 31 March 1980. In my view either the accounts should be corrected to conform with the provisions of the *Supply Act*, or alternative legislative authority should be provided to formally recognize the existence of these unexpended fund balances.
- 3.22 The second instance is concerned with grants made under the *Housing Construction (Elderly Citizens) Act* which provides for grant aid to nonprofit groups to assist in the construction of low rental housing units. During the 1980 fiscal year Order in Council approval was obtained for grants to various societies.
- 3.23 On 24 March 1980, the Ministry of Lands, Parks and Housing requested transfer of approximately \$2.8 million (72% of the vote) to various lawyers to hold in trust and at interest on behalf of the Province, pending authorization by Regional Directors of the Ministry for release of the funds to the societies. These payments were charged to expenditures in the 1980 fiscal year. The required authorizations had not been issued by the end of the 1980 fiscal year, as construction had not commenced on any of the projects. At 1 December 1980 only \$166,469 of the \$2.8 million had actually been disbursed to the societies.
- 3.24 In my opinion the payments in trust of \$2.8 million, designated for subsequent disbursement, did not constitute a valid expenditure of the 1980 fiscal year and accordingly this portion of the vote should have lapsed. Furthermore, these monies placed in trust on behalf of the Province should have been shown as assets in its accounts at 31 March 1980 with a consequent decrease in General Fund expenditure and increase in Revenue Surplus. *I therefore recommend that all monies remaining in these trust accounts be returned to the Consolidated Revenue Fund and any expenditures already made from them charged to the corresponding vote of the 1981 fiscal year.* Any future claims in regard to such projects should be paid and charged to the appropriate vote only when the expenditures have actually been made and all prescribed procedures adhered to.

#### WRITE-OFF OF NONRECOVERABLE EXPENDITURES

- 3.25 The Crown Land Fund was established in 1979 by the *Ministry of Lands, Parks and Housing Act*. The unexpended balance of \$229 million in the Housing Fund established under the *Ministry of Municipal Affairs and Housing Act* was transferred to the Crown Land Fund at that time.
- 3.26 During the fiscal year ended 31 March 1980, \$3.8 million, relating to the former Housing Fund assets transferred to the Crown Land Fund, was written off against

the surplus of the latter Fund. Although Order in Council approval was obtained to write off a \$1.5 million advance to a municipality, as recommended in paragraph 7.54 of my 1979 Report, no such approval was obtained for the remaining \$2.3 million. This latter amount consists of development expenditures incurred on projects which were abandoned, feasibility study expenses, and expenditures which subsequently proved to be only partially recoverable. Such types of expenditures are frequently incurred in the normal course of events by organizations engaged in land development activities.

- 3.27 While Order in Council approval is required under the *Revenue Act* to write-off debts in excess of \$200 due and payable to the Crown, this write-off of \$2.3 million relating to expenditures subsequently found to be not recoverable does not appear to be specifically encompassed by its provisions or those of the *Lands, Parks and Housing Act*. In my opinion, however, it would be both prudent and desirable in such circumstances to obtain Order in Council approval to write off such amounts.

---

## Comments on Internal Control

### General Comments

#### INTRODUCTION

- 4.1 Internal control systems comprise all the methods and procedures used to safeguard assets, control expenditures, ensure the efficient collection and control of revenue, and produce accurate and reliable accounting information.
- 4.2 The Government employs a centralized accounting system operated by the Office of the Comptroller General. Expenditure and revenue transactions originating in the ministries are processed in this central system.
- 4.3 Although the main accounting processes of the Government are centralized, the systems of internal control employed by the various ministries vary considerably both as to the form of the methods and procedures used and the quality of their application. These control systems do not meet the generally recognized standards that are required for good financial management.
- 4.4 In my 1979 Report I expressed my concern that basic expenditure controls had not been universally adopted throughout the Government. I also recommended that standards be set for an acceptable level of performance in the collection, custody and recording of Provincial revenue.

#### CONTROLS OVER REVENUES AND EXPENDITURES

- 4.5 In my 1979 Report I referred to control deficiencies in the following revenue activities:
- billing, collecting and recording revenue;
  - adjusting revenue accounts;
  - receiving and recording cash; and
  - reporting the results of revenue activities for financial management and control purposes.
- 4.6 In 1980 we again reviewed and evaluated controls and concluded that, with the exception of adjusting revenue accounts, the previously noted deficiencies had not been corrected to any appreciable extent.
- 4.7 As in 1978 and 1979 we reviewed and evaluated internal controls over general disbursements and payrolls as part of our 1980 audit of the accounts of the Province and found that expenditure controls had not improved significantly since the previous audit.

4.8 My concerns regarding expenditure controls, as indicated in my 1979 Report, include:

- financial management and control policies, directives, guidelines and procedures are not clearly defined nor effectively communicated;
- delegation of authority for disbursements is not clearly defined, documented and controlled;
- duties of individuals are not always segregated adequately for control purposes;
- batch processing and other key controls are seldom used; and
- financial reports from the central accounting system are not used as effectively as they might be for internal control purposes.

4.9 We are advised that the Office of the Comptroller General has undertaken steps to:

- prepare a comprehensive Financial Administration Manual that will contain expenditure policies, directives, guidelines and procedures with respect to both revenues and expenditures;
- develop a policy and issue guidelines on financial signing authorities; and
- process vouchers in batches for control purposes.

We are also aware of the continuing expenditures system design project, and the new payroll system which is expected to be implemented throughout the Government in the 1982 fiscal year.

## CONCLUSION

4.10 I am pleased to note that efforts continue to be made to bring revenue and expenditure controls to an acceptable level, and I strongly urge completion of the current projects as soon as possible. The following examples of continuing problems emphasize the urgency of completing this work.

## Specific Control Deficiencies

### UNRECORDED CASH AND BANK ACCOUNTS

4.11 The *Revenue Act* requires that all public money from whatever source be paid to the credit of the Minister of Finance through banks designated by the Minister. While reviewing the activities of various ministries we identified bank accounts, containing public monies, which had not been authorized by the Minister of Finance. In addition we found instances where cash receipts were retained in local offices rather than being deposited. Senior financial officers of the ministries were also unaware of the existence of these accounts and funds.

4.12 Monies held in these unauthorized bank accounts, as well as revenues and expenditures processed through them, are not included in the financial statements of the Government. Similarly, unrecorded cash transactions result in incomplete financial records.

- 4.13 Inappropriate practices followed in the administration of these accounts and funds include:
- deposit of receipts to the credit of an individual "in trust";
  - deposit of monies to accounts for extended periods with no transfer to the Minister of Finance;
  - inadequate control of revenue collections;
  - direct and unauthorized purchase of materials and supplies from monies deposited; and
  - use of cash receipts not deposited to make purchases.
- 4.14 *I recommend that all ministries take steps to ensure that everyone receiving monies on behalf of the Province is made aware of the requirements that all such monies are to be deposited intact to the credit of the Minister of Finance in an account authorized by the Minister of Finance as required by statute.*

#### MINISTRY OF FINANCE – SECURITIES SECTION ACCOUNTING

- 4.15 The Securities Section of the Ministry of Finance is directly responsible for the largest financial operation of the Government, involving \$6 billion in assets under its control and custody in 1980 and a volume of several times this amount handled in the course of the year in the rollover of cash and investments. Its activities as custodian of securities, investment manager, trustee and agent for the Province and for various pension, trust and sinking funds require the highest quality of accounting and reporting practices, both to protect such assets and to properly record the transactions.
- 4.16 Despite improvements noted following the hiring of qualified accounting staff, many systems deficiencies previously reported upon continued during the 1980 fiscal year. As in the two preceding years the extent of audit work required exceeded that which would be considered normal and reasonable.
- 4.17 Although I am aware of the current systems development project to improve the securities system and coordinate it with the central accounting system, further systems improvements are required. *The successful completion of this project is most important, and I again recommend that it be completed as soon as possible to achieve acceptable standards of accounting and reporting.*

#### MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES – REVENUE CONTROLS

- 4.18 The Petroleum Titles Division administers the disposition of petroleum rights which are sold through a tendering process. Revenues from this source amounted to approximately \$206 million for the 1980 fiscal year.
- 4.19 At the time of our audit there were no formally documented and approved procedures for handling bids. The methods used did not, in our view, meet the

standards of control we would normally expect. The process of dealing with bids was unsatisfactory, in that there was no record of the time of receipt of bids and bids submitted were not numerically controlled. Further, the responsibility of whether to accept or reject bids was placed on one individual who was called upon to exercise considerable discretion in the decision process, particularly where bids varied significantly from the value estimated by the Ministry.

- 4.20 Subsequent to our audit the Ministry improved its procedures by recording the time of receipt and establishing numerical control over submitted bids. However, I am of the opinion that further improvements are necessary. The Ministry should formalize and document procedures for receiving, reviewing and accepting bids. In particular these procedures should require that additional senior staff participate in the process and share responsibility for the acceptance or rejection of bids and provide for documented evidence of this participation.

#### **MINISTRY OF HEALTH – PATIENTS MAINTENANCE ACCOUNTS RECEIVABLE**

- 4.21 Patients at Provincial government hospitals are billed a nominal per diem charge for their care, treatment and maintenance. Rates are established by the Ministry of Health, and are the same as those charged at general hospitals throughout the province. In 1980 we audited the accounts of four Provincial government hospitals and are concerned with the status of patients' maintenance accounts receivable shown by the records at two of the hospitals.
- 4.22 The balance of maintenance accounts receivable at Riverview Hospital exceeded \$11 million at 31 March 1980, an increase of \$1.5 million over that of the preceding year. Only minimal efforts are made to collect these hospital charges. After the original and two follow-up billings, hospital management does not actively and regularly pursue collection of these accounts. Steps are seldom taken to gather satisfactory information to determine whether accounts are worthy of additional collection efforts or are considered to be bad debts. Ministry of Health officials have indicated that a large portion of the maintenance accounts receivable may be owed by indigent patients.
- 4.23 Assessment Committees are appointed at Provincial government hospitals by Order in Council, with authority to recommend adjustment of these maintenance charges where patients do not have the means to pay for their care. The Riverview Hospital Assessment Committee limits its review of applications for adjustment of maintenance charges to those which it receives within 30 days of a patient's discharge. This policy eliminates the majority of cases that would otherwise be reviewed. We feel that the rights of patients to seek special consideration when unable to pay the regular maintenance rate would be better served were the Assessment Committee to review all applications for rate adjustment.
- 4.24 The Assessment Committee's decision to limit its review of applications and the

failure to write off uncollectible accounts result in records which do not accurately reflect the amounts collectible. These weak collection practices lead to a loss of government revenues.

- 4.25 Similar accounts receivable problems exist at Pearson Hospital, although the total amount involved is much smaller.
- 4.26 Ideally such accounts receivable should be recorded in the financial statements of the Province along with an appropriate allowance for loss. At the very least a coordinated policy for the adjustment, collection and write-off of hospital charges receivable is needed to ensure that hospitals' accounts receivable records accurately reflect the amounts considered collectible and that all revenue due to the Crown is collected on a timely basis.

## Public Bodies

- 5.1 Although the audit of the accounts of the Province is my principal responsibility, I am also eligible to be appointed the auditor of any Crown corporation, Crown agency or other public body as defined in the *Auditor General Act*. At 31 March 1980, in my capacity as Auditor General, I was the appointed auditor of 27 public bodies which are listed in Appendix II to this Report. The financial statements of 11 of these organizations appear in Section F of the Public Accounts for the fiscal year ended 31 March 1980. Since that date I have also been appointed auditor of British Columbia Place Ltd., Knowledge Network of the West Communications Authority, The Committee for Transpo 86, and Transpo 86 Corporation.
- 5.2 Not all financial statements of public bodies audited by the Auditor General are published in the Public Accounts. Because many of these bodies have significant public impact or funding, all relevant financial information should be readily available to the public. Accordingly, I recommend that henceforth all such financial statements be included in the Public Accounts together with my reports thereon.
- 5.3 My auditing of public bodies, as distinct from the accounts of the Province, constitutes a substantial undertaking. Approximately 40 per cent of the audit effort and cost of my Office is committed to this aspect of its work, which involves organizations with total assets of \$4.6 billion and annual expenditures of \$1.6 billion.
- 5.4 Upon completion of each audit I issue a report which contains an expression of my opinion on the financial statements. In most cases my opinion on these financial statements is issued without reservation. However, under certain circumstances it may be necessary to issue a qualified opinion.
- 5.5 For the period covered by this Report, my audit opinions on the financial statements of two public bodies were qualified. My report on the financial statements of the Workers' Compensation Board of British Columbia, which is included on page F-242 of the 1980 Public Accounts contained a qualification which is worded as follows:
- "In my opinion, subject to recovery of the class balances of \$260,010,000, these financial statements present fairly the financial position of the Board as at 31 December 1979 . . ."
- My report on the financial statements of Pacific Vocational Institute for the year ended 31 March 1980, which are not published in the Public Accounts, contained a qualification in respect of the collectibility of approximately \$97,000 recorded as due to the Institute.

- 5.6 Although the principal objective of the audits of public bodies is the expression of an opinion on the financial statements, we plan and conduct our work to provide the management of each entity with comments we consider to be useful and constructive regarding matters which come to our attention in the course of the audit. We communicate these observations and our related recommendations directly to the organizations concerned in the form of management letters.
- 5.7 Only occasionally are these matters of sufficient concern to warrant inclusion in this Report. However, one such item was identified during the period covered by this Report, and I set out the salient points hereunder.
- 5.8 The *Education Institution Capital Finance Act* states that the purpose of the British Columbia Educational Institutions Capital Financing Authority is to assist educational institutions to finance capital expenditures by "... purchasing debentures issued by them with money raised by the issue and sale of debentures of the authority."
- 5.9 At 31 March 1980 loans dating from June 1978 and totalling \$59,831,000 had been made to eight educational institutions by the Authority. Debentures have been received from educational institutions only to the extent of \$3,000,000. To date the Authority has not obtained debentures for the remaining \$56,831,000. It does, however, hold Letters of Undertaking from the borrowers to issue debentures in the amounts, rates and maturities stipulated by the Authority.
- 5.10 I have brought this matter to the attention of the Authority on several occasions and again strongly urge that the required debentures be obtained without further delay in order to comply with the requirements of the Act.
- 5.11 The accounts of some public bodies are reported on by other auditors. Such public bodies whose financial statements are included in the Public Accounts are listed in Appendix III to this Report.

## General Matters

### Organization and Activities of the Audit Office

#### INTRODUCTION

- 6.1 The responsibilities assigned to the Auditor General by the Legislative Assembly in regard to the audit of the accounts of the Government are extensive. They require the examination and evaluation of accounting records and transactions, control systems and procedures, legislative compliance, and other matters throughout all ministries and central agencies of the Government. The Auditor General has similar responsibilities with respect to the audits of 31 public bodies.

#### STAFF RESOURCES AND DEVELOPMENT

- 6.2 In order to carry out these responsibilities, the Office of the Auditor General was established in Victoria and has grown, over the period of 3½ years, to a staff of 70 including 35 professionally qualified accountants and 28 employees who are enrolled in courses of study leading to recognized accounting designations.

The professional staff have brought to the Office a broad range of experience in auditing, accounting and related disciplines. Through participation in conferences, training seminars, lectures and discussion periods they further develop their skills to meet new challenges in the legislative auditing field.

#### ORGANIZATION

- 6.3 The first major realignment of responsibilities within the Office took place during the period covered by this Report. Since the inception of the Office in 1977, the audit of the Provincial accounts had been performed by staff organized into two audit divisions. A third division was responsible for all public body audits assigned to the Office. This form of organization was especially appropriate when the Office was in its formative stage, in order to best utilize the training and experience of the new staff.
- 6.4 By the fall of 1979 the staff resources of the Office had reached a strength and capability which permitted a realignment of responsibilities to achieve a better correlation of the work of the audit staff, recognizing the interrelationships between public bodies and the ministries responsible for their activities. Accordingly, responsibility for the audit work in individual Ministries and the audits of the public bodies related to them was divided among each of three audit divisions. These divisions are under the direction of the following senior members of my staff: Frank Barr, C.A., Gordon W. Dawson, C.A., and Raymond L.

Hunter, C.A. Jean-Pierre Boisclair, C.A., C.M.C. also served as an audit director, responsible for the introduction of comprehensive auditing methodology to the Office. These audit directors, together with the Deputy Auditor General, Robert J. Hayward, C.A. and myself, constitute the Executive Committee of the Office.

## NEW DEVELOPMENTS

- 6.5 Significant changes are occurring, both in Canada and internationally, in the role of the legislative auditor and in the means by which he carries out his mandate. I am closely following these developments in my effort to ensure that the activities of the Office are conducted in the manner which best serves the Legislative Assembly and others who rely on our work.
- 6.6 We are continually reviewing our overall audit approach, and employing new techniques and procedures where appropriate. Innovations are being implemented in such areas as statistical methods, internal control system studies and evaluations, and computer data retrieval and analysis. Methods are also being developed to broaden the scope of examinations of complex computer-based systems. These improved, more efficient auditing procedures should enable the Office to further emphasize the constructive aspects of modern auditing.
- 6.7 Development efforts are continuing in the field of comprehensive auditing. My 1979 Report described the approach my Office had begun to take in conducting audits which embody all key provisions of my mandate and indicated my intention to undertake comprehensive audit pilot projects. The results of this work are detailed in Part 2 of this Report. I consider the comprehensive auditing approach to have considerable potential to help my Office achieve its objectives and meet its responsibilities.

## OTHER ACTIVITIES

- 6.8 Another responsibility of my Office, although not specifically spelled out in legislation, is the involvement of my staff in many related activities within the Government, the accounting profession, and the private sector in general. This involvement is important in that it maintains an awareness of current issues and concerns in these areas, enables the Office to tailor its role to more fully meet changing needs, and contributes to the maintenance of professional standards.

Our participation takes many forms, including services as lecturers and panelists in numerous professional, university and Government training programs, contributions to various technical research projects, and other activities relating to professional bodies and similar organizations.

## Public Accounts Committee

- 6.9 The Public Accounts Committee of the Legislative Assembly can play an important role in the process of accountability for public funds by focussing attention on areas of concern to the Legislative Assembly and to the public.
- 6.10 The annual report of the Auditor General is, by statute, referred to the Committee for its consideration. I view this as a vital part of the audit process wherein matters which are of particular importance can be discussed in an open forum.
- 6.11 My Annual Report for the fiscal year ended 31 March 1979 was tabled in the Legislative Assembly on 18 March 1980. It was referred to the Public Accounts Committee and formed the basis for a considerable portion of the Committee's deliberations during the Legislative session. The Committee held 17 meetings, at nine of which it dealt with matters contained in my Report. I attended 15 meetings including all those concerned with my Report.
- 6.12 A meeting of representatives of public accounts committees was held in Winnipeg in August, 1980. Delegates from all the provinces and the federal government attended, including two members of the British Columbia Committee. During a joint meeting of these representatives and the members of the Canadian Conference of Legislative Auditors there was a free exchange of views on the roles and relationships of public accounts committees and legislative auditors. I consider meetings such as this to be a valuable means of increasing the understanding of roles each has to play.
- 6.13 The Public Accounts Committee reports periodically to the Legislative Assembly on the work of the Committee. One such report was issued during the 1980 session. While it referred to the Committee's study of the Auditor General's Report, it did not contain any detailed comments or recommendations with respect to the Report.

## Canadian Conference of Legislative Auditors

- 6.14 Representatives of all legislative audit offices, both provincial and federal, attended the eighth annual meeting of the Canadian Conference of Legislative Auditors held in Winnipeg in August of 1980. The Conference comprises the legislative auditors of all the provinces and Canada and serves as a useful forum for the sharing of ideas and information. I attended the meeting with two senior members of my staff.
- 6.15 In recognition of the contribution he has made to the progress of legislative auditing, the Conference unanimously conferred a life membership on James J. Macdonell, F.C.A., former Auditor General of Canada. I am pleased that Mr. Macdonell will continue his interest and involvement in the challenges faced by

the legislative auditing community by serving as the first Chairman of the Board of Governors of the Canadian Comprehensive Auditing Foundation.

## Canadian Comprehensive Auditing Foundation

- 6.16 A significant development affecting legislative auditing occurred in early 1980 with the founding of the Canadian Comprehensive Auditing Foundation. Much of the initial impetus towards establishment of this organization came from Canada's legislative auditors who saw it as a method of joining forces with other interested parties to develop ways and means of sharing knowledge and experience in the new field of comprehensive auditing. As a nonprofit cooperative research and training oriented organization, it has drawn its membership from a broad cross-section of both the public and private sectors.
- 6.17 I have been closely associated with the Foundation since its inception, and currently serve on the Board of Governors. Although the Foundation is still in its formative period, my Office has already found its facilities and programs to be of substantial benefit in the training of staff and the development of new auditing techniques.

## Advisory Council

- 6.18 In addressing the work of my Office, I am fortunate to have had the advice of the following senior members of the accounting profession who have served on the Auditor General's Advisory Council for the report years noted:

Ross M. Skinner, F.C.A.	1978
Michael J. Ashby, F.C.A.	1978, 1979, 1980
Arthur Beedle, F.C.A.	1978, 1979, 1980
Harold G. Craven, F.C.A.	1978, 1979, 1980
Dennis F. Culver, F.C.A.	1978, 1979, 1980
Kenneth M. Dye, F.C.A.	1979
Ronald W. Park, F.C.A.	1980

I note with particular pleasure that Mr. Dye has been selected for appointment as the Auditor General of Canada, and offer him my sincere congratulations and good wishes.

## Status of Findings and Recommendations Contained in Previous Annual Reports of the Auditor General

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
<b>GENERAL</b>			
1979	2.3	Recommendation that the financial statements be finalized by 30 September of each year and transmitted to the Auditor General forthwith.	Some improvement noted. Financial statements for the 1980 fiscal year received on 17 November 1980.
<b>LEGISLATION</b>			
1978	5.2	Recommendation that existing obsolete financial statutes be replaced by improved legislation to meet current and anticipated requirements.	A proposed new <i>Financial Administration Act</i> was drafted and circulated. A Task Force was established to review submissions and make recommendations with a view to introducing legislation in 1981. (see also 1980 Report, Section 1)
1979	3.3		
<b>COMMENTS ON THE FINANCIAL STATEMENTS</b>			
1978	6.14	Deficiencies and ambiguities in content and application of stated policies warrant a thorough study of the Government's accounting policies and financial statement presentation. A full and clear body of stated accounting policies should be formulated, approved by Treasury Board, and applied consistently in the government accounting process and in its financial statement presentation.	The 1980 Notes to Financial Statements refer to a comprehensive examination of accounting policies and practices of the Government. The notes further state that it is anticipated that the financial statements for the 1981 fiscal year will reflect the recommended changes in reporting principles and practices.
1979	5.6		
1978	8B.9	NSF cheques included in accounts receivable and considered uncollectible should be written off.	Satisfactorily resolved in 1980.
1978	8B.17	Treatment of holdbacks is not consis-	No change.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
		tent with stated policy on expenditures.	
1978	8B.17	Deferral of revenue from sale or lease of Crown lands not consistent with stated policy on revenue.	No change.
1978 1979	8B.18 5.22	Suspense accounts not reconciled or cleared.	Regular reconciliations and clearings are now made for those accounts for which the Comptroller General has direct responsibility. No significant improvement in those accounts for which the ministries have primary responsibility for maintenance.
1978	8B.20	Securities held as guarantee and performance deposits should be under supervision and record keeping of Securities Section.	Generally being done for negotiable securities. However, most ministries receiving deposits still do not maintain adequate control records.
1978 1979	8C.9 7.27	Excessive delay in billing timber royalties and stumpage fees.	Considerable improvement has been noted. Unbilled royalties and fees had been reduced from \$118 million at 31 March 1979 to \$23 million at 31 March 1980.
1979	5.8	Gross amounts of royalties and stumpage fees should be stated separately from the offsetting credits for roadbuilding, reforestation, etc.	No change in accounting presentation. However, the amount of allowances made for roadbuilding, reforestation, etc. was disclosed in a footnote to the schedule of General Fund revenue (PA C2).
1978	8C.14	Steps should be taken to either enforce the repayment terms of the loan agreement for the \$2.5 million advance or obtain authorization for deferral.	No change.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
1978	8C.18	Recovery of \$5.5 million loan is questionable and appropriate provision should be made.	Provision made in 1980 for full amount.
1978	8C.20	A review should be made of sundry loans and advances for deletion from the accounts or offset by allowance for loss.	Appropriate write-offs made.
1978 1979	8C.22 5.18	Recommendation that the investment of \$185,572,900 in the British Columbia Railway Company be written down to \$1.	Carrying value of the investment was reduced to \$1 in the accounts of the 1980 fiscal year.
1978 1979	8C.25 5.21	Consideration should be given to recognizing potential losses arising from investments in, advances to and loan guarantees with respect to three companies included in "Investments, Other."	Provision was made in 1980 for the full amount of the investment in and advances to two companies. Due to changed conditions, no provision for potential loss on investment of \$100,000 and loan guarantees of \$1.4 million in third company was considered necessary at this time.
1978	8C.29	Stated accounting policy regarding fixed assets should be clarified.	No change.
1978	8D.18	Recommendation that a provision be made for doubtful mortgages in the accounts of the Provincial Home Acquisition Fund.	\$1.7 million written off as uncollectible loans in 1980.
1979	5.11	Old accounts receivable totalling \$51,000 should be written off.	Written off.
1979	5.14	Recommendation that the University Endowment Lands balance in Special Purpose Funds be used to repay advance account in the General Fund as required by the Act.	No change, accounting treatment is being reviewed by ministry responsible.
1979	5.15	Recoverable advance of \$50,000 not recorded in the financial statements.	Advance recorded in 1980.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
1979	5.19	Advance of \$2,850,538 to T.S. Holdings Ltd. should be written down to reflect anticipated loss to the Province.	Provision made for full amount in 1980.
1979	5.20	Provision should be made for the potential loss of the investment in and advances to Ocean Falls Corporation.	Provision made for full amount in 1980.
<b>GUARANTEED DEBT</b>			
1978	9.6	Recommendation that the Province recognize the net debt of the British Columbia Railway Company as direct debt of the Province and record it as such unless other financial arrangements made to service this debt.	Notes to the 1980 financial statements refer to the stated intention of the Government to provide for the debt service charges of the Railway on an ongoing basis.
1979	5.25		
1978	9.8	Inconsistent treatment of accrued interest in calculating net guaranteed debt.	No change.
1979	5.26	The early redemption feature of the guaranteed debt owing to the Canada Pension Plan Investment Fund should be disclosed in the financial statements.	Disclosure made in the notes to the financial statements for 1980.
1979	5.27	Comment that the Schedule of Guaranteed Debt would provide better disclosure by showing: <ul style="list-style-type: none"> <li>● comparative figures of the prior year;</li> <li>● maturity dates, interest rates and redemption features;</li> </ul>	Shown in 1980.
		● investments held as assets of the General and Special Purpose Funds and guaranteed by the Province as deduction from	A footnote to the Schedule (PA B17) refers the reader to the financial statements of the Crown agencies in Section F of the Public Accounts, but this falls short of disclosure in the accounts of the Province.  Shown as deduction in 1980.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
		total outstanding guaranteed debt; and	
		<ul style="list-style-type: none"> <li>the fair market value of investments held by the sinking funds.</li> </ul>	No change.
<b>INTERNAL CONTROL SYSTEMS</b>			
1978	7.4	System of internal control over the disbursement of Provincial funds fails to meet generally recognized standards.	No significant changes as yet. Modifications to disbursement system are planned. (see also 1980 Report, Section 4)
1979	6.19		
1978	7.20	Deficiencies in payroll system.	Satisfactory procedures now followed in Central Pay Office. Little change to date in ministries. A completely revised payroll system has been developed for implementation during the 1982 fiscal year. (see also 1980 Report, Section 4)
1979	6.19		
1979	6.6 and 6.22	Deficiencies in the collection and recording of revenue are serious enough to warrant immediate study and corrective action.	New revenue policies and procedures have been drafted by the Comptroller General to form part of a comprehensive Financial Administration Manual. (see also 1980 Report, Section 4)
<b>Ministries</b>			
<b>MINISTRY OF AGRICULTURE</b>			
1979	7.5	Field audit capacity should be established to continually monitor payments under the Agricultural Credit and Farm Income Assurance Programs.	An initial step has been taken with the hiring of an internal auditor in September 1980.
<b>MINISTRY OF THE ATTORNEY GENERAL</b>			
1978	8F.4	Recommendation that steps be taken to reconcile the accounts of the Public Trustee and Comptroller General for	Non-cash assets are now reconciled monthly.
1979	7.13		

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
		non-cash assets held in trust.	
1978	8F.5	Investigative teams, rather than individual investigators, should be used by the Public Trustee to inventory and receipt trust assets.	No change.
1979	7.14		
1979	7.15	Procedures should be established to ensure the accuracy of the Public Trustee's records of securities included in trust assets.	Procedures now established.
1979	7.16	Uniform guidelines and improved procedures for fee collection by the Public Trustee should be developed.	No change. Revised procedures planned for implementation in 1982 upon completion of current project to improve accounting and management information systems.
1979	7.10	The Ministry should formally document and follow procedures for making purchase commitments, and approving and checking payments.	No significant change, and my concern still exists.
<b>MINISTRY OF CONSUMER AND CORPORATE AFFAIRS</b>			
1979	7.19	Concern that the division of responsibilities for internal audit coverage of the Liquor Distribution Branch between the Comptroller General's and the Branch's internal audit groups, may not be appropriate to meet the needs of the Branch.	My concern continues. To 31 January 1981 there had been no information provided to management of the Liquor Distribution Branch on the work performed by the Comptroller General's internal audit staff.
<b>MINISTRY OF ENVIRONMENT</b>			
1979	5.12	Accounts receivable for water licence fees were not recorded in the financial statements.	These accounts receivable are recorded as assets at 31 March 1980.
<b>MINISTRY OF FINANCE</b>			
1978	11.16 and 11.18	Weaknesses in internal controls and accounting records of the Securities Section.	System changes are still being implemented. (see also 1980 Report, Section 4)

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
1979	7.24	Recommendation that major improvements in fund accounting and reporting practices of both the central accounting and Securities Section systems be implemented without delay.	Major systems changes in progress.
1979	7.22	Recommendations that guidelines and procedures for all government banking transactions be firmly established and that controls be strengthened by Treasury Section in the exercise of its overall responsibility for Government bank accounts.	Recommendations have been followed. Procedures now improved.
<b>MINISTRY OF HEALTH</b>			
1979	7.30 and 7.31	Expenditure control weaknesses noted concerning inadequate segregation of responsibilities, delegations of authority, control over documents in process, and verification of expenditures charged to the Ministry.	Improvements were noted in purchasing and receiving procedures and in document approvals. Some improvement was noted in the expenditure verification process. Payroll weaknesses still exist.
1979	7.34 to 7.37	Revenue controls generally were inadequate to ensure that all revenues due were collected and properly recorded.	No significant improvements were noted.
1979	7.38	The system for administering and controlling patients' trust accounts should be upgraded, with particular attention being given to adequate segregation of responsibilities.	Segregation of responsibilities is less of a problem now, but reconciliation of patients' trust accounts remains below acceptable standards.
1979	7.39	Need for regular reconciliation of subsidiary records to the central control accounts, and analysis and review for correctness. Examples: <ul style="list-style-type: none"> <li>• employee advances</li> <li>• hospital construction funds</li> </ul>	Significant improvements were noted. Federal funding of \$142,000 received in 1971 is still not

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
			transferred to revenue.
1979	7.40 and 7.41	Recommendation with respect to the conflict between legislation and accounting practices concerning the Hospital Insurance Fund.	No change.
1979	7.42 to 7.44	Recommendation with respect to the financial reporting requirements of the Emergency Health Services Commission.	No change.
1979	7.45	Actions to overcome shortcomings in financial controls within the Emergency Health Services Commission: <ul style="list-style-type: none"> <li>● more effort in the collection of accounts receivable should be pursued.</li> <li>● internal controls over payroll should be brought to an acceptable level.</li> <li>● controls should be strengthened over both advances and reimbursements to the operating units of the Commission.</li> </ul>	Some improvement noted in 1980.  Controls have been improved and now meet acceptable standards.  Controls have improved, although reconciliation procedures are still not adequate.
<b>MINISTRY OF HUMAN RESOURCES</b>			
1979	7.52	Guidelines and procedures should be established to ensure that all ministries making expenditures shareable under the Canada Assistance Plan provide the Ministry of Human Resources with information necessary to make claims.	No change. (see also 1980 Report, Section 8)
<b>MINISTRY OF LANDS, PARKS AND HOUSING</b>			
1978	8D.5	Deficiencies in accounting records of the Housing Fund (now Crown Land	Ministry continues to place emphasis in this area. Improvements noted but some weaknesses still exist.
1979	8D.6 7.54 and 7.55	Fund), such as: <ul style="list-style-type: none"> <li>● Collectibility of advance of \$1.5 million</li> <li>● No subsidiary records main-</li> </ul>	Written off in the 1980 fiscal year. Subsidiary records on these

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
		tained for Rural and Remote Housing Program mortgages totalling \$1.7 million.	projects are now maintained by British Columbia Housing Management Commission.
		<ul style="list-style-type: none"> <li>● No provision for loss on a \$2.7 million mortgage to a corporation in receivership.</li> <li>● Property with a book value of \$1.9 million was sold but still recorded in the Real Estate account.</li> <li>● The Fund's recorded cost of \$15.4 million for federal/provincial partnership projects does not agree with the Canada Mortgage and Housing Corporation cost records.</li> </ul>	Situation changed. No allowance required.
			Corrected in the 1980 fiscal year.
			Residual \$4.0 million cost not supported by adequate subsidiary records. (see also 1980 Report, Section 3)
1979	7.57	The reporting requirements for housing cooperatives and nonprofit societies should be enforced to achieve efficient financial management of the housing grants program.	Reporting requirements still not met. My concern continues.
<b>MINISTRY OF THE PROVINCIAL SECRETARY</b>			
1978	8B.12 and 8B.13	A statement of accounts of the Queen's Printer has not been certified by the Comptroller General as required by the <i>Public Printing Act</i> .	No change.
1978	8B.14 and 8B.15	Need for improvements in inventory accounting systems of the Queen's Printer.	Status to be determined at the time of our next audit.
1978	8D.13	Revenue from the Lotteries Branch	Appropriate action taken.
1979	7.60	Licensing Section taken into revenue of the General Fund, while its costs were charged to the Lottery Fund. Related revenues and expenditures should be reported through the same fund.	
1979	7.63	Accounting records and procedures of the Lotteries Branch considered to be	New distribution procedures have eliminated many of the

---

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1980 Annual Report
		inadequate for control purposes.	problems noted. Improvements in the accounting records are still in progress.
1979	7.25	Investment of \$350,000 in 1975 from First Citizens Fund shown as an expenditure rather than as an asset.	This investment is now recorded in the General Fund under Loans and Other Advances, but it should have been set up as an asset of the Special Purpose Fund.

Bill Number	Session	Short Title	Current Status
1475	38-12	Amendment to the Public Accession Act	Second Reading
1476	38-12	Amendment to the Public Accession Act	Second Reading
1477	38-12	Amendment to the Public Accession Act	Second Reading
1478	38-12	Amendment to the Public Accession Act	Second Reading
1479	38-12	Amendment to the Public Accession Act	Second Reading
1480	38-12	Amendment to the Public Accession Act	Second Reading
1481	38-12	Amendment to the Public Accession Act	Second Reading
1482	38-12	Amendment to the Public Accession Act	Second Reading
1483	38-12	Amendment to the Public Accession Act	Second Reading
1484	38-12	Amendment to the Public Accession Act	Second Reading
1485	38-12	Amendment to the Public Accession Act	Second Reading
1486	38-12	Amendment to the Public Accession Act	Second Reading
1487	38-12	Amendment to the Public Accession Act	Second Reading
1488	38-12	Amendment to the Public Accession Act	Second Reading
1489	38-12	Amendment to the Public Accession Act	Second Reading
1490	38-12	Amendment to the Public Accession Act	Second Reading
1491	38-12	Amendment to the Public Accession Act	Second Reading
1492	38-12	Amendment to the Public Accession Act	Second Reading
1493	38-12	Amendment to the Public Accession Act	Second Reading
1494	38-12	Amendment to the Public Accession Act	Second Reading
1495	38-12	Amendment to the Public Accession Act	Second Reading
1496	38-12	Amendment to the Public Accession Act	Second Reading
1497	38-12	Amendment to the Public Accession Act	Second Reading
1498	38-12	Amendment to the Public Accession Act	Second Reading
1499	38-12	Amendment to the Public Accession Act	Second Reading
1500	38-12	Amendment to the Public Accession Act	Second Reading

# Table of Contents

## PART 2 COMPREHENSIVE AUDIT

4. Comprehensive

Introduction	41
Comprehensive Audit Project	43
Comprehensive Audit Report: Ministry of Economic Development and Economic Assistance Program	44
Introduction	44
Overview of the Ministry	45
Scope and Object of Audit	47
The Incumbent/Ministry Environment	48
Summary of Audit Objectives	48
Reporting Performance and Accountability Information	50
Financial Management and Control	51
Controls in the Income Assistance System	52
Interficial Overpayments and Errors: Control and Collection	55
Cost-sharing	55
Electronic Data Processing	56
Internal Audit	58
Observation Activities from Audit of the Public Account	58
Summary of Recommendations and Management's Response	61

PART 2  
COMPREHENSIVE AUDIT

# Table of Contents

## PART 2:

### 8. Comprehensive Audit

Introduction .....	43
Comprehensive Audit Project .....	43
Comprehensive Audit Report: Ministry of Human Resources – Income Assistance Program .....	44
Introduction .....	44
Overview of the Ministry .....	45
Scope and Extent of Audit .....	47
The Income Assistance Environment .....	50
Summary of Audit Observations .....	54
Reporting Performance and Accountability Information .....	60
Financial Management and Control .....	65
Controls in the Income Assistance System .....	69
Identified Overpayments and Errors – Control and Collection .....	77
Cost-sharing .....	79
Electronic Data Processing .....	82
Internal Audit .....	86
Observations Arising from Audit of the Public Accounts .....	89
Summary of Recommendations and Ministry's Comments .....	91

Table of Contents

PART 2

Comprehensive Audit Report: Ministry of Finance

Comprehensive Audit Report: Ministry of Health

Comprehensive Audit Report: Ministry of Education

Income Assistance Program

Introduction

Overview of the Ministry

Scope and Extent of Audit

The Income Assistance Environment

Summary of Audit Observations

Reporting Requirements and Accountability Information

Financial Management and Control

Controls in the Income Assistance System

Identified Observations and Errors – Controls and Collections

Cost-sharing

Electronic Data Processing

Internal Audit

Observations Arising from Audit of the Public Accounts

Summary of Recommendations and Ministry Comments

# Comprehensive Audit

## Introduction

- 8.1 Part 2 of the 1979 Report of the Auditor General to the Legislative Assembly described in detail the approach that this Office had begun to adopt in conducting audits under sections 7 and 8 of the *Auditor General Act*.
- 8.2 The approach known as "Comprehensive Auditing" allows us to fulfill responsibilities related to several different areas by carrying out a single, integrated audit. These areas of responsibility pertain to financial and accounting controls, economy and efficiency (and related management control systems), and the basis that the Government uses to account for and disclose the results of its activities to the Legislative Assembly. The comprehensive audit process also requires us to carry out the more traditional work of the legislative auditor, and places special emphasis on the audit of computer-based systems. Finally, comprehensive audits examine financial, management and information systems with a view toward providing assurance that no significant deficiencies exist in these systems that could lead to uneconomical, inefficient or ineffective management of financial, human or physical resources.
- 8.3 Comprehensive auditing embodies three important concepts as described below. First, it is a *constructive* process. Second, the audit is *coordinated* with other audit work, and third, audits are carried out on a *cyclical* basis.

*Constructive:* In order that we may be constructive as well as informative, we provide recommendations to help overcome observed deficiencies. These recommendations are phrased in such a way as to allow management to exercise discretion in deciding how best to remedy observed deficiencies.

*Coordinated:* To avoid unnecessary duplication of audit work and ensure that our audit will be efficient, we evaluate the work done by internal auditors and others to determine how their work might affect the nature and extent of our audit.

*Cyclical:* One of the fundamental principles of comprehensive auditing is that audits should be conducted over a period of time and reports issued at intervals which suit particular programs and ministries. Thus it may be appropriate to report periodically or cyclically on major elements of completed audit work within a particular Ministry or program. In other circumstances it may be more appropriate to report all findings under our comprehensive audit mandate at one time.

## COMPREHENSIVE AUDIT PROJECT

- 8.4 In our 1979 Report, we indicated that we had begun a comprehensive audit

project with the full cooperation and support of the Deputy Minister and Executive of the Ministry involved. The purpose of that project was to introduce the comprehensive audit process to this Office and to help form the basis for further comprehensive audit work. This year we completed an audit in the Ministry of Human Resources. Our audit results are summarized, together with our recommendations and the Ministry's comments, in this Part of our Report. This project used the cyclical approach to comprehensive auditing and focussed mainly on the Ministry's Income Assistance Program.

- 8.5 We believe that this project has resulted in significant findings and recommendations for improvement within the Ministry. We also believe the project has demonstrated that comprehensive auditing can significantly enhance the work of the Office of the Auditor General.
- 8.6 The cooperation, participation and interest of the Deputy Minister of Human Resources and his Executive and staff at all levels in the Ministry have contributed greatly to our conducting and completing this audit.
- 8.7 In carrying out this audit, our Office supplemented its own resources by engaging the services of Jean-Pierre Boisclair, C.A., C.M.C. who has worked for a number of years on executive interchange with the Office of the Auditor General of Canada conducting studies of financial management and carrying out comprehensive audits. Since his secondment to our Office, he has been appointed Executive Director of the Canadian Comprehensive Auditing Foundation. In addition, the Office benefited from the support of a small advisory team composed of senior personnel associated with the Office of the Auditor General of Canada who have been involved in the development of the comprehensive audit process.

## **Comprehensive Audit Report**

### **Ministry of Human Resources – Income Assistance Program**

#### **INTRODUCTION**

- 8.8 The audit of the Ministry of Human Resources represents this Office's first development project aimed at implementing comprehensive auditing in the Province of British Columbia.
- 8.9 Although portions of this comprehensive audit relate to the Ministry of Human Resources in its entirety, our audit has focused primarily on the activities, systems and procedures within the "Basic GAIN" Income Assistance Program. This program provides Income Assistance to British Columbia residents between 19 and 64 years of age who are in need and who are unable to provide for themselves through employment or other resources.

- 8.10 The single comprehensive audit of the Ministry's Basic GAIN Income Assistance Program included coverage under all the provisions of the *Auditor General Act*, including those relating to economy and efficiency. Our audit work was coordinated with that of Internal Audit and with other audit work done in the Ministry. This Section includes our recommendations for improving control systems where significant deficiencies were apparent.
- 8.11 We described the comprehensive audit process more fully in Part 2 of the 1979 Report of the Auditor General to the Legislative Assembly. Paragraphs 8.1 to 8.7 above offer further comment on this type of audit.
- 8.12 This Section of our Annual Report summarizes and reports the results of our comprehensive audit. We have also provided the Ministry with detailed, supporting documentation that will help management both to review and respond to our findings, observations and recommendations, and to initiate remedial action where appropriate.
- 8.13 From the audit's early planning stages through to its completion, we have had the full interest and cooperation of the Deputy Minister, his executive group and personnel at all levels in the Ministry. Our work was greatly enhanced at all stages because these groups viewed the audit as a cooperative effort, both in developing the comprehensive audit process and in sharing in its attendant benefits.
- 8.14 The Ministry has also contributed to our audit by working closely with us to launch a pilot study. This study, which is currently underway, will allow the Ministry to measure the reliability of control systems now used in providing Income Assistance.
- 8.15 Before we began our audit, the Executive and staff of the Ministry had already identified many areas needing improvement. They also perceived that the audit could be helpful in two ways. First, they saw the audit as an opportunity to identify systematically, opportunities for improving the Income Assistance Program. Second, they viewed the audit as a positive exercise that would stimulate and help focus management's thinking when planning for change within the Ministry, especially in areas which it had previously identified as needing improvement.

## OVERVIEW OF THE MINISTRY

### SIZE OF THE MINISTRY

- 8.16 The Ministry of Human Resources is one of the largest ministries in the Government of the Province of British Columbia.
- It employs approximately 5500 people. Of these, 60 percent are located in 147 District and 20 Regional Offices; one-third are employed in institu-

tions for the mentally retarded and the remaining staff are located at Headquarters.

- It administers an annual budget of approximately \$750 million (according to the 1981 Estimates). Of this, one-half consists of "Income Assistance" payments to individuals; one-quarter is disbursed as "grants" to non-profit and other organizations that provide income or social assistance to residents of British Columbia; the remaining quarter is used to cover salaries, professional services, administrative costs and in the operation of foster and group homes.
- The Ministry also collects approximately \$230 - \$250 million annually from the Government of Canada under terms of the Canada Assistance Plan.

#### RECENT CHANGES

- 8.17 Although it has existed for many years, significant changes have recently occurred within the Ministry. These relate to its size, organization, range of programs and the ways in which it administers its programs. As part of the integration and consolidation of social services within the Province, the Vancouver Resources Board was amalgamated with the Ministry of Human Resources in 1977. This amalgamation resulted in a near doubling of the Ministry's staff. During the mid 1970's the Ministry also substantially changed the way in which the program and administrative responsibilities were assigned to its senior executives.

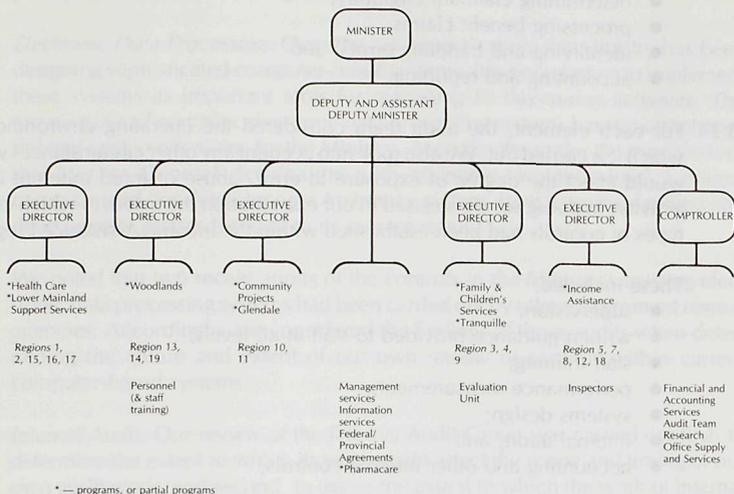
#### LEGISLATION

- 8.18 Under the *Ministry of Human Resources Act*, the Ministry has jurisdiction over ". . . all matters relating to social and public welfare and social assistance." The *Guaranteed Available Income For Need Act* (GAIN Act) and its regulations, allow the Ministry to ". . . pay . . . money necessary for the administration of income assistance and social services . . .". Benefits provided under this Act are ". . . necessary for the purposes of relieving poverty, neglect or suffering . . ." and can be paid in cash or ". . . in kind . . .". The Ministry also administers eight other Acts, largely pertaining to family and children support services.
- 8.19 To enable it to administer these Acts, the Ministry has organized its operations into six broad program groupings. These are: Income Assistance, Family and Children's Services, Community Projects, Health Care Services, Pharmacare and Residential Care for the Handicapped.

#### THE DECENTRALIZED DELIVERY SYSTEM

- 8.20 Because of the size and the nature of its programs and activities, the Ministry has decided to operate a decentralized delivery system. The full range of income and social assistance programs or activities is carried out through 147 District Offices located throughout the Province. These offices are under the direction of District

Exhibit 1: Partial Organization Chart as at December 31, 1980



Supervisors, who report to 20 Regional Managers.

8.21 Each Regional Manager is accountable to an Executive Director for the delivery of social and Income Assistance services within his or her region. Executive Directors have responsibilities both for specific program management (e.g., Income Assistance, Family and Children's Services) and for Regional Operations which either delivers or administer all or most programs at the local level. The Executive Directors' program responsibilities are rotated every two years and regional responsibilities in alternate years. A summary chart (Exhibit 1) depicts the Ministry's organization.

8.22 General administrative and support services and guidance are provided to Program Managers and Regional and District Offices by groups located at the Ministry's Headquarters. These include Finance, Administration, Personnel, Internal Audit and Computer Services.

## SCOPE AND EXTENT OF AUDIT

### SCOPE

8.23 *Control Systems.* Our audit focused on the Income Assistance Program. We examined the financial, management and operational controls that the Ministry used to ensure the reliable and efficient delivery of Income Assistance. Our review covered the major elements of the Income Assistance delivery system.

These included:

- determining claimant eligibility;
- processing benefit claims;
- identifying and handling errors; and
- accounting and reporting.

- 8.24 For each element, the audit team considered the operating environment in which it is carried out. We also took into account any other circumstances which would affect the degree of exposure to error, abuse or fraud inherent in the activity. In doing so, we stressed in our examination the extent to which certain types of controls had been established within the Income Assistance Program.

These included:

- supervision;
- written guidance provided to staff at all levels;
- staff training;
- performance measurement;
- systems design;
- internal audit; and
- accounting and other internal controls.

- 8.25 *Efficiency.* Section 8 (2) of the *Auditor General Act* provides for the Auditor General to assess “. . . whether any program being administered by a ministry is being administered economically and efficiently . . .”. Under this part of our mandate we considered the potential in the Ministry for establishing performance measurement systems. We also assessed the extent to which the Ministry had put such systems in place where it appeared reasonable to have done so, and the manner in which these systems were being operated and used.
- 8.26 *Reporting.* Our audit also examined the extent to which the Ministry has, through the Estimates, Annual Reports and Public Accounts, reported information which would indicate how the Income Assistance Program is being managed.
- 8.27 An important indicator of the general adequacy of the Ministry’s control systems would be a reliable estimate of the difference between the amount of Income Assistance actually paid out above or below the amount which under existing legislation and regulations should have been paid out. It is necessary to have enough information that can be used to measure this difference. Only with this data can the Ministry gauge the extent to which it would be cost-effective to design new controls and/or redesign existing ones to reduce any discrepancy. Such information is also useful for helping management to allocate its staff resources more effectively. Accordingly, as part of our audit we examined the amount of information available to the Ministry that would allow it to determine the difference between what it actually paid out in Income Assistance, and what it should have paid out, according to the legislation and regulations. The audit

also extended to jointly launching a pilot project with the Ministry aimed at providing a basis for carrying out such measurement in the future.

- 8.28 *Electronic Data Processing.* Over the last several years, the Ministry has been designing sophisticated computer-based systems. It is now starting to implement these systems as important tools for managing its day-to-day activities. The growing use of complex electronic data processing systems has important control and cost implications for the Ministry. Accordingly, under the provisions of the *Auditor General Act* dealing with economy, we examined a major, computerized "on-line" Income Assistance system, from its early planning and development phases through to its current status.
- 8.29 We noted that two recent audits of the controls in the Ministry's existing electronic data processing systems had been carried out by other government central agencies. Accordingly, we considered the findings of those audits when determining the nature and extent of our own review of controls within current computer-based systems.
- 8.30 *Internal Audit.* Our review of the Internal Audit Group was carried out first, to determine the extent to which its work might affect the scope and timing of our own audit work, and second, to assess the extent to which the work of Internal Audit, as it is currently organized and carried out, is an effective part of the managerial control system.
- 8.31 *Financial Management and Control.* In the financial management and control portion of the audit, we reviewed the strengths and weaknesses of the Ministry's key financial management and control functions. These play a critical role in ensuring appropriate and reasonable control both over non-statutory and program support expenditures and over assets and liabilities. In this part of the audit we also examined the financial management and control function, as established by management and executed by the Ministry's Comptroller. We wanted to determine the extent to which this function was providing proper support to Income Assistance program managers and operating personnel at all levels.

#### AUDIT APPROACH

- 8.32 Our audit identified areas with high inherent risk of error, abuse or fraud. In carrying out our audit, we examined the financial management and operational controls within the Income Assistance system and assessed whether they appeared to be complete and appropriate for coping with the nature and degree of risk in the Program. We conducted interviews with ministry staff at all levels and reviewed documentation available in the Ministry, both to determine what types of controls had been implemented and to assess the extent to which they were operating consistently and reliably. We did not, however, conduct tests designed to uncover specific instances in which error, abuse or fraud may have occurred.

- 8.33 We documented and analyzed the Ministry's control systems and procedures. Then we compared them with criteria or control standards that we felt were appropriate, given the nature of the Income Assistance Program. The comparison allowed us to reach conclusions that would enable us to express an opinion as to whether the Ministry's control systems were providing the necessary levels and types of control.
- 8.34 Our field work included over 230 interviews with personnel from Headquarters and from 3 Regional and 10 District Offices. The Regional and District Offices that we visited were chosen to provide a sample of operating locations which our Office and the Ministry considered to be generally representative of its operations.
- 8.35 Our audit and the conclusions arising from it were limited to those areas which lie for the most part within the authority and responsibility of the Ministry. In this Section, therefore, we have not dealt with deficiencies which may be linked to government-wide personnel, budgeting, financial and reporting systems and administration. Where we have identified such matters, we have documented them in our files for possible further study and analysis on a government-wide basis.

## THE INCOME ASSISTANCE ENVIRONMENT

### INTRODUCTION

- 8.36 To place our findings and conclusions in their proper perspective and to help gauge their significance, it is important for the reader to consider the environment in which the Ministry operates. Having a knowledge of the environment is helpful both in understanding what types of controls may be needed to ensure efficient and effective program delivery, and in assessing the risk of exposure to error, abuse and/or internal and external fraud that may be present in a given operation. The importance of deficiencies in certain types of controls must also be examined in the light of the inherent risk associated with the nature of the Income Assistance Program.
- 8.37 We recognize that management, while designing and implementing control systems, must balance the effectiveness of certain types of controls and their costs against their impact on operational objectives, such as prompt delivery of services and other matters which management considers to be important.

Accordingly, this Section does not attempt to analyze the cost-effectiveness of the Ministry's existing control systems but it does reflect on mechanisms used by the Ministry to make this determination itself.

## EVIDENCE OF ELIGIBILITY

- 8.38 As is the case for other welfare assistance programs in Canada and elsewhere, the Ministry's program places the onus upon claimants to comply with applicable laws, regulations and procedures. The system requires that claimants prove their identity to the Ministry, provide proof of eligibility, and declare in writing that the information which they have given is complete and accurate. Claimants are also required to update information monthly in order that they may continue to receive benefits. They must also respond truthfully to any relevant questions that Ministry personnel may ask them.
- 8.39 Even though the burden of proof of eligibility is placed on the claimant, it is the duty of the Ministry to take reasonable steps to ensure that the representations and any documentation that he or she may provide constitute acceptable and reliable evidence of eligibility. The Ministry needs this evidence in order to determine with reasonable accuracy the level of benefits to be paid to the claimant.
- 8.40 To assess a claimant's basic eligibility and the amount of benefit to be paid, the Ministry uses three major types of criteria (pursuant to the GAIN Act regulations):
- level of income;
  - assets; and
  - certain factors regarding the claimant's personal circumstances.
- 8.41 The criteria noted above are basic to any income assistance program. However, these criteria, although unavoidable, do pose serious difficulties in administering the Income Assistance Program. Difficulties arise in ensuring, in a cost-effective manner that only those who are eligible for Income Assistance receive it and that they receive it in the right amount. In some areas, it is difficult (if not impossible) to reliably show that the criteria have been met, even though the onus is on claimants to "prove" that their representations are accurate and complete.
- 8.42 A claimant's representations regarding income level provide a good example. It may be possible to verify that the income declared is in fact accurate, either by asking for independent evidence of the amount of salary received, or by verifying with employers all the amounts paid to a claimant. Nevertheless, it is still possible that the claimant has not declared all sources of income. To obtain evidence or assurance that this is not the case would require the Ministry to adopt procedures that would not only be costly but which in some instances might be impossible to apply. Obtaining adequate, reliable evidence with which to verify all of the statements made in an application would require exhaustive investigation on almost every new or renewed claim. It might also create both an enforcement-cost problem, client antagonism and continual questioning of uninvolved third parties, such as employers. It could also lead to unreasonably long delays in providing funds to claimants.

- 8.43 Because of these factors, the Program involves a significant possibility that the Ministry could pay certain claims in error, or that it could authorize claims which are not adequately supported. Avoiding paying such claims presents the Ministry with two major challenges: first, to design practical controls that operate before a claim is paid, and second, to design post-payment controls which may be selectively applied.

#### HIGH JUDGEMENT LEVELS

- 8.44 The provision of Income Assistance is governed by a complex set of policies, procedures and practices. These have been developed in order to try to ensure that Ministry personnel consistently fulfill the intent of Income Assistance legislation and regulations. To do this, employees must not only have a thorough knowledge of rules, procedures and acceptable practices, but they must also be able to apply a high level of judgement in the field. They are often required to consider the particular circumstances of a claimant and accurately, consistently and quickly interpret and apply the appropriate regulations and ministry policy to that case.
- 8.45 Judgment is crucial because of the variables present in each case, and because assessing the eligibility "proofs" submitted by claimants involves certain intangible considerations. For example, Financial Assistance Workers must attempt to determine the accuracy of oral representations, an especially difficult task when the claimant cannot provide adequate supporting documentation. Financial Assistance Workers must also be alert to potential fraud or abuse. They must decide whether and when to use further investigative procedures. Again, logic and intuitive processes are key elements in making these decisions.
- 8.46 Often, judgement must be exercised in circumstances where the claimant's emotional status or ability to understand and cope with rules and procedures places significant pressure on the Ministry's staff. In these circumstances it is not possible to set down a full range of rules which ministry personnel can always mechanically adhere to in arriving at "correct" eligibility and benefit level decisions. Given the nature of Income Assistance, each claim must be approached and handled according to its special circumstances. At the same time this provision for flexibility must be balanced by reasonable control processes over the judgement exercised.
- 8.47 Because the Income Assistance environment requires a high level of judgement, control systems must permit flexibility and discretion. However, these systems must also ensure that judgements are well founded – that is, that they have considered all key factors and that they remain consistent both from location to location and from case to case.
- 8.48 Accordingly, the Ministry should provide sufficient guidance to staff to ensure that their judgements are well founded. This can be achieved through strong

supervision, extensive training and appropriate written instructions and guidelines. The Ministry should also be able to assess the extent to which the discretion left to personnel is properly exercised using post-processing quality control systems.

#### SELECTIVITY OF THE CONTROL PROCESS

- 8.49 The Income Assistance Program is obviously attractive to individuals or organized groups who would attempt to defraud the Province. Accordingly, the need for procedures or systems for detecting error and abuse is clear.
- 8.50 The Ministry, however, must pursue any enforcement activity selectively. Because it must provide Income Assistance promptly to a large number of claimants, it appears unreasonable to expect that the Ministry would continuously and exhaustively review all claims before paying them.
- 8.51 The challenge is a dual one. First, the Ministry must devise effective enforcement practices. Then, it must decide at what level of application enforcement activities are no longer cost-effective in detecting and deterring non-compliance with the law. In other words, wherever it is practical to do so, the Ministry should assess procedures first, probable success in detecting and deterring non-compliance, and the effect which these procedures will have on the level of service. Well-designed and operationally effective control systems for detecting non-compliance are vital to a program such as Income Assistance. The lack of such controls could not only fail to detect non-compliance, but could actually encourage it.
- 8.52 In summary, each of these factors adds a dimension of complexity and risk to the Income Assistance delivery system. The Ministry must establish a control system which cost-effectively keeps the risk of error, fraud and abuse to a minimum. Designing and maintaining such control systems, however, is made more difficult by the need both to provide prompt service and to gather an appropriate amount of eligibility evidence within a short period of time. The high level of judgement which field and supervisory personnel must exercise and limitations on the Ministry's ability to prove a claimant's eligibility when a claim is made, pose technical and administrative challenges in designing and operating cost-effective control systems. Such systems must exist and operate reliably if they are to cope with the high risk inherent in the Ministry's operating environment. Decentralization, scarce resources and the attractiveness of Income Assistance to abuse also necessitate management systems which can ensure both accountability and that operating controls are working effectively.

## SUMMARY OF AUDIT OBSERVATIONS

### INTRODUCTION

- 8.53 Our audit showed that the Income Assistance operating environment poses a major challenge for the Ministry's executive and personnel in designing and maintaining strong and cost-effective management and financial control systems.
- 8.54 The audit focused on the Income Assistance activities and certain ministry-wide control functions. It showed that the Ministry has recognized the need for improvement in many areas and that it has begun working toward strengthening its control systems. Over the last several years, managers at Headquarters and in operating locations have taken major steps to administer their programs more efficiently by introducing computer-based systems, adopting a more formal approach to allocating resources among Regional and District Offices and implementing certain organizational changes.
- 8.55 Since 1978, the management challenge has become even greater because of an amalgamation with municipal social and welfare agencies, which effectively doubled the number of operating staff within the Ministry. It also required the consolidation of a variety of operating and administrative systems and procedures.
- 8.56 Briefly, we have concluded that while the Ministry does have certain basic information to base its resource allocation process on that until such time as a number of key areas are substantially strengthened, the Ministry's procedures for measuring efficiency will not provide management and the Legislative Assembly with reliable and complete information about either the efficiency of the administration of the Income Assistance Programs or the effectiveness of its control systems. At the time of our audit, the Ministry had already begun work to remedy weaknesses in a number of those key areas.
- 8.57 In addition, we concluded that the Ministry would have to devote further substantial effort to ensuring the effectiveness of certain operating control mechanisms such as supervision, written guidance to personnel, training, Internal Audit and quality control. In addition there is a need to implement an accounting and control system for payments which are identified by the Ministry as being in error. All are especially critical when we consider the risk inherent in Income Assistance activities.
- 8.58 Of particular significance is the observation that management was aware of almost all major areas which required improvement.

## REPORTING OF PERFORMANCE AND ACCOUNTABILITY INFORMATION

- 8.59 The Ministry has available a number of indicators or sources of information that management currently uses to assess how economically and efficiently it is managing the Income Assistance Program. For example, management monitors caseload activity as an indicator of performance. Managers also use internal audit reports, special studies, inspection reports and complaints and comments from the public to assess the quality of the service provided.
- 8.60 However, none of these indicators attempts to determine systematically the amount of Income Assistance which is paid in error because of mistakes on the part of the employees and/or claimants. This error rate would serve as a key indicator of performance. Another ministry performance indicator (the number of cases handled by staff) is too general to be useful in analyzing the overall efficiency of the Program. We did note, however, that certain regions had begun working to define indicators and measurement systems that would more clearly show the relationship between outputs or services delivered and the resources used to produce them. However these efforts have been fragmented.
- 8.61 Without such performance information, which provides a detailed enough picture of the composition of caseloads and Financial Assistance Worker activity and quality control, management lacks a firm basis for its decisions on control systems and on how it can allocate its resources most efficiently.
- 8.62 The Ministry should gather this type of information and include it in its Annual Report, the Estimates and the Public Accounts. These documents should present this information clearly and concisely so that readers can easily understand it. Such information should also clearly demonstrate how well the Ministry has managed the funds entrusted to it.
- 8.63 We recognize that designing and implementing the necessary performance measurement and reporting systems will be difficult in the complex and highly judgemental Income Assistance operating environment, and that these systems will likely require some time to implement fully. While the state of the art in developing these types of measurement systems is evolving, we feel that systems which measure and report on both the levels of inputs and physical outputs (such as caseload) and the quality of the work performed (for example, the difference between the amount actually paid out in Income Assistance benefits and that which should have been paid) are feasible and quite likely would be cost-justified to implement. Other jurisdictions have developed and are using such measurements systems.
- 8.64 The Ministry has recognized this, and it is working closely with our Office to carry out a pilot project aimed at measuring the efficiency of its operations and to subsequently analyze the cost-effectiveness of its existing control systems.

## FINANCIAL MANAGEMENT

- 8.65 Our audit examined the financial management function as it is organized and carried out throughout the Ministry. We have concluded that the Ministry has recognized the need for an effective financial management function. Since 1975 the Ministry has been giving increasing emphasis to this area, at which time it appointed a full-time Ministry Comptroller.
- 8.66 While action has been taken to provide for a stronger comptrollership function and additional staff have been authorized, opportunities exist for enabling it to contribute further toward helping the Ministry to operate its programs more efficiently. This contribution is particularly important in terms of the role which financial management could play in ensuring first, that operating managers receive reliable and timely information, and second, that program managers have access to enough competent guidance in the areas of controls and systems design. Such guidance should not be prescriptive. Instead, it should allow managers flexibility in the methods they use to achieve the appropriate degree of control.

## INCOME ASSISTANCE CONTROL SYSTEMS

- 8.67 Our audit examined both the kinds of controls used by the Ministry in its Income Assistance activities and the manner in which these controls were being applied.
- 8.68 Our audit revealed that the Ministry had recognized the need for and had emphasized a number of control mechanisms at various levels. We believe these to be essential to achieving a level of control commensurate with the environment and control needs of the Income Assistance Program. For example, the Ministry has provided for supervision and staff training as crucial elements in achieving control.
- 8.69 Nevertheless, we observed that the Ministry had not provided for certain other types of controls. In particular, no formal quality control system was in place that would provide assurance that the necessary levels of accuracy and service were being achieved in providing Income Assistance to claimants.
- 8.70 We also noted that the Ministry has not established an information system to account for errors and overpayments of Income Assistance. The Ministry knows that these overpayments occur regularly (as they do in any complex system). However, the Ministry does not have the information it needs to determine the amount of these overpayments. Second, it lacks information both on the methods staff use to handle known cases of overpayment and on the success rate in recovering overpayments when the Ministry decides to do so.
- 8.71 Our audit of other key control elements, such as supervision of and written guidance for personnel, indicated that improvement would be necessary to

ensure that these controls would be consistently and reliably applied, both within and amongst individual operating locations.

- 8.72 Staff must also have adequate training if they are to be expected to administer the high volume of cases reliably and consistently in an environment where there are many employees operating in a highly decentralized way. Accordingly, staff training should be considered as an essential control element. We observed that there was a need to coordinate these programs and enhance the planning, monitoring and evaluation of the effectiveness of the Ministry's formal training and on-the-job efforts.
- 8.73 We also observed that day-to-day internal controls in the Income Assistance system were not being applied consistently in various locations. This inconsistency may be due in part to the limited guidance provided to field personnel who are responsible for ensuring that controls such as cross checks, segregation of duties and approvals are used properly.
- 8.74 At other levels in the existing control system, we observed that performance measurement techniques had not yet been sufficiently refined to enable them to provide reliable information about the adequacy of day-to-day operations as a whole.
- 8.75 The Ministry has developed an Internal Audit Group, which is primarily dedicated to reviewing Income Assistance case files in District Offices. These reviews focus on the extent to which Ministry personnel comply with established procedures and policy. This task, although important, does not extend to reviewing control systems, including those components of the Income Assistance systems which are computer-based.
- 8.76 Ensuring that control systems and procedures can meet the needs of the Ministry requires that they be applied in a coordinated manner, as part of an integrated, carefully considered, larger control plan. We observed that the Ministry did not review all elements of control to ensure that they in fact did operate as part of a closely-knit control framework.

#### MANAGEMENT OF ELECTRONIC DATA PROCESSING SYSTEMS

- 8.77 Our audit of the Ministry's electronic data processing systems focused on the extent to which due regard had been given to economy and control in the design, planning and development of a major new on-line computer system used in the Income Assistance Program. This system is the first one in the Ministry to incorporate advanced computer technology. It will significantly affect the controls and the efficiency of Income Assistance activities for the next several years.
- 8.78 Our audit was not designed to question either the need for this system or management's decision to proceed with it; however, our audit showed that there

- have been significant procedural deficiencies both in the initial decision-making process and in the controls used to manage the project.
- 8.79 We recognize that the development of complex computer systems is a difficult process. This is especially true for organizations that are trying to adopt an unfamiliar technology. We also realize that management must make difficult decisions, balancing the risk of adopting this technology with the risk of not moving forward in this area. Under these conditions it is extremely important that senior management have available complete, reliable, and accurate information at all stages of planning, design and implementation. This information should be presented in an understandable format to help guide the decision-making and project-monitoring processes.
- 8.80 Recently, the Ministry recognized that it needed more reliable information before proceeding beyond the pilot stage toward full implementation of the new computer system. Accordingly, it decided to examine the cost and control implications of this system more closely before implementing it fully. Our audit recommendations support this course of action and are designed to help the Ministry reassess and design new control mechanisms relating to the development of the computer-based system. Such controls would include evaluating the system after it has been implemented. We understand that the Ministry has also recently taken action to strengthen the organization of, and standards for, any future development of this and other computer-based systems.

#### INTERNAL AUDIT

- 8.81 The Ministry has established an Internal Audit Group, which as we previously noted, carries out audits of Income Assistance case files. These audits are primarily concerned with assessing the extent to which Ministry personnel have complied with established policy and procedure in processing Income Assistance claims.
- 8.82 Our audit examined the scope of responsibilities given to the Internal Audit Group, its organization, staffing and its reporting relationships. As well, we examined both the audit techniques that it uses and the reports which the Group issues. The purpose of our review was to assess the extent to which we could rely on internal audit work and alter the extent and scope of our own audit work. We also wanted to determine whether the Internal Audit function was providing the type of strong support to management that we believe is necessary.
- 8.83 We concluded that although the Internal Audit Group was carrying out the task ostensibly assigned to it, considerable scope exists for expanding its role. Moreover, it will be necessary to establish procedures and techniques which are appropriate to fulfilling such an expanded role. Until these have been developed, we will be able to place only limited reliance on the work of Internal Audit, particularly in evaluating control systems and in examining the issues of economy and efficiency.

- 8.84 In our opinion, until the role of Internal Audit has been further developed, management will not be in a position to realize the full benefits that a strong Internal Audit function could provide.
- 8.85 An important observation arising from the audit, as previously stated, was that management was aware of almost all of the areas requiring improvement. Managers were looking for solutions to problems in many areas and certain corrective action was underway. Our Office is aware that many improvements have already been made and that making the changes recommended in this Section will pose a significant challenge for the Ministry, possibly over a considerable period of time. Such improvements cannot be effected easily for two reasons: First, only limited resources of the appropriate quality are available in the Ministry. We therefore cannot expect that all of the required tasks can be accomplished within a short time. Second, the Ministry will have to use considerable caution in charting a course of corrective action. It will also have to carefully choose among alternative solutions to its problems.
- 8.86 Some improvements suggested in this Section may require that the Ministry carry out enough preparatory work to ensure that an environment exists which will enable it to realize the intended benefits of new or altered control mechanisms. For example, we noted that the Deputy Minister and his Executive have strongly emphasized the need for accountability within the Ministry. However, in our opinion, successful implementation of systems for measuring performance will require that managers and staff at all levels be first, convinced of the need for such systems and second, trained in their effective use.
- 8.87 Accordingly, our observations and recommendations are aimed at improving management and control systems, especially by encouraging the Ministry to work toward:
- developing and implementing performance measurement systems to indicate the efficiency of the Ministry in administering its programs, and reporting this information to the Legislative Assembly;
  - assessing the cost-effectiveness of existing control systems and providing for an appropriate quality control system;
  - ensuring that errors and overpayments, once detected, are properly controlled and accounted for;
  - ensuring both that key controls (particularly the supervisory process) are thoroughly evaluated and that they are operating consistently and reliably in all locations;
  - continuing to place strong emphasis on training;
  - stressing coordination, cost control, identifying training needs, course delivery and subsequent evaluation of training programs;
  - establishing a strong project management process and an organization to ensure that electronic data processing systems are developed economically;
  - obtaining the maximum benefits from the financial management function;

- upgrading the role of Internal Audit to provide needed support to management.

8.88 The following segments of this Section present the major observations and recommendations resulting from our audit.

## REPORTING PERFORMANCE AND ACCOUNTABILITY INFORMATION

### INTRODUCTION

8.89 This Section of our Report deals with the extent to which the Ministry has established satisfactory procedures for:

- measuring the reliability and efficiency of its Income Assistance operations; and
- reporting performance information, both to management and to the Legislative Assembly.

This segment of our audit was conducted under section 8 (2) (a) of the *Auditor General Act*, and attempts to assess the extent to which management knows (and reports) how well it is managing its operations.

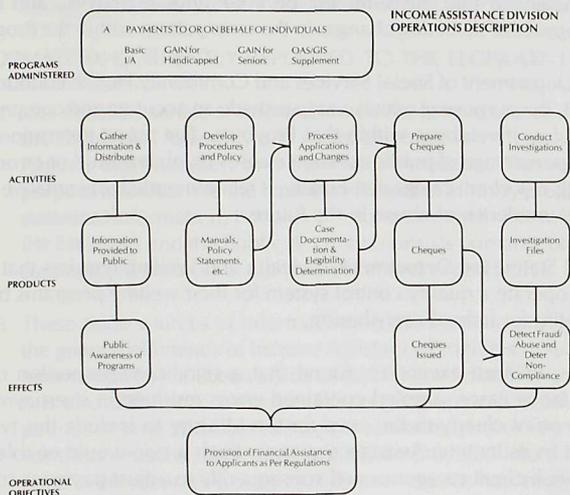
### EXTENT OF EXAMINATION

8.90 Our examination of the efficiency issue required us to assess first, whether the Ministry had defined its operational objectives in measurable terms; second, whether the link between its activities and the results which the Ministry hoped to achieve were logical and reasonable; and third, whether the Ministry was in fact measuring the efficiency of its programs against its operational objectives where feasible to do so. In accordance with the provisions of the *Auditor General Act*, our audit did not conduct a program evaluation of the Income Assistance Programs. Program evaluation would have required us to ask whether or not the Ministry had met its more broadly defined or ultimate objectives, such as distributing wealth more equitably, or ensuring a minimum standard of living for all residents of British Columbia. In the Government of the Province of British Columbia, program evaluation is a responsibility of Deputy Ministers in cooperation with the Treasury Board and its staff.

### DEFINING THE OPERATIONAL OBJECTIVES OF THE INCOME ASSISTANCE PROGRAM.

8.91 In order to examine the potential for measuring and reporting efficiency, one must first clearly understand the Ministry's operation and its operational objectives. Exhibit 2 displays an operational model of the Income Assistance Program. The model identifies program activities and their operational objectives. We used this model to determine first, the extent to which activities related directly to their respective objectives and second, whether the Ministry could measure at reasonable cost the extent to which it was achieving these objectives.

## Exhibit 2, Ministry of Human Resources



8.92 Our analysis of the Income Assistance activities and their effects or results has led us to conclude that the key operational objective of the Ministry's activities was to "provide financial assistance to applicants in accordance with the law and regulations". All activities, as shown on the chart, and their products and effects contribute to this objective. However, it should be noted that there exist other, higher level objectives which underlie the Income Assistance Program. We did not examine these as part of our audit.

8.93 Instead, our audit concerned itself with the potential for first measuring and then reporting on the extent to which the Ministry achieves its main operational objective. This would serve as a key indicator of how well the Ministry managed the funds entrusted to it. The goal of this form of measurement is to estimate for cases processed by the Ministry, the extent to which Income Assistance paid out differs from the amount justified by the law and regulations.

8.94 Once the Ministry has a reliable estimate of the amount of such differences, it can then assess the cost-effectiveness of installing controls which might reduce this amount.

## GATHERING INCOME ASSISTANCE PERFORMANCE INFORMATION

8.95 The feasibility of measuring the degree to which Income Assistance payments are being made to the right people in the right amounts has been demonstrated both within the Ministry and in other jurisdictions. In 1978, the Ministry carried

out a "verification" study of the \*GAIN – OAS/GIS supplement program. This study recommended that measurement be a continuous activity, and that it should be capable of detecting changes in the error pattern within the Program.

- 8.96 The Alberta Department of Social Services and Community Health conducted a study in 1978, the purpose of which was to provide an accurate and comprehensive picture of welfare abuse within that Province. The report determined the approximate percentage of public assistance cases involving fraud or error, and identified high-risk client categories. Finally, it recommended preventative steps to reduce the incidence of abuse in the future.
- 8.97 In the United States, the Department of Health and Welfare requires that individual states operate a quality control system for their welfare programs before they can qualify for federal cost-sharing.
- 8.98 These studies, without exception, found that a significant proportion of the income assistance cases sampled contained errors resulting in overpayments. These results point clearly to the need for the Ministry to include this type of measurement in its Income Assistance system. Such a step would enable it to identify high-risk client categories and subsequently to adjust payment control systems to reduce the incidence of under and overpayments.
- 8.99 At the present time, the only information that the Ministry collects on the performance of its Income Assistance Programs is produced as secondary output from the computerized pay-out system. In its most accessible form, this information is printed in the monthly "Fact Books", which are provided to senior management. These Fact Books provide information on the amounts of money paid out, but do not indicate the frequency of under and overpayments.
- 8.100 The computer-generated information related to the Ministry's pay-out system provides most of the data on the Ministry's activities and clients. However, other sources of useful information exist. For example, field staff refer cases of suspected misrepresentation to Inspectors. Records are kept of both the number and outcome of cases that these Inspectors review. Another possible source of supplementary information on the level of abuse in the Income Assistance system could be the public at large.
- 8.101 We noted earlier that other jurisdictions have been able to gather empirical data on the efficiency of their Income Assistance programs. If the Ministry were to collect data measuring the incidence and dollar value of over and underpayments in the GAIN program, it could detect and remedy weaknesses in its eligibility determination and payment activities. Such information would also help to reduce speculation over the extent of welfare abuse in the Province. A

\*GAIN – OAS/GIS – Guaranteed Available Income for Need – Old Age Security/Guaranteed Income Supplement.

cost-benefit analysis of alternative solutions for remedying weaknesses would enable the Ministry to choose the most cost effective option.

#### INFORMATION CURRENTLY REPORTED TO THE LEGISLATIVE ASSEMBLY

- 8.102 The current sources of information on Ministry activities and performance that the Legislative Assembly and the public must rely on are the Ministry's Annual Report, the Estimates, and the Public Accounts. The Annual Report's main purpose is to describe the nature and intent of ministry programs. It also contains statistical information, but only at a summary level. The information provided in the Estimates and the Public Accounts consists primarily of historical and highly summarized data on actual and estimated expenditures.
- 8.103 These three sources of information, in our opinion, provide little indication of the general efficiency of Income Assistance Programs. Usually this performance information has not been accumulated for and linked to each program objective. It is also difficult to compare among geographical locations and for different periods of time and does not report on the outputs or benefits of the programs. For these reasons, little insight has been provided into the central operational issue in the Income Assistance Program – that is, how much money the Ministry has actually paid to individuals compared with what theoretically it should have paid according to the regulations.
- 8.104 The level of under or overpayments is central to measuring the Ministry's Income Assistance activities. If it were available, this information would be of equal importance to both management and the Legislative Assembly. It would indicate to the Legislative Assembly the extent to which its GAIN legislation has been efficiently administered. By including this information in the Annual Report, the Estimates and the Public Accounts, the Ministry would be taking a major step toward improving accountability within the organization. Although no information relating to the efficiency of the Income Assistance Programs has thus far been provided to the Legislative Assembly, the Ministry has taken certain initiatives in this direction:
- It has, through a Resource Allocation Committee, taken preliminary steps to determine what indicators could be used to measure staff efficiency and productivity.
  - It has worked closely with our Office in planning for a pilot test, to be conducted shortly, to determine the potential for cost-effectively measuring overpayments in the Basic GAIN Income Assistance Program. We consider this pilot to be important in providing a foundation for a full-scale deviation test.
- 8.105 We noted that the Ministry could also provide other information in its Annual Report which would assist the Legislative Assembly in gaining insight into the Ministry's performance. For example, historical information covering several years, comparing and analysing resource utilization and outputs, would be

particularly useful in providing a general picture of significant performance trends. In particular, it would be valuable to present trends over several years for a number of key indicators of program activity and performance. Examples of such indicators are average caseloads carried by Income Assistance staff, ratios of supervisory to line staff, proportion of cases involving under and overpayments, and the proportion of total caseload referred to the Inspectors. Such trend data would not only indicate whether the efficiency of specific activities is improving or deteriorating, but would also provide baselines against which to assess the effect of changes in ministry procedures. It would also provide an early warning system to alert managers to areas in which further analysis or investigation should be done.

- 8.106 As well, inconsistencies in the treatment accorded to certain items from year to year in the Annual Report should be eliminated.

#### DAY-TO-DAY EFFICIENCY INFORMATION

- 8.107 Sufficient reliable information about how efficiently the Ministry is delivering the Income Assistance Program on a day-to-day basis is currently not available because:

- Indicators concerning productivity of staff have not been established.
- Standards or expectations of output and operational definition (in terms of both quality and quantity) have not been established.
- The Ministry has done little to date either in identifying sources of this information or in developing methods for accumulating it.

- 8.108 One of the major underlying causes of the Ministry's current inability to reliably measure day-to-day performance is the lack of clearly articulated, consistently used operational definitions for certain activities. We noted, for example, that from office to office, and sometimes within offices, various personnel understood the meaning of certain key output indicators (such as "caseload") differently.

- 8.109 The Ministry has defined qualitative and quantitative standards or expectations for some work activities. However, these standards have been expressed only in very general terms. As a result, they do not provide useful "yardsticks" against which to measure performance. Accordingly, it is difficult for the Ministry to hold managers and staff accountable for either meeting or failing to meet "acceptable" performance levels. We noted that in certain areas significant effort had been devoted to defining outputs and devising measurement processes. However, this work had not been communicated to other personnel with similar concerns. Nor was it part of a coordinated effort to establish a comprehensive performance measurement system.

- 8.110 We also observed that, in one important area, the Ministry had not gathered certain financial information relating to the amount of identified overpayments.

Moreover, management had not set the parameters for dealing with these overpayments. As a result, it was not possible to determine the day-to-day efficiency in managing identified overpayments.

- 8.111 We recognize that the Income Assistance Program operates in an environment in which a high level of judgement must be exercised in individual cases. Cases do not always follow standard patterns. Each of these tends to have unique features and, accordingly, it would be difficult to set engineered standards. However, past experience, combined with selective testing and setting standards for the quality of work to be done, would suggest that reasonable criteria could be established for measuring performance based on time and groups of cases.
- 8.112 By establishing these standards, the Ministry, over time, could improve control over the Income Assistance Program. It could use these standards as benchmarks against which to compare performance as workloads fluctuate. For example, supervisors would be able to monitor how the quality of work varies as the workload changes.
- 8.113 *As part of its efforts to improve management control, the Ministry should develop clearly defined performance indicators and work expectations, in terms of both quality and quantity. These should then be used as the basis for accumulating and reporting performance information at all levels in the Ministry in order to allow management to act promptly when warranted and to improve the allocation of resources.*
- 8.114 *The Ministry should ensure that it reports performance information to the Legislative Assembly which indicates the extent to which it has been successful in delivering an efficient program. The information should include data on the cost-effectiveness of various alternative methods of delivering the program.*

## FINANCIAL MANAGEMENT AND CONTROL

### INTRODUCTION

- 8.115 The Ministry's Executive has recognized that the organization, environment and activities of the Ministry indicate the need for a broad-based financial function. We found that the Comptroller's mandate is comprehensive and that the organization of the financial function allows him to provide direction and support in all key areas of financial management and control. We found that during recent years the Ministry has been strengthening and giving more emphasis to the financial function, particularly by appointing a full-time Comptroller in 1975 and, more recently, by increasing staff in the Comptroller's Office.
- 8.116 The purpose of our audit was to assess how the financial function was operating in practice. We particularly looked at the manner in which it was providing direct and functional guidance to operating managers and the extent to which it

was doing so. We also wanted to find out whether the Ministry's financial management and control practices were likely to meet the objectives implicit in the Comptroller's mandate and in our audit criteria.

8.117 The results of this segment of our audit indicate that while much has been done to achieve better control, considerable scope remains for improving the contribution that financial management and control can make and should make in helping the Ministry to operate its programs both efficiently and with proper controls. The Comptroller and his staff were aware of several areas needing improvement. Many of the weaknesses that they have identified generally parallel those outlined in this segment.

8.118 Our audit findings relate mainly to six general areas, as summarized below.

#### MANDATE OF THE FINANCIAL FUNCTION

8.119 Neither the mandate nor the organization of the financial function has been documented in manuals for distribution throughout the Ministry. We found that the responsibilities of the financial function and its relationship to other organizations within the Ministry were unclear to field personnel and to headquarters staff having electronic data processing and line operating responsibilities.

#### STAFFING OF THE FINANCIAL FUNCTION

8.120 The Ministry assisted us during our audit by completing profiles of personnel whom the Comptroller had identified as having significant direct or indirect financial responsibilities.

8.121 The profiles indicated that there are five members of the Comptroller's Office and one other in the Management Services Division who had formal accounting qualifications. Three other members of the Comptroller's Office were enrolled in degree-granting accounting courses. Many others have been employed at least ten years in the public sector. Turn-over had been low, and most had had long service in their present positions. Generally their qualifications and experience in electronic data processing were very limited.

8.122 Personnel having financial qualifications were concentrated at Head Office, and were mainly involved in day-to-day transaction processing activities and in the budgeting process.

8.123 We noted that control weaknesses have frequently been identified by the Comptroller's Office, but there has been little progress in resolving them. When staff from the Comptroller's Office are assigned to work on projects to strengthen financial management and control, day-to-day operating priorities frequently arise. Because they take precedence over new projects to improve or review controls, the success rate for such projects has been low. In addition, as discus-

sed below, the Comptroller's Office has not provided sufficient functional direction to line managers and others having financial responsibilities.

#### STAFF TRAINING

- 8.124 We examined the type and frequency of training provided to members of the Comptroller's Office and other staff having significant financial responsibilities, and noted that training efforts have been limited. Most training sponsored by the Ministry has been connected with general accounting and financial courses that staff have needed to obtain professional qualifications. Training has tended to avoid the more specific training needed to cope with the Ministry's particular operating needs.
- 8.125 The need for financial training of operating personnel who have significant financial responsibilities has taken on added importance because many of the employees have had little previous exposure to matters relating to financial control. Many transaction processing errors have occurred. Such errors, in part, may be attributable to the lack of financial training and experience of staff. Moreover, instructions which would help staff reduce these errors, are generally lacking. If operating personnel having financial responsibilities are to work effectively, they will need to be trained in how to meet appropriate accounting and control standards.
- 8.126 Successfully coping with the financial control elements in more complex systems requires staff who have appropriate formal qualifications combined with related practical experience. To be effective, such personnel must not only thoroughly learn the systems they must deal with, they must also understand the general operating environment and the needs of the people who are using these systems. Financial personnel should have a knowledge of systems documentation and cost benefit analysis techniques to properly analyze systems and recommend appropriate ways to improve them. They must also have a thorough knowledge of concepts which underlie the effective design of controls for both manual and computer systems. If controls are to be effective, staff must also be able to identify and assess compensating controls so that an acceptable balance between the desired level of service and the necessary level of control can be achieved.

#### FUNCTIONAL DIRECTION

- 8.127 The role of the financial function is fulfilled in two ways. First, members of the Comptroller's Office carry out accounting tasks, such as processing payments, reconciling accounts and preparing financial statements. These activities represent the direct responsibilities of the Comptroller. Second, the Comptroller is responsible for ensuring that appropriate financial control exist in all operating systems and procedures throughout the Ministry. These activities represent his indirect or "functional" responsibilities.

- 8.128 We observed that the Comptroller's Office had only limited involvement in carrying out certain important functional responsibilities. These included reviewing financial and operating procedures and establishing sound financial controls for both manual and computer systems. Although organizational links do exist between the Comptroller's Office and Regional and District Offices, they need to be further developed. We also found that more written guidance and training should be provided to personnel at all levels concerning financial management and control matters.

#### WRITTEN GUIDANCE

- 8.129 We observed that the Comptroller's Office has not yet completed a Headquarter's accounting manual to guide its own staff. Similarly, written payroll procedures for both Head Office and the field have not been provided. The Ministry is planning to extensively revise the accounting manual and the clerical procedures manual that Regional and District Offices are now using. The Comptroller acknowledges that his department should participate to a greater extent in establishing accounting and control criteria, standards and procedures for all operating systems with financial implications. Such procedures would be contained in manuals and distributed within the Ministry as appropriate.
- 8.130 There is also a need to further develop and document budgeting procedures. Such procedures should promote the use of short-term operational work plans that are coordinated within a longer-term strategic planning process. Budgeting procedures should require a review of program objectives, priorities and alternatives for existing programs as well as for new programs being proposed. Written guidance should also be provided for analysis of variances and for taking corrective action when activities deviate from plan.

#### MANAGEMENT OF THE FINANCIAL FUNCTION

- 8.131 The financial function lacks a comprehensive plan for ensuring that efforts to strengthen financial management and control are coordinated, and that they are given the appropriate priority. We have observed that new tasks frequently take precedence over those already underway. We recognize that the Ministry's size and complexity make change inevitable. However, the nature of the Ministry, combined with its program to increase the use of computer-based systems and to increasingly decentralize, makes a comprehensive plan critical to strengthening the financial function.
- 8.132 *In order to ensure that it realizes the full benefits of a strong financial management and control function, the Ministry should:*
- *review the number and level of personnel in the financial function to ensure that it is strong enough to effectively carry out its responsibilities; and*
  - *ensure that it prepares a comprehensive operational plan detailing the*

*goals and objectives, activities, timing, performance criteria and priorities for the Comptroller's Office.*

8.133 *The Comptroller's Office should:*

- *develop its lines of functional responsibility and provide more guidance and advice to line managers in order to help them achieve the necessary levels of control over program expenditures in a flexible, efficient manner;*
- *ensure that it further develops planning, budgeting and reporting systems to make them more useful in measuring performance and in allocating resources;*
- *improve systems and procedures designed to ensure that revenues and expenditures and assets in the Ministry's care are being adequately safeguarded; and*
- *ensure that all financial and control implications of new systems, such as computer-based systems, have been taken into account and that all key systems and procedures are adequately documented.*

## **CONTROLS IN THE INCOME ASSISTANCE SYSTEM**

### **INTRODUCTION**

8.134 This segment examined the operational and management controls in the Income Assistance Program's delivery system.

8.135 Our audit examined the principal tasks associated with providing Income Assistance. These included:

- determining eligibility;
- processing benefit payments;
- distributing payments to claimants;
- controlling identified errors and overpayments;
- monitoring performance; and
- administering federal cost-sharing systems.

8.136 Certain control elements associated with each of these tasks appeared to be particularly important in helping to ensure a level of effective control. These elements were especially important considering the Ministry's Income Assistance operating environment, and included the following;

- written guidance;
- supervision;
- training;
- internal and accounting controls;
- quality control;
- internal audit;
- inspection; and
- performance measurement and reporting.

- 8.137 We discuss each of the above in the sections which follow. Because of their importance, overpayment control and administration and cost-sharing are discussed separately in paragraphs 8.187 to 8.197 and 8.198 to 8.210 respectively.

#### WRITTEN GUIDANCE AND SUPERVISION

- 8.138 The Ministry has made some effort to provide its field personnel with written procedural guidelines. Such guidelines are intended to encourage consistent handling of Income Assistance claims. Much of the existing written guidance covers the routine clerical tasks, such as filling in forms correctly so that claims can be processed by the computer. However, guidance is often lacking or inadequate for many non-routine tasks that require District Office staff to exercise their judgement and discretion. For example, written guidelines for carrying out such tasks generally indicated only what staff should do when a "particular condition" exists. They did not suggest how staff should decide whether or not such a condition does, in fact, exist.
- 8.139 We observed that in the absence of written guidance, management must rely to a great extent on the knowledge and discretion which field staff are able to bring to bear in interpreting and applying ministry policy from case to case. As a result, policy application has been inconsistent among the District Offices.
- 8.140 We realize that field staff need to be able to operate flexibly in responding to the varying, often unique circumstances associated with different cases. Accordingly, strict guidelines would not be appropriate for many tasks. Nevertheless, it is necessary for the Ministry to balance the need for flexibility against the risk of inconsistency in delivering its programs.
- 8.141 The Ministry has already developed some useful material to guide field staff in handling certain cases that require them to use high levels of judgement. For example, the "Child Abuse Manual" permits staff to take a flexible approach when dealing with individual cases of child abuse. At the same time, it explicitly requires staff to fully consider a number of factors when they are deciding how to handle such cases. In our opinion, the Manual could serve as a model for the Ministry to follow in developing written guidelines to assist staff in delivering the Income Assistance Program.
- 8.142 Supervision at the District Office level is one of the most important controls for helping to ensure a reliable and efficient delivery system. Accordingly, we reviewed the supervisory process, particularly to find out how the Ministry had defined the role and responsibility of supervisors and to determine the nature of the day-to-day activities carried out by supervisors, and the indicators used to measure a supervisor's performance.
- 8.143 The Ministry has recognized the importance of the District Supervisor's role and

- has documented supervisory responsibilities in job descriptions. These responsibilities include the supervision of professional staff on a regular basis, staff training and orientation (including performance evaluation) and guidance in interpreting ministry policy. The job descriptions also note that District Supervisors must have skills in public relations, administration, and management.
- 8.144 We noted during our interviews that the concept of the District Supervisor's role varies widely among field offices. In some instances, our audit revealed that Supervisors were not familiar with the official (operational) supervisory job description.
- 8.145 We found that the extent of day-to-day supervision of certain types of activities is not consistent from one district to another. For example, we found instances in which Supervisors had relatively little direct involvement in monitoring and guiding the work of Financial Assistance Workers and administrative personnel; in others, Supervisors worked more closely with their staff. We also observed instances in which line personnel were making important decisions on their own; in our view, Supervisors should have been consulted first.
- 8.146 The mix of work in each District Office consists of delivering both Income Assistance Program and almost all of the other programs that the Ministry offers in Family and Children's Services. Activities include counselling and other tasks not necessarily related to providing financial assistance to claimants.
- 8.147 Because of the many types and "mix" of skills required of District Office staff, the District Supervisor has a particularly challenging job. In addition to having the administrative or management skills needed to run an office, the District Supervisor must be able to exercise strong "interpersonal" skills when called upon to guide and monitor staff. The District Supervisor must also be technically knowledgeable about all programs delivered through his or her office.
- 8.148 Accordingly, District Office Supervisors may be hard pressed to cope with all of the District Office's operations in a consistent and reliable manner. For example, we noted that while some Supervisors indicated that they regularly reviewed up to 100% of Income Assistance case files, others either reviewed very few, or reviewed them only infrequently. Given the level of judgement required to manage Income Assistance claimant files and the often large dollar amounts associated with each claim, we believe first, that supervisory review of these files should be consistent, and second, that the Ministry should determine the level of review appropriate to this task.
- 8.149 In addition to being responsible for managing their staffs effectively and efficiently, District Supervisors should be held fully accountable for the manner in which they discharge these responsibilities. Clear, detailed criteria against which to measure the qualitative and quantitative performance of Supervisors are therefore essential.

- 8.150 We observed that although the District Supervisors reported to Regional Managers, the bases used to evaluate supervisory performance were not clear. Our interviews indicated that performance evaluations of Supervisors were frequently highly subjective assessments, and that the criteria used varied from region to region. In some instances, the criteria used to measure performance had not been explained to the Supervisors. These situations were further aggravated by a lack of performance expectations, operational definitions and reliable and complete historical data for measuring performance. As a result, Supervisors were not being held accountable to the extent that would seem appropriate.
- 8.151 In summary, the Ministry has recognized the importance of the Supervisor. However, the present job description and the system used to measure a Supervisor's performance and accountability need significant improvement. Unless the Ministry does improve them, Supervisors will not be able to play as strong a role as they should. Nor will they have adequate guidance and feedback to help them to improve their contribution.
- 8.152 We recognize that the Ministry is taking steps to improve training for Supervisors. Over the last several years it has moved to put certain accountability processes in place. It has also reduced the number of programs which are dealt with at the District Office level and it has improved the communication channels between Supervisors and their peers and superiors. Continued emphasis in these areas should help to strengthen the supervisory process.
- 8.153 *In order to improve the supervisory function, the Ministry should:*
- *clarify the role and authority of District;*
  - *establish standards for expected performance;*
  - *monitor performance against the indicators established to improve accountability and to ensure that these are considered when Supervisors are being appraised; and*
  - *continue to provide more and better training at the supervisory level.*

#### TRAINING

- 8.154 We examined the following major kinds of staff training activities within the Ministry:
- identification of individual and group training needs;
  - development and delivery of courses to meet these needs including costing of training; and
  - evaluation and reporting on the effectiveness of existing training programs.
- 8.155 *Needs Identification.* We observed two conditions which we believe were significantly detracting from the Ministry's ability to identify its staff's training needs. First, detailed performance criteria had not yet been clearly articulated for all key operating positions. Second, there was little reliable performance information available which could be used to determine whether staff members

might need certain training in order to better perform their duties. As a result, it was difficult for staff and their supervisors to identify areas where on-the-job or formal training programs might be needed.

- 8.156 Our interviews with district and regional staff indicated that the process of identifying training needs was generally subjective and that it was carried out in a fragmented manner. For example, while some offices had linked training needs identification directly to employee performance evaluations, in others, staff members were left to identify their own knowledge and skill deficiencies.
- 8.157 We observed that the Ministry was taking steps to improve the needs identification process. Recently, for example, it prepared a preliminary list of knowledge, skills and aptitude requirements considered necessary for Financial Assistance Workers to correctly complete the new application forms and reliably assess the eligibility of claimants. In October 1980, a similar list was drafted for District Supervisors. Both of these initiatives should help district staff to identify individual skill gaps which should be eliminated through either on-the-job or formal training.
- 8.158 *Course Development and Delivery.* Under the current system, responsibility for staff training has been assigned to each region. Regional Managers, in consultation with their Regional Training Co-ordinators, are responsible both for identifying individual and group training needs and for providing and acquiring cost-effective programs that will meet those training needs. A central Staff Training Division provides support, where needed, to the region and may either develop or acquire courses to fill any gaps in employee knowledge or skills within the various regions.
- 8.159 On-the-job training also plays an important role in augmenting the skills of individual personnel. Inexperienced Financial Assistance Workers are often expected to become fully operational with little supervision or monitoring by District Supervisors because of time and other constraints. Accordingly, the on-the-job training that the Ministry offers is critical in developing the skills of new financial assistance staff.
- 8.160 We noted that a comprehensive list of all Income Assistance-related courses offered by the Ministry, either centrally or through its various regions, was not available. Partial lists that did exist were generally not available to regional personnel. As a result, any decisions to develop new courses were not based on a knowledge of what was already available within the Ministry. Accordingly, the possibility of duplicated and fragmented training effort exists.
- 8.161 In general, the few centrally developed courses covered only the more routine, mechanical tasks and often did not encompass more judgemental, discretionary tasks. Although several regions were trying to provide the kind of training that in their view was needed, we nevertheless noted that these efforts were carried out

apart from any comprehensive ministry training plan.

- 8.162 The Ministry was aware of these problems and was taking steps to remedy them. For example, it was developing a course for new Supervisors. To help regions meet their own training needs, the Ministry has also drafted and distributed a list of resources available for training Financial Assistance Workers.
- 8.163 We noted that the cost of training as reported in the accounts includes only out-of-pocket costs, such as those for materials and outside lecturers. The cost to the Ministry associated with the time the employees spend on courses is not included as part of the total training costs. Accordingly, the cost of training is significantly understated.
- 8.164 *Evaluation and Reporting.* The information accumulated in training reports from the regions and Headquarters was not sufficient for management to assess either the effectiveness or the cost of its training programs. Although staff who take courses are usually asked to fill out course evaluation forms, the Ministry does little to evaluate how the training affects the work of those who receive it.
- 8.165 At the time of our audit, the Staff Training Division had recently drafted a new reporting format which was being used on a trial basis to accumulate statistics on the effectiveness of its training. Although the new format still did not provide for reporting training costs, we understand the Ministry is considering incorporating cost information in the report in future.
- 8.166 *The Ministry should continue its efforts to augment its training program. Particular emphasis should be given to:*
- *improving the process for identifying training needs;*
  - *ensuring effective coordination of training efforts;*
  - *evaluating and reporting the results of training; and*
  - *accumulating and reporting information showing all training costs.*

#### INTERNAL AND ACCOUNTING CONTROLS

- 8.167 Our audit examined controls such as segregation of duties and cross-checks, authorization and approval levels, physical security of forms and cheques. These controls come into play largely after Financial Assistance Workers have decided on an applicant's eligibility for Income Assistance.
- 8.168 The effectiveness of the above types of controls depends largely upon the guidance and support provided to staff through written instructions, training programs, and supervision.
- 8.169 Because of the small size of District Offices and the need for prompt service, it is difficult for the Ministry to establish strict segregation of duties and rigorous cross-checks. Nevertheless, we observed certain areas in which the Ministry

could have used these control techniques. For example, the Ministry could require that senior personnel authorize and review various types of transactions or certain groups within the transaction population.

- 8.170 We noted that the Ministry had tried to document the approval level for its administrative activities. However, the Ministry had not produced any formal, comprehensive listing of staff showing the authority delegated to them. Such documentation would reflect more clearly the areas of responsibilities and would make staff more clearly accountable for their actions.
- 8.171 The Ministry provides little guidance on maintaining the physical security of documents which are used in the Income Assistance payments system. We found that physical security over documents, particularly over prepared cheques, varied from office to office. We observed some instances in which there is virtually no system to ensure that all cheques received by District Offices are distributed to the correct claimants.
- 8.172 *The Ministry should re-examine the extent to which it has made use of accounting and internal controls at the District Office level and should ensure that those types of controls are consistently used whenever possible.*
- 8.173 *The Ministry should review its procedures for maintaining physical security over documents to ensure that only authorized persons have access to them.*

#### QUALITY CONTROL

- 8.174 In monitoring the efficiency of Income Assistance operations, it is important for the Ministry to have reliable measures of the time and cost required to process claimants' applications for benefits under the Program. The Ministry should also be able to know how well operating personnel at all levels process these applications and carry out their other activities. Systematically applied quality control reviews are commonly used in many organizations as control and measurement techniques to evaluate how well staff perform. We noted, however, that quality control as a distinct function has not been provided for in the Income Assistance Program. We believe that this represents a major control deficiency particularly in light of both the high risk of error and level of judgement which staff must exercise daily.
- 8.175 The Ministry does have certain indicators of the quality of its claim processing. These include Internal Audit, the Inspection Group and public response to the Program. However, since Internal Audit carries out its reviews long after payments are made, and because it is not in a position to assess the impact of errors, such reviews are only limited substitutes for quality control. Similarly, Inspection does not compensate for the lack of quality control. Inspections are carried out only in response to claims already identified by employees as either having possibly been paid in error, or involving fraud or abuse.

- 8.176 *In conjunction with developing performance measurement indicators and criteria, the Ministry should consider implementing a quality control function to provide managers with reliable, current information about how efficiently and accurately claimant files are processed.*

#### INTERNAL AUDIT

- 8.177 Our comments on Internal Audit are discussed in detail in paragraphs 8.234 to 8.252.
- 8.178 Here we note only our observations about the work of the Internal Audit Group in relation to the Income Assistance Program. We found that the scope of Internal Audit was limited to carrying out tests to verify that staff had followed procedures in processing applications from claimants. There was little or no evaluation of the propriety of systems being used either at Headquarters, in regions or District Offices. In addition, the Internal Audit Group has not attempted to quantify or otherwise assign an order of magnitude to its findings. As a result, its work provides, in our opinion, little assurance to management about either the extent to which key controls are operating reliably and consistently, or the potential impact of procedural non-compliance.

#### INSPECTION

- 8.179 The Ministry has instituted, as a key detective and deterrent mechanism, an Inspection Group to investigate possible cases of fraud or abuse and to enforce the penalties provided under the GAIN Act, and in some cases, under the Criminal Code. Operating personnel are required to refer to the Inspection Group all cases in which they suspect or have evidence that client-initiated overpayments have occurred. However, the Ministry has not provided guidance to staff to help ensure that all such cases are in fact referred to the Inspection Group. In addition, we noted that the Ministry had not furnished detailed criteria to Regional Managers and Inspectors for applying various types of recovery procedures and penalties which are provided for in law and under ministry policy.
- 8.180 Our interviews with field staff showed that there are inconsistencies in referring cases to the Inspection Group. For example, ministry policy states that client-initiated overpayments must always be referred to the Inspection Group. However, in actual practice, staff sometimes interpret this requirement in various ways. Some interpret it as meaning "referrals in all cases", and others as "referrals involving flagrant fraud". This type of inconsistency could lead to dissimilar treatment of similar cases in various locations throughout the Province. Moreover, it could weaken the effect of Inspection in deterring fraud and abuse.
- 8.181 *In order to realize the potential benefits of the inspection function, the Ministry should give guidance to staff in identifying cases which they should refer to the Inspection Group.*

## PERFORMANCE REPORTS

- 8.182 Performance information provided to senior management is an important tool in ensuring a reliable and efficient Income Assistance delivery system. Having such information is particularly important in a decentralized, labour intensive organization such as the Ministry of Human Resources.
- 8.183 During our review, we noted that performance information has generally neither been developed nor used to assist in controlling operations. This deficiency was discussed in greater detail in paragraphs 8.89 to 8.114 above.
- 8.184 We also observed that the Ministry had not clearly defined the performance standards or expectations, both qualitative and quantitative, for activities common to all District Offices. As a result, field staff were attempting to provide "appropriate service" to clients with little, if any, clear idea of what the Ministry meant by "appropriate" and "service". Such ambiguity could introduce inconsistencies and inefficiencies into the delivery system.
- 8.185 In recent years, the Ministry has established a Resource Allocation Committee, which has begun to identify broad indicators of staff performance.
- 8.186 Our recommendations on reporting performance and accountability information is covered by paragraph 8.113 above.

## IDENTIFIED OVERPAYMENTS AND ERRORS – CONTROL AND COLLECTION

### INTRODUCTION

- 8.187 As may reasonably be expected, occasions will arise in the Income Assistance system when funds are paid to persons who are ineligible for all or part of these funds. This section of our Report focuses on how the Ministry deals with these overpayments once they have been identified.
- 8.188 Our audit covered the following activities related to overpayment, control and collection:
- making collection and write-off decisions;
  - collection action and procedures; and
  - accounting and reporting.

### THE NEED FOR FORMAL GUIDANCE IN CASES OF OVERPAYMENT

- 8.189 We recognize that deciding what action to pursue in each case of overpayment requires considerable judgement and that it would be impractical, if not undesirable, to develop a procedures manual that attempts to cover all possible circumstances relating to such overpayments. However, it is important to document certain circumstances that staff commonly encounter in handling many overpayment cases.

- 8.190 Legislation and certain manuals within the Ministry provide some formal, written guidance. The GAIN Act places the onus on the claimant to notify the Ministry of any change in circumstance, and provides penalties where “. . . due to . . . any . . . cause, an individual has received income assistance . . . to which (he or she) . . . is not entitled . . .”. The Ministry has also provided its staff with general guidelines that help staff in deciding how to handle overpayment situations. These guidelines emphasize attempts to recover overpayments, but recognize that sometimes recovery will not be possible.
- 8.191 We have concluded that the Ministry does not provide enough guidance and instructions to its staff to ensure that they deal consistently and efficiently with cases of overpayment. Most of the direction in dealing with overpayments is contained within one manual. However, staff must refer not only to several sections within this document, but to other manuals as well, in order to be certain of having covered and understood Ministry policy.
- 8.192 Manuals and directives have not clearly defined which individual or groups are responsible for such activities as overpayment identification, disposition decisions and action, and reporting and monitoring. Consequently, staff do not know where responsibility lies for these areas. In addition, the manual provides only general guidance and instruction as to when, how, and what circumstances should be considered in individual cases. We also noted that Supervisors often neither provided guidance to staff dealing with overpayments, nor approved collection action. Thus, Financial Assistance Workers often had complete control of the decision-making process; Supervisors did not usually review a staff member's work unless he or she requested such a review.
- 8.193 The Ministry has relied entirely on its District Office personnel to identify overpayments that have occurred. From our interviews in the field, we observed a good deal of confusion, and in some instances disagreement, over who is responsible for identifying and reporting these overpayments. Confusion also exists over the nature and extent of the procedures that should be used to identify cases of overpayment.
- 8.194 Generally speaking, it is the Financial Assistance Workers who decide how overpayments are to be handled once they have been identified. These workers receive little or no advice on this subject from other Ministry personnel. Accordingly, the reliability and the consistency of these decisions depend largely upon the skill and training of personnel. As a result, many of these decisions relating to overpayments could be inconsistent. We observed instances in which the disposition decision reflected a lack of understanding of ministry policies on the part of district staff. For example, some of the field staff interviewed indicated that they might consider such factors as office error, amount of overpayment, and client ignorance of requirements when they are deciding whether or not to recover the overpayment.

- 8.195 The Ministry has not provided for a system to accumulate and report on identified overpayments and to account for their subsequent treatment and disposition. Because there is no system to record identified overpayments, there is no assurance that all overpayments are controlled through to their ultimate disposition. Because there is no system for reporting the identification and disposition of overpayments, management does not know how serious the problem is, what is causing the problem, or whether the overpayment recovery decisions and procedures are being applied consistently across the Province. As a result, the system does not meet standards for reliable accounting and control.
- 8.196 *Responsibility for dealing with cases of overpayment should be clearly established for individuals and groups within the Ministry. The Ministry must also provide sufficient instruction to staff to ensure that overpayments are identified and are disposed of appropriately and consistently from district to district.*

#### ACCOUNTING AND REPORTING

- 8.197 *In order to ensure that the Ministry meets adequate standards of accounting and control for identified overpayments, it should establish an overpayment and collection system to ensure that identified overpayments are recorded, properly controlled and accounted for, and that write-offs are properly authorized. This system should be incorporated into the overall performance information system and the information produced should be reported promptly to appropriate levels of management.*

#### COST-SHARING

##### INTRODUCTION

- 8.198 *Sources of funds.* The Ministry has various sources of funds in fiscal 1980, including reimbursements of \$26 million from municipalities and \$10 million from the Department of Indian Affairs. However, the Federal Government provided the largest amount of money in the form of cost-sharing under the 1967 *Canada Assistance Plan Act* (CAP). The Ministry may recover 50 percent of certain expenditures as defined by this Act. Such cost-sharing amounted to \$234 million, or 36 percent of total Ministry expenditures of \$649 million for the 1980 fiscal year. Claims relating to prior years have resulted in additional receipts of almost \$15 million during the year. The Ministry received another \$7.4 million from the Federal Government on behalf of the Ministries of Health and Attorney General. In view of the importance to the Ministry of the funds received through cost-sharing under the CAP Act, our audit has emphasized this area.
- 8.199 *Responsibility areas for cost-sharing.* Three responsibility areas for cost-sharing exist within the Ministry. The first is the Federal/Provincial Agreements Section, which provides the Ministry's primary operational liaison with federal departments and other provinces concerning social services. One of the activities of the

Section is ensuring that it negotiates the maximum revenues available under the Canada Assistance Plan. In carrying out this activity, the Section identifies opportunities within the Ministry for cost-sharing, and provides guidance concerning the effect that federal cost-sharing will have on ministry program policy. The two other responsibility areas involved in cost-sharing are Program Management and the Comptroller's Office. Program Management is responsible for establishing policies and operating procedures that satisfy cost-sharing requirements. The Comptroller's Office is responsible both for establishing the administrative procedures for submitting proper claims, and for ensuring that cost-sharing funds are received.

- 8.200 The Report of the Auditor General for the year ended March 31, 1979 commented on the need to allocate enough staff to enable the Ministry to claim cost-sharing funds relating to expenditures made in prior years. The Report also called for the Ministry of Human Resources to clarify the roles of various other Ministries in claiming these funds. These needs still exist. Last year's Report also referred to the British Columbia Lottery Fund and the possibility that certain grants made by the Fund may be cost shareable. This matter has also not been resolved.

#### AUDIT FINDINGS

- 8.201 *Prior years' expenditures not yet claimed.* The Comptroller's Office has identified certain expenditures made in prior years to which cost-sharing agreements may apply. As yet, the Ministry has not claimed these expenditures, which are estimated to total at least \$30 million. A significant part of this sum may be shareable.
- 8.202 Certain older capital projects representing approximately 80 percent of the outstanding \$30 million were originally administered by the Ministry of Lands, Parks and Housing.
- Approximately four years ago, staff from the Ministry of Human Resources surveyed the files on these capital projects in order to support claims for cost-sharing funds. Almost three years ago the responsibility for administering these projects and the related files were transferred to the Ministry of Health. However, because of manpower shortages within Human Resources, no work has been done other than to periodically enquire about the location and condition of the files. In December 1980 the Ministry of Health found the files, and we understand that staff in the Ministry of Human Resources are actively pursuing cost sharing.
- 8.203 *Assessing the cost-sharing activity for current year's expenditures.* The Comptroller's Office has prepared reports showing that funds from cost-sharing agreements now amount to almost 37 percent of total expenditures. Although this percentage has increased during recent years, uncertainty exists over what

the optimum level of cost-sharing should be, both for individual programs and for the Ministry as a whole. Until the Ministry determines the optimum ratios, management will have difficulty in objectively assessing cost-sharing under the Plan.

- 8.204 *Determining priorities for additional cost-sharing.* Senior staff judge that most opportunities for cost-sharing have been identified and that the Ministry should give priority to claiming and collecting these funds. However, before the Ministry can formally establish these priorities, it must list all cost-sharing opportunities. For each one it must then estimate the amount of funds it might receive under a cost-sharing agreement, and the amount of work required to substantiate a claim for those funds.
- 8.205 *Cost-sharing considerations in computer-based systems.* On July 1, 1980 the Ministry transferred the GAIN for Seniors Income Assistance Program from one computer system to the main "Version II" Income Assistance computer system. This transfer has caused several problems. For example, information is not currently available from the Version II system concerning payments made to certain groups. Until the Ministry has this information, it will have to wait for reimbursement of approximately \$600,000.
- 8.206 A question has been raised about the cost-sharing implications of having to cancel and redeposit certain cheques produced by the Version II computer system. It is estimated that cheques totalling \$12 million are redeposited each year. There is uncertainty whether the reversing entry properly reflects the shareable and nonshareable portions of these Income Assistance payments. Income Assistance personnel are discussing this with the computer department and with the Comptroller's Office.
- 8.207 *Income Assistance overpayments and Accounts Receivable considerations.* The cost of financial assistance payments may be shared only if payments are made in accordance with provincial legislation, that is, within the limits prescribed under the *Canada Assistance Plan Act*. In Paragraphs 8.187 to 8.197, we observed that although overpayments can occur in any disbursement system, the nature of the Income Assistance delivery system increases the risk that such overpayments will occur. An earlier segment (paragraphs 8.89 to 8.114) deals with performance measurement and discusses the pilot study launched to measure the difference between what the Ministry should have paid in Income Assistance and the amount that it actually did pay. It is important to note that overpayments have implications for cost-sharing. For example, the Ministry forfeits cost-sharing for Income Assistance payments designated as recoverable, or for those not followed up for collection in accordance with the Act.
- 8.208 *Improvements made and plans for continuing progress.* While much remains to be done, the CAP Section within the Comptroller's Office has identified and monitored a number of cost-sharing projects even though it has been chronically

short-staffed. In addition, the CAP Section has begun to report on the status of projects and has prepared several chapters of an operating manual to guide staff working on cost-sharing activities. Cost-sharing has also been established on an "advance sharing" basis in several instances. Under this arrangement, cost-sharing funds are now received on a monthly basis, with subsequent adjustment when final figures become available.

8.209 The CAP Section feels that its efforts to explain the importance of cost-sharing to field personnel have been worthwhile. Continuing education would be beneficial and we support related plans to provide seminars for internal audit personnel to make them more aware of the significance of cost-sharing arrangements. We also believe that the Comptroller's Office should review systems and procedures throughout the Ministry to ensure that information on which cost-sharing claims are based is accurate and complete. The need for this capability would be separate from any cost-sharing work that the Internal Audit Group might carry out.

8.210 *To ensure that the Ministry realizes as much as it can from cost-sharing agreements, it should direct its attention toward:*

- *ensuring that cost-sharing responsibilities are documented and understood within the Ministry, and that other ministries also understand their cost-sharing responsibilities;*
- *refining assessment criteria and reporting procedures used to monitor performance;*
- *allocating enough staff to ensure that claims for cost-sharing are complete and up to date; and*
- *ensuring that all operating systems work toward supporting optimum cost-sharing.*

## **ELECTRONIC DATA PROCESSING**

### **INTRODUCTION**

8.211 The Ministry uses a computer system to produce monthly Income Assistance cheques for claimants. This system plays an important role in the Income Assistance control structure.

8.212 Since early 1979, two other government agencies have audited various facets of controls in this system. Those audits revealed various control weaknesses, which were reported to management. The Ministry has since acted on the major recommendations arising from these two audits.

8.213 Although we examined controls in this system to some extent as part of our comprehensive audit, we felt that a third audit of the system within two years would be uneconomical both for our Office and for the Ministry. Instead, our audit concentrated on the development of a major enhancement of this system.

- 8.214 The enhanced system, called "On-line Version II", will allow the Ministry's District and Regional Offices throughout the Province to obtain and update information about claimants almost instantly, through the use of computer terminals. Accordingly, On-line Version II has the potential to strengthen the Ministry's control of its Income Assistance delivery.
- 8.215 At the time of our audit, On-line Version II was not yet in operation. Therefore, we could not examine the controls in the system itself. Instead, we concentrated upon the methods used by the Ministry in developing the enhanced system. First we wanted to see if adequate attention had been paid to identifying the necessary controls, and subsequently to designing and incorporating them into the system. Second, we wanted to assess the extent to which the systems development had been managed with due regard for economy.
- 8.216 *Controls.* In examining this area, the audit team found that:
- The internal control needs of On-line Version II had not been systematically taken into account in the early stages of its development.
  - Controls had not been evaluated for cost-effectiveness.
  - The system had been pilot tested in two operating locations, but the Ministry had not yet taken action to ensure that the controls in the system would be fully analyzed prior to further implementation.
  - The responsibilities of all parties who were to have contributed to the specification, design and testing of system controls had not been clearly defined. As a result, the controls ultimately incorporated within the system were essentially those which the development group had selected, with only minimal input from users and the financial group.
- 8.217 The need for well-designed and effective controls in this system is critical, particularly in the light of the advanced nature of the technology involved and the impact of introducing this technology into an environment where operating personnel have had little exposure to this type of computer system.
- 8.218 While we were not in a position to evaluate the potential effectiveness of the controls which have thus far been incorporated into the pilot system, we are nevertheless concerned that both the lack of user and financial group involvement and the lack of preparatory training for line personnel may weaken the effectiveness of controls.

#### ECONOMY

- 8.219 We examined the extent to which due regard to economy had been demonstrated in developing the Version II computer system under the following headings:
- planning;
  - cost benefit analyses;
  - project management; and

- system development methodology.

- 8.220 *Planning.* We observed that planning had not been based on either a formal Ministry business plan or an electronic data processing development plan. The submissions made to the Treasury Board to obtain project funding, however, did identify certain objectives which the Ministry believed could be attained by implementing the proposed system (e.g., improved fraud control, better service to clients by combining data from various programs within the Ministry).
- 8.221 The project plans that we examined underestimated the degree of expertise in computer technology necessary to successfully implement the on-line system. The plan also failed to consider how the system, when implemented, could affect both controls in other parts of the organization and the Ministry's operating environment.
- 8.222 *The executive group did not have enough reliable information provided in an understandable format to ensure that its decision making process was based on complete and accurate information.*
- 8.223 We also noted that at the time the project was conceived, few individuals in the Ministry had the qualifications and experience necessary to design and implement this type of advanced computer system. Moreover, a system for ensuring that proper management and project controls would be established and reliably maintained did not exist, for the most part, for the duration of the project.
- 8.224 *Cost benefit analysis.* In part because the planning process and the information derived from it were incomplete, the Ministry underestimated the size of the project. Moreover, the costs of the project were more than had been estimated, and it has taken significantly longer to complete than had been expected.
- 8.225 *The cost benefit analysis accompanying the Treasury Board submission contained certain deficiencies.* For example, it either omitted or underestimated the cost of several items. A significant portion of the estimated dollar benefits were intangible. For example, the Treasury Board submission stated that staff time would be saved in the District Offices as a result of eliminating manual procedures. However, savings in staff time were not computed in such a way as to provide a true indication of the probable cost savings. This submission also contained no provision for the range of possible uncertainty associated with the cost estimate.
- 8.226 Accountability for costs relating to developing the project was unclear, particularly when the British Columbia Systems Corporation became involved with it. We also noted that despite the large cost escalations in the project, until recently no special review process for re-examining this system had been installed.
- 8.227 *Project management.* A preferred practice in systems project management is that project managers should be drawn from that part of the organization which will

ultimately use the system under development. However, the manager of the On-line Version II project was not a member of the main group that would be using the system. He, along with the Ministry Systems Committee, the British Columbia Systems Corporation and different user committees, had various responsibilities for the project. However, these responsibilities had not been clearly defined at any stage of the project, although it appeared that the project manager had, in fact, borne the major responsibility, and hence should have been accountable for the entire project.

- 8.228 We recognize that much of the uncertainty surrounding responsibility for parts of the project resulted from the organizational changes that occurred when the Vancouver Resources Board and the Ministry were amalgamated. In 1980, the Ministry carried out a study to determine the best way to organize the electronic data processing function, and is currently acting on the recommendations.
- 8.229 Our audit concluded that the project management techniques used in the project were inadequate for:
- predicting and controlling the project duration and its cost;
  - controlling changes in specifications; and
  - coordinating the activities of the ministry staff and outside agencies who became involved in this project at various stages in its development.
- 8.230 *System development methodology.* Our audit indicated two major flaws in the methodology used to develop the system: First, what the system was expected to do (what users needed) had not been specified in enough detail to guide the design and construction phases of the system's development. Second, the manual procedures required to use the system in the District Offices were not substantially addressed soon enough. As a result, when testing of the "completed" system was begun in mid 1979, it was found that the system did not perform according to the Ministry's expectations and needs. Accordingly, implementation has been delayed.
- 8.231 *To ensure that controls have been adequately provided for in the Ministry's new On-line Version II system, the Ministry should:*
- *review the system to ensure that all necessary control criteria have been met before fully implementing it; and*
  - *adopt clear control standards to be adhered to in any future computer system developments.*
- 8.232 *To ensure that due regard to economy is achieved in future development projects, the Ministry should ensure that it has sufficient qualified personnel before undertaking such projects, that a suitable organization structure is established (including provision for user and functional direction), and that responsibilities of all key project participants are clearly articulated and understood.*
- 8.233 *The Ministry should adopt a clear set of generally acceptable electronic data*

*processing system development standards including provisions for:*

- preparing complete cost benefit analyses during the planning stage;
- properly monitoring costs and technical specifications;
- reporting in a complete and useful format information to senior management;
- establishing user-acceptance criteria;
- evaluating the system before and after implementation; and
- ensuring that controls provided for in and over the operating systems are adequate.

## INTERNAL AUDIT

### SCOPE OF OUR AUDIT REVIEW

8.234 We reviewed the Ministry's Internal Audit function to determine the extent to which this function, as it is currently organized and carried out, forms an effective part of the Ministry's financial management and control system. The review also assessed the extent to which the Internal Audit Group might affect the scope and planning of our own regular attest audit work. Our review included all major facets of Internal Audit as follows:

- mandate;
- reporting relationships;
- planning;
- staffing;
- techniques; and
- reporting.

### AUDIT FINDINGS

8.235 *Mandate.* The current job description for the Supervisor of Internal Audit states that he is "responsible for developing and implementing an independent program for appraising the operation and administration of the Ministry as a service to management and executive and to make appropriate recommendations for improving programs, policies, systems and procedures." However, the 1979 Annual Report limits the objective of the Ministry's Internal Audit team to evaluating the standards and administration of the Ministry's programs. This restriction reflects the objectives for Internal Audit as contained in a letter dated August 9, 1976 which introduced the Internal Audit Group to its new responsibilities.

8.236 *Reporting relationships.* The Internal Audit Group reports to the Comptroller. However, the Deputy Minister has advised the head of Internal Audit that he should feel free to approach him directly concerning significant audit observations. We were told, however, that this informal reporting channel has not been used during the past year.

- 8.237 During our review of the organization of Internal Audit and its reporting arrangements, it became clear that the Group was not being kept adequately informed of developments within the Ministry. For example, Internal Audit was not aware of computer developments nor was it aware of certain consultants' reviews, internal reports and studies monitoring the processing of accounting entries. The January and June 1980 audit reports of the Comptroller General on Income Assistance were received late and the Group audited a District Office without knowing that it was about to be split into two offices. The head of Internal Audit is not a member of any committee nor does he attend management or systems meetings.
- 8.238 Although increased involvement and improved communication is possible under existing organizational arrangements, the Ministry is considering the formation of an Audit Committee. We support its formation. Although the audit function would be guided by this Committee, the head of Internal Audit should nevertheless report directly to the Deputy Minister.
- 8.239 *Audit planning.* A major task facing the head of Internal Audit is that of planning adequate audit coverage. Audit planning should ensure that all activities of the Ministry are identified, potential audit areas are ranked in order of priority, and that appropriate audit objectives are determined for each area chosen for audit. In a large, complex organization such as the Ministry, it will be necessary to subdivide the audit responsibility into manageable "audit units". An audit unit is an assignment of manageable size, but of such scope, that if audited with due care, will produce meaningful information for management. The ranking of potential audit units should be based on materiality, importance to effective management, the degree of risk associated with different areas and opportunities for improvement. Other criteria to consider include reorganization and major changes in systems and key personnel.
- 8.240 It is important to look at the entire audit unit from a functional, organizational and program viewpoint.
- 8.241 *Staffing.* A profile of the Internal Audit Group shows that its staff have had some formal accounting training and auditing experience and that their knowledge of the Ministry's operations has been gained mainly through working in the Internal Audit Group. Such personnel usually need about one year to gain enough experience to carry out the existing audit program in District Offices. It will be necessary over time to supplement current manpower resources and to provide guidance and direction in order for the Group to assume increased responsibility. Once the Group has determined and confirmed its audit objectives, and established audit scope and techniques, it will be able to determine what manpower resources are appropriate to carrying out these tasks.
- 8.242 *Systems-based auditing.* The Internal Audit Group has not as yet used a valuable audit technique known as "systems-based auditing". This technique can help to

increase the effectiveness of Internal Audit as a key component of the Ministry's general system of financial management and control. This type of auditing is designed to evaluate how accounting controls ensure that transactions are being properly accounted for.

- 8.243 Other audit techniques evaluate only the accounting results. However, properly applied systems-based audit techniques allow the auditor to make recommendations designed to avoid errors before they occur. Therefore, this technique is a more effective approach than an after-the-fact audit of individual transactions.
- 8.244 *Other audit techniques.* The Internal Audit Group has thus far not used certain other specialized audit techniques that complement the systems-based audit approach. They enable the auditor to carry out certain tests to determine the extent and impact of apparent systems' weaknesses. These techniques, such as statistical sampling and internal control questionnaires, provide an objective basis for carrying out the audit work and forming a general audit assessment. Nor has the Group done work in the field of electronic data processing, either through auditing computer systems and data processing facilities, or by using computer-assisted auditing techniques.
- 8.245 *Reporting.* Audit reports can take as long as two to four months to release and a further two to three months to clear. Follow-up procedures are in force and *reminder notices are frequently required to elicit replies on reported audit observations.* Audit reports deal with departures from procedures as set out in manuals. Frequently such departures are ultimately sanctioned under the discretionary authority of the Regional Manager. Audits result in similar observations for each District Office and reports do not attempt to identify causal factors.

#### SUMMARY

- 8.246 Internal Audit is meeting management's original expectations and the consensus within the Ministry is that the Internal Audit Group has been performing adequately. However, management acknowledges the need for Internal Audit to play a more effective part in the managerial control system. Our audit confirms the need to expand the scope of Internal Audit's activities and to establish procedures and techniques that are appropriate to such an expanded role.

Until this is accomplished, our Office will be able to place only limited reliance on the work of Internal Audit when we define the scope of our own audit work.

- 8.247 *To ensure that Internal Audit plays an effective part in the managerial control systems, its role should be expanded to enable it to independently appraise the financial function as well as management and operating control systems in the Ministry.*
- 8.248 *The Internal Audit Group should report directly to the Deputy Minister to ensure*

*independence and adequate, direct communication.*

- 8.249 *The Audit Committee now under consideration should be established and should be given sufficient scope and authority to establish appropriate manpower resources, to provide operational direction and to endorse the independent status of internal audit.*
- 8.250 *To ensure that appropriate audit coverage is provided for, an audit plan should be developed and documented for approval by the Audit Committee. The plan would include:*
- *a long-term plan that divides the Ministry into manageable audit units to ensure audit coverage of all important areas;*
  - *an assessment of potential audits according to criteria based on materiality, importance, degree of risk and opportunity for improvement;*
  - *the audit objectives and scope for each audit unit;*
  - *staff training and recruiting objectives; and*
  - *an annual schedule and related work plan.*
- 8.251 *The level, quantity and mix of staff resources in the Internal Audit Group, should be reviewed in light of the Ministry's audit needs and efforts should be made to augment staff resources where appropriate.*
- 8.252 *In order to ensure that Internal Audit can provide effective audit coverage, systems-based audit techniques and supporting procedures should be progressively introduced.*

## **OBSERVATIONS ARISING FROM AUDIT OF THE PUBLIC ACCOUNTS**

### **INTRODUCTION**

- 8.253 As part of the Comprehensive Audit of the Ministry, our Office tested enough transactions for us to be able to express an opinion on the fairness of the financial statements of the Province for the year ended March 31, 1980. We refer to this portion of our audit as "attest work". The attest audit was done in two stages. In the first stage, we studied and evaluated the controls within the Ministry's accounting system for administrative expenditures to determine its reliability. In stage two, we carried out tests and other procedures considered necessary to confirm our evaluation and opinion.

### **SYSTEM OF CONTROLS**

- 8.254 The first stage was carried out in conjunction with other elements of our Comprehensive Audit. It enabled us to thoroughly understand the controls within the Ministry that ensure both that funds are reliably accounted for, and that the collection and expenditure of funds are properly controlled. We have incorporated our comments on the system of internal control in the segment on Financial

## Management and Control (paragraphs 8.115 to 8.133).

8.255 In the second stage, our Office carried out tests and other substantive work on a range of transactions including payroll. We selected these transactions as part of the government-wide sample. As noted, the results of these tests support our observations made in paragraphs 8.115 to 8.133. Although the audit team found that the Ministry did have many basic financial and accounting controls in place, our tests indicated that controls could and should be improved. For example:

- Time sheets supporting payments made to hourly wage staff at Woodlands, a government-operated institution for retarded children and adults, are not authorized by the appropriate supervisors. As a result, employees could be paid for hours not worked or for unnecessary overtime.
- An invoice from the Medical Services Plan of British Columbia for \$94,277.68 for March 1980 was not paid until six months later, indicating that the accounts payable filing system should be strengthened.
- The Ministry does not retain supporting records for automatic journal entries which transfer substantial amounts of payroll expenditures from the Ministry's Vote to the Ministry of Finance's "contingency" Vote. Because this information is not retained by the Ministry of Human Resources it is possible that the initial journal entries have not been reviewed to ensure the accuracy of the amount transferred.
- Our audit revealed an instance in which the Ministry had been billed and had paid for rented space that it had not leased. The Ministry staff are trying to improve controls in this area. While the amount involved in the above payment was not material, this observation does indicate some deficiency in the review and control of rental billings.
- Management at appropriate senior levels has little involvement with the GAIN Supplementary Benefits to OAS/GIS/SPA recipients. Although the Ministry does use the federal agency's computer system extensively, it should still ensure that those responsible for administering the provincial program become involved in it to some extent.

## Summary of Recommendations and Ministry's Comments

### Recommendations

### Ministry's Comments

#### REPORTING OF PERFORMANCE AND ACCOUNTABILITY INFORMATION

8.113 As part of its efforts to improve management control, the Ministry should develop clearly defined performance indicators and work expectations, in terms of both quality and quantity. These should then be used as the basis for accumulating and reporting performance information at all levels in the Ministry in order to allow management to act promptly when warranted and to improve the allocation of resources.

8.114 The Ministry should ensure that it reports performance information to the Legislative Assembly which indicates the extent to which it has been successful in delivering an efficient program. The information should include data on the cost-effectiveness of various alternative methods of delivering the program.

#### FINANCIAL MANAGEMENT AND CONTROL

3.132 In order to ensure that it realizes the full benefits of a strong financial management and control function the Ministry should:

- review the number and level of personnel in the financial function to ensure that it is strong enough to effectively carry out its responsibilities; and
- ensure that it prepares a comprehensive operational plan detailing the goals and objectives, activities, timing, performance criteria and priorities for the Comptroller's Office.

Agreed. The Ministry is reorganizing headquarters staff to establish a Strategic Planning branch. One of the core functions of this branch will be to assist management of the Ministry by providing the necessary leadership and technical support to develop key indicators of the efficiency, effectiveness and economy of Ministry programs and operations.

Agreed. The Ministry will revise the format and content of the 1981 Annual Report to permit this.

Agreed. Work is underway to develop a comprehensive operational plan for the Comptroller's Office. The Ministry also recognizes the need to upgrade the quality and quantity of financial personnel. A review of the organization and staffing of the Comptroller's Office is underway; however, it should be noted that the Ministry has experienced some considerable difficulty in securing qualified accounting staff given the current Government-wide classification plan.

Recommendations	Ministry's Comments
<p>8.133 The Comptroller's Office should:</p> <ul style="list-style-type: none"> <li>● develop its lines of functional responsibility and provide more guidance and advice to line managers in order to help them achieve the necessary levels of control over program expenditures in a flexible, efficient manner;</li> <li>● ensure that it further develops planning, budgeting and reporting systems to make them more useful in measuring performance and in allocating resources;</li> <li>● improve systems and procedures designed to ensure that revenues and expenditures and assets in the Ministry's care are being adequately safeguarded; and</li> <li>● ensure that all financial and control implications of new systems such as computer-based systems, have been taken into account and that all key systems and procedures are adequately documented.</li> </ul>	<p>Agreed. These are ongoing activities within the Comptroller's Office.</p>

#### CONTROLS IN THE INCOME ASSISTANCE SYSTEM

<p>8.153 In order to improve the supervisory function, the Ministry should:</p> <ul style="list-style-type: none"> <li>● clarify the role and authority of District Supervisors;</li> <li>● establish standards for expected performance;</li> <li>● monitor performance against the indicators established to improve accountability and to ensure that these are considered when Supervisors are being appraised; and</li> <li>● continue to provide more and better training at the supervisory level.</li> </ul>	<p>Agreed. A job content and training profile review for supervisors is underway. As part of this process all District Supervisors have received an updated statement of their role and authority. Also, a three-year plan to address supervisory training needs has been developed.</p>
<p>8.166 The Ministry should continue its efforts to augment its training program. Particular</p>	<p>Agreed. Management reports relating to staff training activities are</p>

Recommendations	Ministry's Comments
<p>emphasis should be given to:</p> <ul style="list-style-type: none"> <li>● improving the process for identifying training needs;</li> <li>● ensuring effective coordination of training efforts;</li> <li>● evaluating and reporting the results of training; and</li> <li>● accumulating and reporting information showing all training costs.</li> </ul>	being revised.
<p>8.172 The Ministry should re-examine the extent to which it has made use of accounting and internal controls at the District Office level and should ensure that those types of controls are consistently used whenever possible.</p>	Agreed.
<p>8.173 The Ministry should review its procedures for maintaining physical security over documents to ensure that only authorized persons have access to them.</p>	Agreed. The matter of confidentiality and security of files is seen as a high priority within the Ministry.
<p>8.176 In conjunction with developing performance measurement indicators and criteria, the Ministry should consider implementing a quality control function to provide managers with reliable, current information about how efficiently and accurately claimant files are processed.</p>	Agreed. Technical assistance to develop quality control plans will be provided by the new Strategic Planning branch noted above in the Ministry's response to recommendation 8.113.
<p>8.181 In order to realize the potential benefits of the inspection function, the Ministry should give guidance to staff in identifying cases which they should refer to the Inspection Group.</p>	Agreed.
<p><b>IDENTIFIED OVERPAYMENT AND ERRORS – CONTROL AND COLLECTION</b></p>	
<p>8.196 Responsibility for dealing with cases of overpayment should be clearly established for individuals and groups within the Ministry. The Ministry must also provide sufficient instruction to staff to ensure that overpayments are identified and are</p>	Agreed.

Recommendations	Ministry's Comments
<p>disposed of appropriately and consistently from district to district.</p> <p>8.197 In order to ensure that the Ministry meets adequate standards of accounting and control for identified overpayments, it should establish an overpayment and collection system to ensure that identified overpayments are recorded, properly controlled and accounted for, and that write-offs are properly authorized. This system should be incorporated into the overall performance information system and the information produced should be reported promptly to appropriate levels of management.</p>	Agreed.

#### COST-SHARING

<p>8.210 To ensure that the Ministry realizes as much as it can from cost-sharing agreements, it should direct its attention toward:</p> <ul style="list-style-type: none"> <li>● ensuring that cost-sharing responsibilities are documented and understood within the Ministry, and that other ministries also understand their <i>cost-sharing responsibilities</i>;</li> <li>● refining assessment criteria and reporting procedures used to monitor performance;</li> <li>● allocating enough staff to ensure that claims for cost-sharing are complete and up to date; and</li> <li>● ensuring that all operating systems work toward supporting optimum cost-sharing.</li> </ul>	Agreed. The Ministry has allocated three permanent staff positions and another four temporary staff to cost-sharing activities.
--	---

#### ELECTRONIC DATA PROCESSING

<p>8.231 To ensure that controls have been adequately provided for in the Ministry's new On-line Version II system, the Ministry should:</p> <ul style="list-style-type: none"> <li>● review the system to ensure that all necessary control criteria have been</li> </ul>	Agreed. The Ministry has recognized this deficiency and plans to conduct a formal review as recommended. The Ministry will also develop a project administration manual to provide
--	--

Recommendations	Ministry's Comments
<p>met before fully implementing it; and</p> <ul style="list-style-type: none"> <li>● adopt clear control standards to be adhered to in any future computer system developments.</li> </ul>	<p>control standards and guidance for Ministry staff involved in computer systems development.</p>
<p>8.232 To ensure that due regard to economy is achieved in future development projects, the Ministry should ensure that it has sufficient qualified personnel before undertaking such projects, that a suitable organization structure is established (including provision for user and functional direction), and that responsibilities of all key project participants are clearly articulated and understood.</p>	<p>Agreed. The organization and staffing levels relating to Ministry computer systems development and operations have been revised to better ensure appropriate staffing and controls (including provision for independent quality assurance reviews and for user and functional direction) for all such projects.</p>
<p>8.233 The Ministry should adopt a clear set of generally acceptable electronic data processing system development standards including provisions for:</p> <ul style="list-style-type: none"> <li>● preparing complete cost benefit analyses during the planning stage;</li> <li>● properly monitoring costs and technical specifications;</li> <li>● reporting in a complete and useful format information to senior management;</li> <li>● establishing user-acceptance criteria;</li> <li>● evaluating the system before and after implementation; and</li> <li>● ensuring that controls provided for in and over the operating systems are adequate.</li> </ul>	<p>Agreed. Such standards will be set out in the project administration manual noted above.</p>

#### INTERNAL AUDIT

<p>8.247 To ensure that Internal Audit plays an effective part in the managerial control systems, its role should be expanded to enable it to independently appraise the financial function as well as management and operating control systems in the Ministry.</p>	<p>Agreed. The mandate, organization and staffing levels of the Internal Audit Group have been revised to enable the Group to effectively perform this expanded role.</p>
--	---

Recommendations	Ministry's Comments
8.248 The Internal Audit Group should report directly to the Deputy Minister to ensure independence and adequate, direct communication.	Agreed. The Internal Audit Group now reports to the Office of the Deputy Minister.
8.249 The Audit Committee now under consideration should be established and should be given sufficient scope and authority to establish appropriate manpower resources, to provide operational direction and to endorse the independent status of Internal Audit.	Agreed. The Audit Committee has been established.
8.250 To ensure that appropriate audit coverage is provided for, an audit plan should be developed and documented for approval by the Audit Committee. The plan would include: <ul style="list-style-type: none"> <li>● a long-term plan that divides the Ministry into manageable audit units to ensure audit coverage of all important areas;</li> <li>● an assessment of potential audits according to criteria based on materiality, importance, degree of risk and opportunity for improvement;</li> <li>● the audit objectives and scope for each audit unit;</li> <li>● staff training and recruiting objectives; and</li> <li>● an annual schedule and related work plan.</li> </ul>	Agreed. A long-range audit plan will be developed. When completed this plan will be presented for approval by the Audit Committee.
8.251 The level, quantity and mix of staff resources in the Internal Audit Group, should be reviewed in light of the Ministry's audit needs and efforts should be made to augment staff resources where appropriate.	Agreed. The Ministry has recently completed a review of the organization and staffing of the Internal Audit Group. Recruitment efforts are now underway to augment existing staff resources, with particular attention being given to the selection of qualified staff with extensive experience in

---

Recommendations	Ministry's Comments
8.252 In order to ensure that Internal Audit can provide effective audit coverage, systems-based audit techniques and supporting procedures should be progressively introduced.	systems-based and related audit techniques.  Agreed. As appropriately qualified staff are recruited more advanced audit techniques will be progressively introduced.

Ministry of Finance / Ministry of Consumer Affairs

The Ministry of Finance is currently reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999. The Ministry of Finance is also reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.

The Ministry of Finance is currently reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999. The Ministry of Finance is also reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.

- The Ministry of Finance is currently reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999.
- The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.
- The Ministry of Finance is also reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999.
- The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.

The Ministry of Finance is currently reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999. The Ministry of Finance is also reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.

The Ministry of Finance is currently reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999. The Ministry of Finance is also reviewing the proposed amendments to the Companies Act, 1956, which will be effective from 1999. The Ministry of Consumer Affairs is also reviewing the proposed amendments to the Consumer Protection Act, 1930, which will be effective from 1999.



PART 3  
FINANCIAL MANAGEMENT  
AND CONTROL AUDITS

---

## Table of Contents

### PART 3:

#### 9. Financial Management and Control Audits

Introduction .....	103
Ministry of Education .....	105
Report Precis .....	105
Recommendations and Ministry's Comments .....	106
Ministry of Finance .....	115
Report Precis .....	115
Recommendations and Ministry's Comments .....	116
Ministry of Human Resources .....	122
Report Precis .....	122
Recommendations and Ministry's Comments .....	123
Ministry of Lands, Parks and Housing .....	128
Report Precis .....	128
Recommendations and Ministry's Comments .....	129



# Financial Management and Control Audits

## Introduction

- 9.1 This year my Office carried out a limited number of reviews of financial management and control in several ministries. This work was launched to lay the foundation for conducting similar audits in other ministries at a future date. In addition, we wanted to further develop the systems-based audit approach which this Office is already using. Finally, we wished to help prepare key members of my senior staff to become involved in the comprehensive audit process previously described.
- 9.2 The audits reported on here were conducted under section 8, of the *Auditor General Act*. In essence, they represent only one aspect of comprehensive auditing; that which examines financial management and control. In Part 2, paragraphs 12.26 and 12.27 of my 1979 Report to the Legislative Assembly, I commented on this form of audit as follows:

"The provisions in section 8(1) of the *Auditor General Act* require that I call attention to anything arising from my examination which in my opinion should be brought to the attention of the Legislative Assembly. These provisions include instances in which systems of internal control and accounting have been insufficient and they constitute the core area of the "F" in FRAME – that is, financial controls.

My Reports this year and last contain examples of certain types of observations and recommendations arising under section 8(1) of the *Auditor General Act*. The comments and recommendations thus far reported in this area arose from observations made by my staff while examining the Government's financial statements. These evaluations focused, for the most part, on certain types of processing and accounting controls that we would normally expect to find in each system examined; for example, segregation of duties and batch processing methods. However, if these types of controls are provided for (and reliably adhered to in systems) they do not necessarily result in satisfactory financial control. This is because contemporary accepted definitions of internal control point to the important role that planning, budgeting and reporting systems have to play in achieving an adequate level of control. Accordingly, examinations of control systems in comprehensive audits will continue the pattern established thus far by my Office for basic internal controls and will extend to include such control features as the organization of the financial function, financial reporting and budgetary control systems and internal audit."

- 9.3 We carried out financial management and control audits in the Ministries of Education, Finance, and Lands, Parks and Housing. We also conducted similar work in the Ministry of Human Resources, as part of our comprehensive audit

work there. We chose these Ministries because of their size and the broad range of government activities which they collectively carry out.

- 9.4 Each of the financial management and control audits carried out in the four Ministries addressed the following areas:
- role, organization and staffing of the financial function;
  - planning, budgeting and budgetary controls;
  - financial accounting and reporting systems;
  - controls over assets, liabilities, revenues and expenditures; and
  - internal audit.
- 9.5 Part of our work entailed providing detailed material to management that supported the audit team's observations, along with our recommendations for corrective action. Most of our observations and recommendations have focused on weaknesses or deficiencies that lie within the authority and responsibility of individual ministries to remedy. In certain cases, however, our observations in ministries are linked to areas for which central agencies of the Government have responsibility, exercise guidance, direction, or perform certain control functions.
- 9.6 Accordingly, we have not dealt extensively with these latter areas, since we recognize that in some instances, the ministries and central agencies will have to consult and work together to make the improvements that we have recommended and which we feel are essential to achieving an adequate level of financial management and control.
- 9.7 Our audit work has revealed certain recurring deficiencies in financial management and control. These have appeared in a number of ministries and in those areas in which the central agencies play either a functional or a direct role. As my Office carries out more financial control audits in individual ministries, we will continue to assess the potential for conducting government-wide examinations in these areas. This approach was described in paragraph 12.54 of my 1979 Report to the Legislative Assembly.
- 9.8 As we stated earlier, our Report contains recommendations for corrective action where we observed deficiencies. These recommendations are, for the most part, broad in nature. They recognize that it is management's prerogative to choose the most appropriate means of carrying out the intent of our recommendations.
- 9.9 In each of the four Ministries where we conducted a financial management and control audit, we had the full cooperation of its executive and staff. Their cooperation greatly facilitated our work and added to its potential for improving financial management and control.
- 9.10 The remainder of this Section of my Report briefly summarizes our major observations and presents all of our recommendations for improving financial

management and control in each Ministry. To the right of each recommendation, we have included the Ministry's response or comments.

## Ministry of Education

### REPORT PRECIS

- 9.11 The Ministry of Education is established and administered in accordance with the provisions of the *School Act*. At the time of our audit there were three principal departments within the Ministry: Schools, Post-Secondary, and Ministry Services. The Ministry's budget of approximately \$1 billion is used to provide funding for public schools education, post-secondary education at colleges and institutes, the Teachers' Pensions Fund, independent schools, post-secondary students' aid and other related programs.
- 9.12 Our audit of financial management and control in the Ministry of Education led us to the conclusion that financial management has, in the past, generally not played an important enough role in the management of the Ministry. This is because it has aimed more at the mechanics of administering budgets, arranging capital financing, accounting and other financial matters. It has not emphasized its role in ensuring that management has the type of financial information it needs and that the financial function can provide guidance and direction to operating personnel who have significant financial responsibilities.
- 9.13 This situation may in part have been due to the fact that the Superintendent, Financial Services, who was the Ministry's Senior Financial Officer (as designated by the Deputy Minister) did not report to the Deputy Minister. He was not a member of the Executive Committee, and certain Ministry officials who were performing financial functions did not report to him.
- 9.14 Under this form of organization the financial management and control function was not fulfilling its proper role. For example, staff were developing and operating budgeting and financial reporting systems with little or no consultation with the Senior Financial Officer.
- 9.15 The audit team concluded that the mandate of the Ministry's designated Senior Financial Officer has not been strong enough to lend sufficient authority to his position. Accordingly, this mandate has not allowed him to provide the scope of financial management which the Ministry should have in place.
- 9.16 Our audit of financial management and control also concluded that there was considerable scope for improving the Ministry's systems of control, including planning and budgeting, controls over assets and liabilities and reporting of financial information in order to achieve the level of financial control that we believe is needed in the Ministry.

- 9.17 Of particular importance was our observation that the Ministry should devote considerable attention to ensuring that internal audit of the appropriate type and amount is carried out. We believe that the Ministry could derive much benefit from internal audit. In particular, a strong internal audit function could provide management with the assurance it needs as to the adequacy of its programs and management and control systems throughout the Ministry.
- 9.18 During our audit and before we had completed our field work, we noted that management had begun to reorganize the financial function and to improve a number of areas of financial management and control. For example, the Ministry has recently made considerable progress in improving its budgetary and financial management reporting systems. We also noted that increasing attention was being paid to adopting control mechanisms, such as audits, over certain of its major program expenditures. As such, our recommendations are aimed at assisting management in its efforts to improve both its financial management and control function and its systems, so that these can achieve their intended purpose – to provide management with the support it needs.

## Recommendations and Ministry's Comments

### Recommendations

### Ministry's Comments

#### ROLE, FUNCTION AND REPORTING RELATIONSHIPS OF THE SENIOR FINANCIAL OFFICER

- |   |  |
|---|--|
| <p>9.19 In order to ensure that financial management and control can provide the necessary support to management, the Ministry should ensure that its role is clearly defined and communicated to personnel at all levels. The role should provide for the involvement of the Senior Financial Officer in all decisions which have significant financial impact or involve financial systems or procedures.</p> | <p>The Ministry will ensure that all personnel are reminded of the role of financial management and control. This will occur through explanation of the new organizational structure of the Ministry currently being implemented, through further training in the new financial reporting system developed by the Ministry, and through the introduction of zero-based budgeting for the next budgetary cycle. The Senior Financial Officer will be involved in all decisions having significant financial impact or involving financial systems and procedures.</p> |
| <p>9.20 The Ministry's designated Senior Financial Officer should report directly to the Deputy</p>   | <p>The Assistant Deputy Minister – Educational Finance is now the</p>  |

Recommendations	Ministry's Comments
Minister.	
9.21 The Senior Financial Officer should be a member of the Ministry's Executive Committee.	designated Senior Financial Officer, reports directly to the Deputy Minister and is a member of the Policy and Resource Allocation Committee of the Ministry (the "Executive" Committee).  See Ministry's Comments on Recommendation 9.20.

### FUNCTIONAL AND DIRECT RELATIONSHIPS

- |   |  |
|---|--|
| 9.22 The responsibilities and reporting relationships of financial officers who report directly to the Senior Financial Officer should be re-examined. Processes should be developed to ensure that these reporting relationships are appropriately established and operate effectively.  | Responsibilities and reporting relationships have been examined and re-developed as part of the new organization.  |
| 9.23 In order to ensure that the Senior Financial Officer can perform his function effectively, the Ministry should establish and communicate a policy providing for functional direction and guidance from the Senior Financial Officer. This would require all financial and other officers performing financial functions to report regularly to the Senior Financial Officer and to periodically meet with him on financial management and control matters. | All financial and other officers performing financial functions will now report regularly to the Assistant Deputy Minister – Educational Finance, whose staff will also monitor monthly financial reports from each responsibility centre. Quarterly variance reports will be filed by each responsibility centre manager with his Assistant Deputy Minister and the Senior Financial Officer. A major meeting to review financial operation of each area of the Ministry will be held on an annual basis, in addition to meetings to develop budgets or review proposed policies. |

### STAFFING AND TRAINING

- |   |  |
|---|--|
| 9.24 The Ministry should assess the training needs of its financial staff to ensure that all have been accurately identified. As part of this process the Ministry should compare | The Ministry intends to complete its reorganization by ensuring that appropriate assignments of personnel are made, competitions |
|---|--|

Recommendations	Ministry's Comments
its job needs in the financial area with its available manpower both in terms of numbers of staff and their qualifications.	completed where appropriate, and training of personnel completed. Further, as new accounting and auditing systems are developed and implemented, all staff will be involved in training.
9.25 The Ministry should implement a policy of training and career development for its financial personnel to ensure that identified training and career development needs are met.	See Ministry's Comments on Recommendation 9.24.
9.26 The duties of the Ministry's financial officers should be rotated periodically as a means of ensuring appropriate skills development.	Rotation of the Ministry's financial officers will be considered and, where possible, undertaken, although such flexibility is not immediately obvious because of general government policies and agreements surrounding the reassignment and deployment of personnel.

### COMMUNICATIONS

- 9.27 The Ministry should place further emphasis on completing a comprehensive financial and accounting manual to ensure that financial policies and procedures are available in a useful format to all financial officers and responsibility centre managers. The manual should be updated whenever policies or procedures change and be reviewed annually by the Senior Financial Officer.
- Such a manual is currently under development and release of the initial portions will be completed by March 31 with ongoing work to be done throughout the year.

### MINISTRY BUDGETARY PROCEDURES

- 9.28 In order to strengthen the budgetary control process, the Ministry should define the specific responsibilities of the responsibility centre managers for preparing budgets. Guidelines should state the extent to which Financial Services is expected to participate in strategic planning, and should define the kinds of procedures and financial
- Implementation of zero-based budgeting will establish documented procedures of this kind.

Recommendations	Ministry's Comments
<p>guidance that it should provide. The Ministry <i>should indicate to what degree</i> Financial Services should participate in the review functions.</p>	
<p>9.29 Financial Services should have both responsibility for evaluating budgets and the authority to require responsibility centre managers to provide back-up information for items included in their budgets.</p>	<p>See Ministry's Comments on Recommendation 9.28.</p>
<p>9.30 Provision should be made for formal approval of all major budget changes or reallocations and adjustments during the year and these in turn should be reviewed and approved by the Financial Services Group.</p>	<p>A formal re-allocation procedure is almost completed which will provide clear documentation of all re-allocations, with advisory information to all senior management and the Department of Educational Finance.</p>
<p>9.31 The Ministry should establish a documented policy for dealing with variances. Such a policy should include consideration of:</p> <ul style="list-style-type: none"> <li>● the limits above which variances have to be explained;</li> <li>● who these explanations should be directed to;</li> <li>● the requirements for documenting any remedial action;</li> <li>● the extent of review required by Financial Services; and</li> <li>● the correlation of financial variances with operating information and statistics.</li> </ul>	<p>A procedure has been completed and is being implemented.</p>
<p>9.32 Guidelines for the new commitment system should be documented and all individuals who are involved in recording commitments should be provided with an appropriate amount of training in this area.</p>	<p>Guidelines for use of commitments in the financial reporting system have been completed and training is under way.</p>
<p>9.33 To ensure that the impact of new programs is fully assessed, program managers and planning officers should coordinate their activities with Financial Services. The</p>	<p>New processes for ensuring the involvement of officials of the Department of Educational Finance are built into the policy develop-</p>

Recommendations	Ministry's Comments
Senior Financial Officer should review and challenge programs being developed as to their financial impact on the Ministry.	ment committees of the Ministry. All new policy proposals are examined for their financial impact. Programs are examined for their financial impact as Ministry budgets are developed. Again Educational Finance officials are involved.
<b>BUDGETS SUBMITTED BY SCHOOL DISTRICTS</b>	
9.34 To allow the Ministry to determine the cost of each program and how efficiently it is run, School District budgets should be prepared on a program basis.	A project is in its early definition stage to revise school district budget reports to the Ministry on a program basis. The Assistant Deputy Minister – Educational Finance is involved.
9.35 Control over special program funds should be improved. The Ministry should review use of these funds at the School District level to ensure that funds are used only for intended purposes.	A full review over control and use of special program funds will be undertaken as soon as resources are available in the Finance Research area of the Educational Finance department.
9.36 The Senior Financial Officer should be actively involved in the current review of the School Districts' budgeting system to ensure that all matters of financial significance are considered.	See Ministry's Comments on Recommendation 9.34.
9.37 The Senior Financial Officer should be involved in the Ministry's challenge process of the budgets submitted by the School Districts.	At present budgets are reviewed rather than challenged. A Management Indicators Report on each school district indicates variances from provincial norms. All major anomalies are followed up by officials of the Schools Department and the Department of Educational Finance.
<b>BUDGETS SUBMITTED BY POST-SECONDARY INSTITUTIONS</b>	
9.38 Post-Secondary Finance should have responsibility for budgets for Post-Secondary Institutions.	Budgets for post-secondary institutions are developed at the local level, examined by the Manage-

Recommendations	Ministry's Comments
9.39 The Senior Financial Officer should be involved in and effectively challenge the budgets submitted by the Post-Secondary Institutions.	ment Services section of the Post-Secondary Department in conjunction with staff of Post-Secondary Finance, presented to the statutory Councils who make further recommendations, and built into the Post-Secondary Vote which is managed by the Post-Secondary Department. The further role of the staff of Post-Secondary Finance is to ensure that expenditures are properly accounted for and that operational audits of post-secondary institutions are undertaken. The Senior Financial Officer will be involved in the review of all budgets as submitted and incorporated in the Ministry's Estimates.
9.40 In order to improve control over funds issued for continuing adult education purposes to School Districts, the Ministry should review the use of these funds at the School District level with special emphasis on determining that they have been used only for intended purposes.	See Ministry's Comments on Recommendation 9.38.  The staff of Continuing Education in the Post-Secondary Department will continue to make such reviews.
9.41 The Ministry should request the Post-Secondary Institutions to prepare long-term operating plans to assist it in providing for sound, long-term planning for the most appropriate use of available funding for Colleges and Institutes.	Long-term operating and capital planning processes are under development.
<b>FINANCIAL MANAGEMENT REPORTING</b>	
9.42 In order to enhance the benefit which can be obtained from the Ministry's recently developed financial management report-	Once the basic implementation of the financial management reporting system is complete, our next

Recommendations	Ministry's Comments
<p>ing system, the Ministry should review the system to determine the feasibility of incorporating Ministry revenues, operating performance and utilization measurement data, and key aspects or control account data from the subsidiary accounting systems in the Ministry.</p>	<p>major activity must be the implementation of zero-based budgeting. Once this is complete, further extensions of the reporting system will be considered.</p>
<p>9.43 The Senior Financial Officer or his designate should periodically review the subsidiary accounting systems operated in the Ministry to ensure they embody adequate controls. Any relevant data from those systems that may be useful to senior financial managers should be included in regular reports to the Senior Financial Officer.</p>	<p>This work will be undertaken by the Directors of Accounting and Internal Audit in the Ministry Comptroller's branch, once these positions are filled.</p>
<p>9.44 The Ministry should prepare cost/benefit analyses before it develops any major, new systems or systems modifications to ensure that the cost is commensurate with anticipated benefits.</p>	<p>While costs are relatively straightforward to determine, benefits in educational programs are often intrinsic and subjective, rather than financial or objective. Nonetheless, cost-benefit analysis is part of the consideration of every systems proposal, particularly where management or data processing systems are under consideration.</p>
<p><b>DOCUMENTATION OF REVENUE AND EXPENDITURE SYSTEMS</b></p>	
<p>9.45 All expenditure and revenue systems should be documented and applicable internal controls reviewed to ensure that they are adequate.</p>	<p>The new officers in the Ministry Comptroller's branch will undertake this work.</p>
<p><b>ACCOUNTING CONTROLS</b></p>	
<p>9.46 To ensure that the Ministry exercises adequate accounting control over all sums charged to Vote #56, Grants to Reduce Local School Taxes, and amounts credited to Vote #60, Recovery of Rural District Taxes, it should clarify its responsibility and accountability for these expenditures and recoveries, and obtain adequate sup-</p>	<p>The management of these activities rests with the Ministry of Finance, although the items appear in the estimates of the Ministry of Education. This anomalous situation will be discussed with the Ministry of Finance to see whether we should assume responsibility</p>

Recommendations	Ministry's Comments
<p>porting information for these expenditures and recoveries.</p>	<p>and accountability as recommended.</p>
<p>9.47 The Ministry should ensure that it has enough supporting information to verify the accuracy of the amounts charged to Vote #59, Teachers' Pensions Fund.</p>	<p>The form of the annual statement from the Superannuation Commissioner indicating financial needs in the Teachers' Pension fund Vote will be reviewed. The Ministry of Education does not have management responsibility for this Vote although it appears in our Estimates.</p>
<p>9.48 To ensure the adequacy of controls over the Student Aid Program, the Financial Services Group should review the system used to approve and pay Post-Secondary student aid.</p>	<p>The systems used to pay Student Aid will be reviewed annually by the Senior Financial Officer and his staff.</p>
<p>9.49 To improve control over funds received from the Federal Government for French language education programs, the Ministry should provide more detailed accounting procedures relating to these funds.</p>	<p>Accounting procedures related to French language education programs will be documented.</p>
<b>REVENUE CONTROLS</b>	
<p>9.50 Financial Services should identify all revenue sources and review related accounting controls including reports to ensure that they are adequate and that responsibility for managing revenue is clearly assigned and consistently performed.</p>	<p>The Ministry Comptroller's staff will review revenue accounting procedures and make necessary improvements.</p>
<p>9.51 Revenue budgets should be developed and regularly compared with actual revenue and collection. Any unusual fluctuations should be investigated and appropriate corrective action instituted promptly.</p>	<p>See Ministry's Comments on Recommendation 9.50.</p>
<b>RESPONSIBILITIES FOR CONTROL OVER ASSETS AND LIABILITIES</b>	
<p>9.52 The Ministry should establish policies and procedures for controlling and accounting for its assets. These should provide for assigning and documenting responsibili-</p>	<p>Assets management will be reviewed and new procedures implemented by the Director of Internal Audit, when this official is</p>

Recommendations	Ministry's Comments
ties for asset management, control and documentation and review of all systems in use in the Ministry.	appointed.
<b>ACCOUNTING AND PHYSICAL CONTROLS IN ASSET MANAGEMENT SYSTEMS</b>	
9.53 The Financial Services Group should review and document all controls relating to assets owned by the Ministry in order to ensure that controls are adequate for safeguarding these assets.	See Ministry's Comments on Recommendation 9.52.
9.54 All attractive and/or valuable assets should be listed and be subject to periodic physical counts. Accounting controls should be used to ensure the integrity of fixed asset records.	See Ministry's Comments on Recommendation 9.52.
9.55 Segregation of duties between physical custody and record-keeping at all inventory locations should be developed sufficiently to ensure that asset inventories are adequately safeguarded.	See Ministry's Comments on Recommendation 9.52.
<b>MINISTRY INTERNAL AUDIT</b>	
9.56 In order to provide for internal audit commensurate with its needs, the Ministry should thoroughly review all its internal audit requirements. In consultation with the Office of the Comptroller General it should determine the manner in which its needs in this important area can most efficiently be fulfilled.	A new position, Director of Internal Audit, has been established and will be filled as soon as possible. A full program of internal audit will be developed to supplement services from the Comptroller General's Office and the Auditor General.
9.57 According to the results of its review of internal audit, the Ministry should implement a comprehensive internal audit program with particular focus on the concerns of Ministry management and those of the central agencies.	See Ministry's comments on Recommendation 9.56.
<b>OPERATIONAL REVIEWS OF SCHOOL DISTRICTS, COLLEGES AND INSTITUTES</b>	
9.58 The Ministry should consider auditing the	It is the Ministry's intention, when

Recommendations	Ministry's Comments
<p>use of funds provided to School Districts, Colleges and Institutes to ensure that these resources are being managed and used with due regard to economy, efficiency and effectiveness.</p>	<p>sufficient resources have been identified, to undertake operational audits of field agencies. Staff from all Departments will be involved. The results of all audits will be documented and filed with the Assistant Deputy Minister – Educational Finance.</p>
<p>9.59 Operational review units should be established within the Ministry's Schools and Post-Secondary Departments, and the designated staff member responsible for these units should routinely provide summaries of audit results to the Senior Financial Officer.</p>	<p>See Ministry's Comments on Recommendation 9.58.</p>

#### SCHOOLS' ENROLMENT DATA

- |  |   |
|--|---|
| <p>9.60 The Ministry should independently verify the enrolment data submitted, and then carry out checks in schools in the Districts to ensure that these data are complete and accurate enough to use as a basis for calculating School District funding.</p> | <p>The Ministry undertook audits of enrolment data in selected school districts in 1980 and plans to do so again in future years.</p> |
|--|---|

### Ministry of Finance

#### REPORT PRECIS

- 9.61 The Ministry of Finance is responsible for the direct collection of most of the Province's revenues and is also custodian and manager of almost all of the Province's cash and investments. Although relatively few people are employed to carry out the Ministry's programs, these programs are nevertheless critical to the management of the Province's revenues, cash and investments.
- 9.62 Because most of the Ministry's activities are financial in nature, adequate systems of financial management and control are essential to its operations. In many cases it will be a complex task to design and maintain the systems and procedures that are necessary to carry out these operations properly. Complexity also becomes apparent in defining the role of financial managers in the Ministry and in designing, developing and implementing cost-effective controls over revenues, expenditures, assets and liabilities.

9.63 A key conclusion arising from our audit is that the Ministry could take many more steps to improve both its organization and its system of financial management and control in order to bring them to an acceptable level. It is particularly important that the Ministry should:

- strengthen the organization, leadership and staffing of the financial function so that it can operate effectively;
- coordinate its planning, budgeting and budgetary control systems and improve financial reports issued to managers in order to provide them with proper information and support;
- reinforce the role of internal audit so that it can become a key part of the management and financial control system, and thus provide assurance to management that its control and management systems are adequate; and
- maintain operating controls over revenues and expenditures, and inventory controls over assets.

9.64 Successfully strengthening financial management and control could provide significant benefits to the Ministry by:

- providing the type of financial management information that would promote accountability and improve performance in all of the Ministry's operations; and
- helping the Ministry to cope with increasingly complex management tools in a changing environment which will undoubtedly be affected by advances in electronic data processing technology for some time to come.

9.65 When we were carrying out our audit, we observed that the Ministry had recognized the need to strengthen the role of financial management and control in the management process. The Ministry had commissioned a special study to evaluate its organization and structure, including the organization of the financial management function. The Ministry is also taking steps both to improve its methods of communicating financial control policies and procedures, and to rectify previously identified control weaknesses.

9.66 The Ministry's initiatives, therefore, represent positive steps, which should contribute to creating an environment in which financial management and control can be developed to a level that will satisfy the Ministry's needs.

## Recommendations and Ministry's Comments

Recommendations	Ministry's Comments
<b>ROLE OF FINANCIAL MANAGEMENT</b>	
9.67 <i>Management of the financial function.</i> The role and organization of the financial function should be clearly defined. Its res-	An organizational structure for the financial function has been developed and is being im-

Recommendations	Ministry's Comments
<p>possibilities should be organized in such a way as to ensure the reliability, completeness, relevance and accuracy of financial information, advice and services provided to management.</p>	<p>plemented. Roles and responsibilities of managers and the Controller have been defined in a policy statement.</p>
<p>9.68 <i>Functional direction.</i> The lines of authority, both direct and functional, should be communicated throughout the Ministry. Strong financial direction should be provided to all personnel with financial responsibilities to ensure that all activities are managed according to consistently applied standards.</p>	<p>As indicated above, roles and responsibilities have been defined, reporting requirements established and an annual budgeting and review cycle put in place.</p>
<p>9.69 <i>The Senior Financial Officer.</i> The Deputy Minister should designate a Senior Financial Officer who will have the responsibility for designing, communicating and maintaining all financial administration systems within the Ministry. This officer should be given enough functional authority to be seen throughout the Ministry as the source of leadership and direction in all matters concerning the systems of financial administration. He should report directly to the Deputy Minister and be a member of the management committee.</p>	<p>This position has been defined and is in place. The position reports to the Assistant Deputy Minister, Treasury and Administration.</p>
<p><b>STAFFING OF THE FINANCIAL FUNCTION</b></p>	
<p>9.70 <i>Position classifications.</i> The Ministry should review the responsibilities of all financial management and supervisory positions to ensure that the classification levels of those positions are commensurate with the responsibilities associated with them.</p>	<p>All position classifications within the Administration Branch are under review.</p>
<p>9.71 <i>Training and professional development.</i> A staff training and career development policy should be developed. Both inhouse and external training programs should be established throughout the Ministry in order to ensure that financial personnel</p>	<p>The Ministry's Personnel and Payroll staff is developing an inhouse and external staff training program for implementation in 1981/82.</p>

Recommendations	Ministry's Comments
<p>have skills commensurate with their responsibilities.</p> <p>9.72 <i>Financial function staff requirements.</i> The number and quality of financial staff should be reviewed. If necessary it should be augmented to allow the financial management function to serve the needs of the Ministry adequately.</p>	<p>This is an ongoing consideration in the Ministry's staff training and recruitment program.</p>

### COMMUNICATION AND DOCUMENTATION

- |  |   |
|--|---|
| <p>9.73 <i>Financial policies and procedures manual.</i> The Ministry should document all financial policies, responsibilities, systems, procedures, directives and guidelines as part of a ministry manual to help ensure that financial management and control systems and procedures are clearly understood and consistently applied at all levels.</p> | <p>A Central Ministry Services policy and procedures manual is being developed. Three of the items to be included are: 1) Budgets and Expenditure Control 2) Signing Authorities and 3) Vote Expenditures. These policy and procedures are designed to ensure budget control both at the Branch level and Ministry level.</p> |
|--|---|

### PLANNING, BUDGETING AND BUDGETARY CONTROL

- |  |  |
|--|--|
| <p>9.74 As part of the Ministry's continuing efforts to improve its management and control systems, special emphasis should be given to designing an integrated system of planning, budgeting and budgetary control in order to ensure that managers at all levels have the information they need to manage effectively, and that they can be held accountable for discharging their responsibilities.</p> | <p>An annual budgeting and review cycle has been put in place. This includes priority setting, objective setting, performance measurement, budgeting techniques and management evaluation.</p> |
|--|--|

### ACCOUNTING AND FINANCIAL REPORTING SYSTEMS

- |   |  |
|---|--|
| <p>9.75 In conjunction with making improvements to the planning, budgeting and budgetary control systems, the Ministry should design a financial reporting system that generates financial and non-financial data. Reports should clearly show both the levels of re-</p> | <p>Monthly financial management reports, both from the Controller to managers and from managers to the Controller, are in place. Non-financial reports, based on exception reporting are being de-</p> |
|---|--|

## Recommendations

## Ministry's Comments

sources used and the results of their utilization.

veloped at the Branch level.

**CONTROLS OVER EXPENDITURES**

9.76 *Preparation of expenditure vouchers in the Treasury Section.* All expenditure vouchers should be prepared in Treasury Section and should be based on approved invoices and payroll information from authorized branch officers. Documented authorities and sample authorizing signatures should be available to Treasury Section personnel.

A signing authority policy is in place. Documentation of sample signatures is near completion. We do not agree that all vouchers should be prepared centrally. Vouchers should be prepared and certified by each responsible manager and approved centrally in accordance with documented procedures.

9.77 *Approval of claims against the "Contingencies (All Ministries)" Vote.* Charges against the salary and other contingencies vote should be supported by the independent approval of Treasury Board Staff, in order to provide assurance that the amounts charged to the vote are accurate and properly authorized.

A procedure for claims against Building Occupancy Contingencies is in place. It is based on Treasury Board pre-approval. A similar system will be put in place for Salary Contingencies, in 1981/82. We do not agree that Treasury Board Staff should again approve at the time the charge is being made.

9.78 *Expenditure controls in the Securities Section.* In order to strengthen its system of internal control over expenditures, the Securities Section should:

- Clearly divide duties between purchasing investments and arranging bank transfers.
- Require that cheque vouchers be approved by personnel whose duties do not include approving invoices and preparing cheque vouchers.
- Ensure that invoices and supporting documents are effectively cancelled to prevent resubmission in error.
- Routinely subject vouchers and supporting information to accounting scrutiny before central processing.
- Try to have the Section's temporary

The issue is currently being addressed in the Ministry's reorganization.

This has been done.

This has been done.

This is currently being incorporated into Branch procedures.

The entire staffing issue has been

Recommendations	Ministry's Comments
<p>accounting positions changed into permanent positions to ensure that current levels of accounting performance and efficiency are maintained.</p>	<p>addressed in the reorganization master plan.</p>

### CONTROLS OVER REVENUES INCLUDING ACCOUNTS RECEIVABLE

<p>9.79 <i>Revenue control and collection policies.</i> In order to ensure that revenue is consistently and reliably collected and accounted for, a ministry-wide statement of policies relating to accounting and financial control over revenues should be developed. These policies, formulated by senior financial management, should state the standards to be met in the collection of and control over revenues. The policies and procedures for the control and collection of revenue should be based on applicable legislation and directives of central agencies.</p>	<p>A policy statement for government is being prepared.</p>
<p>9.80 <i>Treasury Section cash and banking procedures.</i> In order to strengthen control over cash handling and recording procedures, there should be a supervisory review or independent check made of the daily cash reconciliations and bank deposits in the Treasury Section.</p>	<p>Cash management supervisory role was discussed in a recent consultant's report on the Ministry organization. The recommendations are currently being implemented.</p>
<p>9.81 <i>Consumer Taxation Branch cash handling procedures.</i> To provide protection for revenue receipts throughout the processing cycle, the Branch should adopt the following procedures:</p> <ul style="list-style-type: none"> <li>• Victoria Consumer Taxation Branch receipts of cash and cheques should be listed and controlled if not deposited immediately, and cheques restrictively endorsed as soon as possible after mail opening.</li> <li>• Vancouver cash and cheques should be listed as soon as they are received, and subsequently cleared against a copy of the "Receipt - Tax Transmit-</li> </ul>	<p>The revenue functions of the Ministry are being reorganized. The concerns addressed here are being dealt with.</p>

Recommendations	Ministry's Comments
<p>tal Form", received by the Government Agent.</p>	
<p>9.82 <i>Income Taxation Branch collection and accounting procedures.</i> Efforts should be made as soon as possible to separate the duties of the cash handling and accounts receivable functions in the Income Taxation Branch.</p>	<p>These concerns are being addressed in the reorganization of the Revenue Division.</p>
<p>9.83 <i>Real Property Taxation Branch billing and accounting systems.</i> In order to ensure that management is provided with accurate and reliable financial management information, the Ministry should consider improving both the reliability and capabilities of the Real Property Taxation Branch billing and accounts receivable systems.</p>	<p>The Ministry will be reviewing these systems as soon as the availability of resources permits.</p>
<p><b>CONTROLS OVER ASSETS</b></p>	
<p>9.84 <i>Asset policy statement.</i> In order to clarify responsibility and accountability for the control of assets, a ministry financial manual should clearly document policies defining both the assets requiring ongoing control, and the responsibilities for their management.</p>	<p>We are in agreement with this recommendation. It is planned to have such a policy and procedure in place by the end of 1981/82.</p>
<p>9.85 <i>Inventory count of securities.</i> In order to verify the existence of securities it holds for safekeeping, the Securities Section should count the securities at least once each year, under the supervision of senior section staff. The physical counts should be independently compared and reconciled to written control records and accounts.</p>	<p>With the full implementation of the Ministry reorganization, adequate resources will be available to allow such a count. While we agree with completing a count other than the Auditor General's count, it may be advisable to have it done by staff from another section of the Branch. It may be that spot checks, particularly with regard to bearer securities, would provide a more effective control mechanism.</p>
<p>9.86 <i>Fixed assets inventory.</i> In order to provide protection over and accountability for ministry assets that are not subject to</p>	<p>It is planned to have an assets registry in place by the end of 1981/82.</p>

Recommendations	Ministry's Comments
<p>ongoing accounting control, an inventory of furniture, equipment and vehicles assigned to the Ministry should be maintained. Assets should be subject to verification by periodic physical counts. The Ministry should consider using the existing computer program for fixed assets in the Data Processing Branch.</p>	
<p><b>INTERNAL AUDIT</b></p>	
<p>9.87 The Ministry's internal audit requirements should be comprehensively assessed and a plan developed to meet these requirements. As part of this process, the Ministry should consider how best to organize and staff the internal audit function. Particular emphasis should be given to planning the frequency of internal audits in the Ministry.</p>	<p>A comprehensive audit plan for the Ministry has been developed and is in the process of implementation.</p>
<p>9.88 In order to provide senior management with an independent and objective measure of the adequacy of its management and control systems, the scope of internal audit should be expanded to include reference to important questions of economy, efficiency and effectiveness.</p>	<p>The audit program planned for the Ministry of Finance includes a review of all processes of financial administration to assess their economy, efficiency and effectiveness.</p>

## Ministry of Human Resources

### REPORT PRECIS

- 9.89 Our review of financial management and control was carried out in conjunction with the comprehensive audit of the Ministry's Income Assistance program. Accordingly, we have included a summary of our major findings and recommendations with the comprehensive audit observations in Section 8 of this Report (paragraphs 8.115 to 8.133). We have reported the recommendations arising from our review of the Internal Audit function in Section 8 (paragraphs 8.234 to 8.252) and therefore we have not repeated them below. All other recommendations dealing with the financial management and control aspects of our comprehensive audit work are listed below, together with responses from the Ministry.

## Recommendations

## Ministry's Comments

**Recommendations and Ministry's Comments****ORGANIZATION AND MANAGEMENT OF THE FINANCIAL FUNCTION**

- 9.90 The administrative responsibilities of the Comptroller should be reviewed to ensure that they do not hinder him from carrying out his primary role.
- Agreed. A review of the organization and staffing of the Comptroller's Office is underway and administrative responsibilities are being reassigned so as to ensure that the Comptroller is better able to carry out his primary role.
- 9.91 The role of financial management, and the organizational plans of the Comptroller's Office showing direct and functional responsibilities, should be clearly articulated and communicated to all levels of the organization to ensure that they are fully recognized and understood.
- Agreed. Organizational plans of the Comptroller's Office, clearly delineating direct and functional responsibilities, will be circulated within the Ministry immediately following completion of the organization and staffing review noted above.
- 9.92 In order to ensure that line operating personnel receive sufficient direction on financial and control matters, the Ministry should clearly define how the Comptroller's organization is to carry out its functional responsibilities (i.e. whether the Comptroller is to issue broad criteria or detailed procedures). All personnel should then be advised accordingly.
- Agreed. The question as to how the Comptroller's Office is to carry out its functional responsibilities will be clarified within the context of the organization and staffing review noted above.
- 9.93 To ensure that the financial function serves the needs of the Ministry more effectively, we recommend that the Comptroller develop an operational plan, that specifies goals, objectives, activities, timing, assessment criteria and required resources. The plan should then be submitted to the executive for approval, assignment of priorities and allocation of resources.
- Agreed. The development of an operational plan for the Comptroller's Office will form a part of the organization and staffing review noted above.
- 9.94 The Ministry should continue developing procedures which require responsibility areas to formally approve ("sign-off") new
- Agreed. The Ministry is in the process of developing procedures which will address these issues.

Recommendations	Ministry's Comments
<p>systems and procedures. As well, responsibility areas should participate in all stages of the design and development of any systems that they are being asked to approve.</p>	
<p>9.95 The Comptroller should fully assess plans for the development and implementation of on-line computer systems and should document the financial, accounting and control implications. This analysis should incorporate:</p> <ul style="list-style-type: none"> <li>● feasibility studies including post-evaluation procedures;</li> <li>● assessment criteria and procedures to be followed during the testing phases;</li> <li>● controls over the conversion and ongoing operation of the system; and</li> <li>● an analysis of the current and projected impact of the on-line program on both the organization and operation of the financial function.</li> </ul>	<p>Agreed. The Ministry is in the process of acquiring qualified staff to address this issue; it should be noted, however, that the Ministry has experienced some considerable difficulty in securing qualified accounting staff given the current Government-wide classification plan.</p>
<p>9.96 In order to ensure that both manual and electronic data processing systems incorporate adequate safeguards, the Comptroller should establish financial control criteria against which to assess their development and operation.</p>	<p>Agreed. The Ministry will develop a project administration manual to provide control standards and guidance for Ministry staff involved in computer systems development. Included in this manual will be financial control criteria.</p>
<p>9.97 To provide assurance about the adequacy of accounting controls in the Income Assistance computer system, the Ministry should act on its plans to review and document the accounting requirements for the system. Current accounting practices should then be documented and compared with the accounting and control requirements.</p>	<p>Agreed. A formal review of the Income Assistance computer system will be carried out, giving particular attention to the adequacy of existing accounting controls.</p>
<p>9.98 The number and quality of financial personnel in the Comptroller's Office should be reviewed to ensure that it can effectively carry out all of its responsibilities, with par-</p>	<p>Agreed. The Ministry has recognized the need to upgrade the quality and quantity of financial personnel.</p>

Recommendations	Ministry's Comments
<p>particular emphasis on:</p> <ul style="list-style-type: none"> <li>● assessing and providing for adequate controls in electronic data processing systems;</li> <li>● providing the type of direction needed by non-financial staff who perform financial tasks; and</li> <li>● identifying training needs of financial and non-financial staff.</li> </ul>	
<p>9.99 The Comptroller's Office should prepare accounting manuals that cover the responsibilities and authority of financial and operating staff who carry out financial tasks. The manuals should provide appropriate information on financial policies and procedures used at headquarters and in the field.</p>	<p>Agreed. A headquarters accounting procedures manual has been started and will be completed by April 1981.</p>
<p>9.100 In order to ensure the orderly development of new procedures and documentation projects, the Comptroller's Group should prepare comprehensive terms of reference for all significant assignments. Procedures should also be established to monitor work in progress.</p>	<p>A project control system was established in June 1980 which details terms of reference and monitors work assigned within the systems area. This system will be expanded to other areas within the Comptroller's Office.</p>
<p><b>PLANNING, BUDGETING AND BUDGETARY CONTROL</b></p>	
<p>9.101 Strategic (five-year) and long-term (two to five-year) financial and operating plans should be prepared for the Ministry. These plans should provide guidance and direction to departments in preparing their sections for the annual Estimates and should permit these departments to coordinate their own strategic and long-term plans with the goals of the Ministry.</p>	<p>Agreed. The Ministry is reorganizing headquarters staff to establish a Strategic Planning branch. One of the core functions of this branch will be to coordinate and provide technical support to the development of strategic and long-term plans for the Ministry.</p>
<p>9.102 In order to ensure that budget estimates do not rely unduly on prior years' expenditures, a review of objectives, priorities and alternative means of achieving objectives should be incorporated in the budgetary</p>	<p>The Ministry is continuing to develop its budgetary process towards these objectives.</p>

Recommendations	Ministry's Comments
<p>process for existing programs as well as for new initiatives or programs.</p> <p>9.103 The Comptroller's Office should provide guidance to Regional Managers to ensure that budgeting activities are more consistent among District Offices and that the budgetary responsibility assigned to District Offices is commensurate with their operating authority.</p>	<p>Agreed. The review of budgetary planning procedures is an ongoing activity within the Ministry, and the Ministry will continue to place high priority on the involvement and training of Regional Managers in this process.</p>
<p>9.104 The Comptroller's Office should provide guidance and direction to line managers to enable them to translate the annual Estimates into operational work plans. Such plans should help management to monitor performance and to assess progress in relation to the budget.</p>	<p>Agreed.</p>
<p>9.105 In order to monitor the budget more accurately, the Ministry should establish a policy requiring variance analysis, and the Comptroller's Office should develop related procedures. Budgeting transfers should also be appropriately recorded, analysed and reported for management review.</p>	<p>Agreed. Revised policy and procedures relating to variance analysis and financial reporting will be developed during the 1981/82 fiscal year.</p>
<p>9.106 To ensure that the budgetary process is understood, it should be documented in a manual, which should be made available to all personnel involved in this activity.</p>	<p>Agreed. A project to consolidate in a manual the written instructions which currently exist has been initiated.</p>
<p><b>ACCOUNTING AND FINANCIAL REPORTING SYSTEMS</b></p>	
<p>9.107 The Ministry should continue to review its financial reporting requirements and should take full advantage of the increased number of reports recently made available by the Office of the Comptroller General.</p>	<p>A review of financial reporting requirements has recently been completed and the Office of the Comptroller General has been asked to produce appropriate reports.</p>
<p>9.108 A policy and related procedures should be developed concerning cost benefit analysis for all major accounting and operating systems.</p>	<p>Agreed.</p>

Recommendations	Ministry's Comments
<p>9.109 To ensure that financial records are accurate and complete, the Ministry should implement a batch control procedure as soon as this task can be coordinated with the Comptroller General's Office. In the meantime, all personnel who submit documents for processing should be instructed to examine financial management reports to ensure that all data submitted has been processed in a timely and accurate manner.</p>	<p>The Comptroller General's Office has scheduled the implementation of a batch control system for the fall of 1981.</p> <p>We do not consider it practical to develop the suggested alternate procedure due to the short time involved and number of staff affected in our decentralized environment.</p>
<p>9.110 In order to prevent an interruption in electronic data processing and the ability to distribute cheques, the Ministry should develop, document and test contingency plans.</p>	<p>Agreed.</p>
<p><b>FINANCIAL CONTROL OF REVENUE AND EXPENDITURE</b></p>	
<p>9.111 The Ministry should provide for sufficient segregation of duties to ensure that personnel who authorize input to the computer do not have access to either prepared or returned cheques, or to vouchers that are rejected during the processing operation.</p>	<p>Agreed; however, implementation of this recommendation presents significant practical difficulties, particularly in the small outlying districts.</p>
<p>9.112 The Ministry should review its payroll procedures to standardize them between Vancouver and Victoria. It should produce a manual to guide staff both at Headquarters and in the field.</p>	<p>Agreed. The Comptroller was assigned this project but progress has been slow due to insufficient staff.</p>
<p>9.113 To ensure that all amounts recoverable by the Ministry are controlled and followed-up, it should give priority to establishing a policy and procedures for accounts receivable.</p>	<p>Agreed.</p>
<p>9.114 All cheques should be restrictively endorsed when received and independently compared to acknowledgement of deposit, in order to improve the control over cash receipts.</p>	<p>Agreed.</p>
<p>9.115 In order to permit an effective, ongoing</p>	<p>The Comptroller has established a</p>

Recommendations	Ministry's Comments
assessment of the accounts processing operation, the Ministry should document procedures for monitoring this activity to detect errors and encourage prompt processing.	reporting system which addresses this issue.
<b>ACCOUNTING CONTROLS OVER ASSETS</b>	
9.116 To ensure that all assets are adequately safeguarded, policies and procedures for the control of assets should be established and coordinated with other ministries or central agencies.	Agreed.

## Ministry of Lands, Parks and Housing

### REPORT PRECIS

- 9.117 The Ministry of Lands, Parks and Housing was established in December 1978, when parts of three ministries were combined. The Ministry is not a large one in terms of program expenditures, which amounted to \$65 million in the 1980 fiscal year. However, it is complex because of the diversity of its operations and its responsibility for two large, special-purpose funds (the Crown Land Fund and the Provincial Home Acquisition Fund), with combined assets of \$558 million.
- 9.118 The Ministry faced major challenges in integrating the staffs of three other ministries. Therefore, in its early stages, it concentrated on organization, program direction and development and policy formulation. Throughout this critical period, however, key financial staff were not in place.
- 9.119 The Ministry has recognized that as a consequence, deficiencies in many areas of financial management and control have arisen, and has taken steps to improve its practices. Nevertheless, many improvements will still have to be made before the Ministry can meet its objective of developing an adequate system of financial management and control. The Ministry must continue to invest considerable time and effort in developing and acquiring the financial skills required to provide adequate financial management and control, and to design and implement the necessary systems and procedures. Our recommendations are designed to suggest what direction the Ministry might follow in overcoming deficiencies that we noted during our audit.
- 9.120 We believe that if the Ministry is to emphasize the importance of the financial function, the Senior Financial Officer should report directly to the Deputy

Minister and his role should be formally endorsed and communicated. Our audit showed that management throughout the Ministry did not fully understand the ministry-wide role assigned to the Senior Financial Officer and his staff. In some cases, management did not recognize their importance in the planning and monitoring of the Ministry's activities. For example, managers often addressed and tried to solve financial management and control problems without first consulting with the Senior Financial Officer.

- 9.121 The Ministry has developed a well-defined and documented budget process, but it could be improved if the Ministry were to establish clear, long-term objectives, stated in measurable terms. In addition, the Ministry must devote much more effort to developing reporting systems that will provide for sound budgetary control.
- 9.122 We found that internal controls over the processing of expenditure, payroll and revenue transactions were being applied inconsistently among field offices. Specifically, we noted variances in delegated authority for expenditures, weaknesses in the process of hiring and paying auxiliary staff, and duplication of checking procedures between staff in field offices and financial staff at Headquarters. Finally, we noted inadequacies in the revenue monitoring function.
- 9.123 The Ministry has clearly recognized the need to develop a strong internal audit function. Accordingly, it has been working with the Office of the Comptroller General to develop a plan for doing so. However, its efforts in this direction have thus far been unsuccessful. In any organization, which like the Ministry has complex and decentralized activities and systems, internal audit is the key to providing assurance to senior management that its management and control systems and procedures are suitable, and that they are operating reliably and consistently. Internal audit is critical in keeping management aware of the extent to which operations within the organization are being managed with due regard to economy, efficiency and effectiveness.
- 9.124 While much remains to be done, it is important to note that throughout our audit, the Ministry was working to solve many of the problems that we found, and that it had launched initiatives aimed at improving its financial management and control practices.

## Recommendations and Ministry's Comments

### Recommendations

### Ministry's Comments

#### ORGANIZATION OF THE FINANCIAL FUNCTION

- |       |   |  |
|-------|---|--|
| 9.125 | The Deputy Minister should formally endorse the Senior Financial Officer's role as encompassing all components of financial | Agree. Some facets already completed and in place with additional documentation to follow. |
|-------|---|--|

Recommendations	Ministry's Comments
9.126 The Ministry's Senior Financial Officer should report directly to the Deputy Minister, both to ensure an appropriate reporting relationship that will support the Deputy Minister, and to emphasize the importance of the role of financial management and control.	The Ministry is prepared to give this recommendation serious consideration.
9.127 The Senior Financial Officer's non-financial responsibilities should be reviewed to ensure that they do not detract from his primary responsibility for the financial management and control function.	The Ministry is satisfied that the Senior Financial Officer's range of responsibilities does not jeopardize or detract from his mandate for effective financial management and control.
9.128 The Senior Financial Officer should develop without delay a comprehensive plan to provide adequate financial management and control within the Ministry. The plan should be approved by senior management.	Agree. This plan will be finalized and endorsed shortly and will contemplate a time table of at least three years duration.
9.129 The Ministry should evaluate the staffing of the Central Financial Group to ensure that it has enough personnel with the necessary skills to carry out its mandate.	Agree. An organization, staffing and training needs analysis review is currently underway.
9.130 The Ministry should document the functional relationships between the Central Financial Group and all other financial officers in the Ministry. These relationships should be communicated to all personnel to ensure that the financial management and control function operates consistently and reliably throughout the Ministry.	Same comment as for 9.129.
9.131 The Senior Financial Officer should review the non-financial responsibilities of other financial officers to ensure that they are able to devote enough time to financial matters.	Same comment as for 9.129.

Recommendations	Ministry's Comments
9.132 The Ministry should review all of its staff resources in the financial management and control function throughout the Ministry to ensure that both the number of staff and their skills are sufficient in relation to their assigned responsibilities.	Same comment as for 9.129.
9.133 The Ministry should establish training programs to upgrade or provide staff with the required skills and should initiate career development plans for its financial officers.	Same comment as for 9.129.
9.134 To provide the framework for appropriate systems and controls, the Central Financial Group should document and communicate financial responsibilities, policies, procedures and systems throughout the Ministry.	This task has already commenced but due to size of task this will be addressed on a priority basis and will require considerable time for completion.
<b>PLANNING, BUDGETING AND BUDGETARY CONTROL</b>	
9.135 The Ministry should develop and cost strategic and long-term plans. Plans should state objectives and should assess various means of meeting these objectives and the costs of doing so.	The Ministry recognizes a need for greater development in this area, but current planning strategies do apply techniques of cost effectiveness set in the context of a long term view.
9.136 Estimates should be based upon a long-term plan. They should include measurable objectives to ensure that subsequent performance can be reliably assessed and that corrective action can be taken where appropriate.	Estimates are currently built within a management by objectives and zero based budgeting system, but additional emphasis will be given to measurement and program evaluation.
9.137 All programs should be fully costed and reviewed together with their objectives as part of the Estimates process.	To the extent that this is useful the Ministry will continue to enhance its costing technique.
9.138 Operating budgets should be prepared that recognize the seasonal nature of expenditures, and which contain key performance indicators. They should be subject to challenge and approval by senior manage-	While benefits may be derived from the development of more specific and measureable performance indicators the Ministry believes it has an effective budget

Recommendations	Ministry's Comments
ment, and consolidated to provide the necessary Ministry budget.	development system in place which provides ample opportunity for scrutiny and challenge.
9.139 The Ministry should formulate a policy of, and develop procedures for, providing meaningful variance analysis to all levels of management so that it can assess operations and take prompt corrective action where warranted. The Ministry should review current proposals in this area in order to ensure that they will meet the Ministry's needs for this type of information.	With the exception of minor improvements the Ministry is satisfied that its financial review policy is adequate to ensure effective program and financial control.
<b>ACCOUNTING AND FINANCIAL REPORTING SYSTEMS</b>	
9.140 The Central Financial Group should review all accounting and financial systems within the Ministry in detail to determine their appropriateness and the quality of information they produce.	Agree. This will be a major objective of the financial systems development plan.
9.141 The Senior Financial Officer should, as soon as possible, ensure that a complete and coordinated financial reporting system is designed in order to provide reliable financial information in a format useful to managers at all levels. Any new system should ensure the orderly processing and efficient accumulation of data on a timely basis. Existing fragmented and ad-hoc reporting systems should be eliminated wherever possible.	Agree. A plan will be developed which articulates Ministry information requirements and which can be blended with central agency initiatives for a Government-wide financial systems network.
9.142 A policy should be implemented to ensure that no new financial systems or modifications to existing financial systems can be developed without the approval of the Senior Financial Officer. The policy should also ensure, as appropriate, that all new systems and modifications are supported by cost/benefit analysis.	Agreed. This policy now in effect.
9.143 The Central Financial Group should review all existing reporting systems to eli-	Agreed. This task will be undertaken in conjunction with the de-

## Recommendations

## Ministry's Comments

minate duplication among them. The reports produced should be reconciled to each other to ensure that the information used for monitoring and decision-making purposes is complete and consistently prepared.

velopment of a financial systems network, but due to the size of the task will be addressed on a priority basis and will require considerable time for completion.

### FINANCIAL CONTROL OF EXPENDITURE AND REVENUE

- |       |  |   |
|-------|--|---|
| 9.144 | To ensure that transactions are accurately and consistently approved and processed, the Ministry should develop a manual that documents accounting policies, responsibilities and procedures for processing transactions, both in field offices and at Headquarters. | The development of revised and enhanced procedure manuals will be given priority attention.       |
| 9.145 | The Central Financial Group should establish a training program for financial staff, and should visit field offices regularly in order to resolve problems and monitor adherence to policies and procedures.   | Training program review presently underway and additional on-site field reviews will be expanded. |
| 9.146 | The Ministry should review internal controls over hiring and paying auxiliary staff and should standardize these controls throughout the Ministry in order to ensure the integrity of payroll expenditures.  | It is agreed that a review of payroll procedures for auxiliary staff is warranted.                |
| 9.147 | To ensure that only authorized personnel can approve expenditures, the Ministry should institute a policy and associated procedures for delegating commitment, spending and payment authority.   | A project is already underway to institute a new financial signing authority policy.              |
| 9.148 | A manual that documents all policies, responsibilities, and procedures for parks revenue should be developed to ensure adequate internal controls over revenue.  | This will be examined in concert with the requirements noted under Section 9.144 above.           |
| 9.149 | The Ministry should consider transferring ongoing responsibility for monitoring revenue to Parks regional offices, supplemented centrally by regular analytical review and annual internal audit work.   | This will be considered as part of the organization review currently underway.                    |

Recommendations	Ministry's Comments
9.150 The Ministry's Computer Enhancements Committee should review the land lease revenue system before it carries out major proposed enhancements in order to ensure that the system incorporates adequate internal controls.	The Computer Enhancements Committee has a detailed working list of enhancements required to remedy certain internal control deficiencies.
9.151 The Central Financial Group should establish adequate accounting systems, procedures and records for controlling land sales and receivables.	The Computer Enhancements Committee has already identified this task and will incorporate land sales and receivables into the system.
9.152 Responsibilities for monitoring and controlling land leases and sales should be established, both in the field and at Headquarters.	This will be considered as part of the organization review currently underway.
9.153 In order to ensure reliable processing of data, the Ministry should establish a formal training program for computer operators and supervisors responsible for the land lease system.	The Computer Enhancements Committee has taken on the design of such a program as part of their mandate.

#### ASSET CONTROLS

9.154 The Ministry should develop, document and communicate an asset control policy. It should cover the assets being controlled, the levels of control required, systems and procedures, and ongoing monitoring responsibilities in order to ensure an effective and efficient asset control system.	Ministry agrees that further development is warranted here but efforts on asset control will require slotting into the overall priorities for a longer term financial management enhancement plan.
9.155 The Ministry should assign responsibility for systems that control assets to the Central Financial Group.	This recommendation will be considered.

#### CROWN LAND FUND

9.156 The Ministry should clearly establish and communicate responsibilities for recording, monitoring, and controlling transactions in the Crown Land Fund.	A project is currently underway which will address some of the concerns noted in this recommendation as they pertain to regional offices. Further review will be taken in respect to central and external relationships.
--	--

Recommendations	Ministry's Comments
9.157 The Ministry should reconcile and correct account balances for existing and old projects as soon as possible to ensure that the fund balance is correctly stated.	An analysis of existing and old projects is now in progress.
9.158 Given that the current reporting system for the Crown Land Fund does not appear to be meeting the information needs of management, the Ministry should assess whether or not its continued use is appropriate.	While it is agreed that a review of potential revisions to the Crown Land Fund is warranted, the Ministry believes that the fund statement as currently constituted does provide a useful management information tool.

#### **BRITISH COLUMBIA HOUSING MANAGEMENT COMMISSION (BCHMC)**

9.159 The Ministry should establish monitoring responsibilities and reporting requirements for all programs administered by BCHMC and subsidized by the Ministry's vote in order to ensure proper control over assets and program expenditures.	In recognition of the potential for differing assumptions to be made in respect to responsibilities between the Ministry and BCHMC, the Ministry will undertake a review that will articulate each party's role in respect to program and financial monitoring, controlling and reporting.
9.160 The Ministry should conclude a written agreement with BCHMC covering the above requirements.	Same comment as for 9.159.
9.161 The Central Financial Group should work closely with BCHMC to ensure that the Commission's existing accounting controls are adequate.	Same comment as for 9.159.
9.162 The Ministry should direct BCHMC auditors to report on certain programs, such as High Impact Grants, that have created problems in the past.	Same comment as for 9.159.

#### **INTERNAL AUDIT**

9.163 In order to provide for internal audit commensurate with its needs, the Ministry should review its requirements. Then, in consultation with the Comptroller General, the Ministry should determine how its needs can most efficiently be met. A com-	Agree. Discussions are now being arranged to review the Ministry's requirements for internal audit and to determine the most effective means of meeting these needs.
--	--

Recommendations

Ministry's Comments

prehensive internal audit program, based upon the results of this review, should then be implemented.

Table of Contents

PREFACE

APPENDICES

Appendix A: The National Council on Governmental Accounting ..... 141

Appendix B: The National Council on Governmental Accounting ..... 141

Appendix C: The National Council on Governmental Accounting ..... 141

Appendix D: The National Council on Governmental Accounting ..... 141

Appendix E: The National Council on Governmental Accounting ..... 141

Appendix F: The National Council on Governmental Accounting ..... 141

Appendix G: The National Council on Governmental Accounting ..... 141

Appendix H: The National Council on Governmental Accounting ..... 141

Appendix I: The National Council on Governmental Accounting ..... 141

Appendix J: The National Council on Governmental Accounting ..... 141

# APPENDICES

APPENDIX I	1
APPENDIX II	15
APPENDIX III	35
APPENDIX IV	55
APPENDIX V	75
APPENDIX VI	95
APPENDIX VII	115
APPENDIX VIII	135
APPENDIX IX	155
APPENDIX X	175
APPENDIX XI	195
APPENDIX XII	215
APPENDIX XIII	235
APPENDIX XIV	255
APPENDIX XV	275
APPENDIX XVI	295
APPENDIX XVII	315
APPENDIX XVIII	335
APPENDIX XIX	355
APPENDIX XX	375
APPENDIX XXI	395
APPENDIX XXII	415
APPENDIX XXIII	435
APPENDIX XXIV	455
APPENDIX XXV	475
APPENDIX XXVI	495
APPENDIX XXVII	515
APPENDIX XXVIII	535
APPENDIX XXIX	555
APPENDIX XXX	575

## Table of Contents

### APPENDICES

I Sections of the Auditor General Act Relevant to the Responsibilities of the Auditor General. . . . .	141
II Public Bodies of Which the Auditor General was the Appointed Auditor as at 31 March 1980. . . . .	145
III Public Bodies, of Which the Auditor General was not the Appointed Auditor, Whose Financial Statements are Included in Section F of the Public Accounts. . . . .	146
IV Sections A (pages A1 to A13), B and C of the Public Accounts. . . . .	147

## Table of Contents

## CONTENTS

141	Sections of the Auditor General Act Relating to the Responsibilities of the Auditor General
142	Public Bodies of Which the Auditor General was the Appointed Auditor as at 31 March 1988
143	Public Bodies of Which the Auditor General was the Appointed Auditor, Whose Financial Statements are Included in Section F of the Public Accounts
144	Section A pages A1 to A13; B and C of the Public Accounts

## Appendix I

### Sections of the Auditor General Act Relevant to the Responsibilities of the Auditor General

#### EXAMINATION OF ACCOUNTS

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.
- (2) Notwithstanding any other Act, the Auditor General
- shall be given access to the records of account and administration of any ministry; and
  - may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

#### REPORT ON FINANCIAL STATEMENTS

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 40 of the *Financial Control Act*, respecting the fiscal year then ended.
- (2) The report shall form part of the public accounts and shall state
- whether he has received all of the information and explanations he has required; and
  - whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.
- (3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

#### ANNUAL REPORT

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that
- accounts have not been faithfully and properly kept or public money has not been fully accounted for;
  - essential records have not been maintained;
  - the rules, procedures or systems of internal control applied have been insufficient
    - to safeguard and protect the assets of the Crown;
    - to secure an effective check on the assessment, collection and proper allocation of the revenue;

- (iii) to ensure that expenditures have been made only as authorized; or
  - (iv) to ensure the accuracy and reliability of the accounting data; or
  - (d) public money has been expended for purposes other than for which it was appropriated by the Legislature.
- (2) In the report the Auditor General may also include an assessment
- (a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or
  - (b) as to whether any program being administered by a ministry is being administered economically and efficiently.

### **TRIVIAL MATTERS**

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

### **SUBMISSION OF ANNUAL REPORT**

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

### **SPECIAL REPORT**

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

### **OTHER REPORTS**

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

### **SPECIAL ASSIGNMENTS**

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any

requested assignment if, in his opinion, it would interfere with his primary responsibilities.

#### **STAFF IN MINISTRIES**

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

#### **INQUIRY POWERS**

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

#### **PUBLIC BODIES**

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

- (a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;
  - (b) the auditor of the public body shall, on the request of the Auditor General, within a reasonable time, make available to the Auditor General, all working papers, reports and other documents in his possession relating to the public body; and
  - (c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.
- (2) Notwithstanding any other Act, the Auditor General
- (a) shall be given access to the records of account and administration of any public body; and
  - (b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

#### **ELIGIBILITY AS AUDITOR**

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

### TRANSFER OF AUDIT DUTIES

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on the Comptroller General to conduct an audit.

## Appendix II

### Public Bodies of Which the Auditor General was the appointed Auditor at 31 March 1980

- \*British Columbia Assessment Authority
- \*British Columbia Educational Institutions Capital Financing Authority
- \*British Columbia Harbours Board
- \*British Columbia Health Care Research Foundation
- British Columbia Heritage Trust
- British Columbia Institute of Technology
- British Columbia Power Commission Superannuation Fund
- British Columbia Railway Company Pension Fund
- \*British Columbia Regional Hospital Districts Financing Authority
- \*British Columbia School Districts Capital Financing Authority
- Captain Cook Bi-Centennial Committee
- College Pension Fund
- Creston Valley Wildlife Management Authority Trust Fund
- \*Health Facilities Association of British Columbia
- \*Legal Services Society
- \*Medical Services Commission
- Municipal Superannuation Fund
- Pacific Vocational Institute
- Provincial Capital Commission
- \*Provincial Rental Housing Corporation
- Simon Fraser University
- Teachers' Pensions Fund
- The University of British Columbia
- The University of British Columbia Health Sciences Centre
- University of Victoria
- \*Workers' Compensation Board of British Columbia
- Workers' Compensation Board Superannuation Fund

\*Included in Section F of the Public Accounts

### Appendix III

#### **Public Bodies, of Which the Auditor General was not the Appointed Auditor, Whose Financial Statements are Included in Section F of the Public Accounts**

British Columbia Buildings Corporation  
British Columbia Cellulose Company  
British Columbia Development Corporation  
British Columbia Ferry Corporation  
British Columbia Housing Management Commission  
British Columbia Hydro and Power Authority  
British Columbia Petroleum Corporation  
British Columbia Railway Company  
British Columbia Steamship Company (1975) Ltd.  
British Columbia Systems Corporation  
Housing Corporation of British Columbia  
Insurance Corporation of British Columbia  
Ocean Falls Corporation  
Pacific Coach Lines Limited  
Science Council of British Columbia  
Surrey Farm Products Investments Ltd.  
T.S. Holdings Ltd.  
*Universities Council*  
Urban Transit Authority

---

## Appendix IV

### Sections A (pages A1 to A13), B and C of the Public Accounts

The material which forms Appendix IV is an excerpt from the Public Accounts of British Columbia for the fiscal year ended 31 March 1980.